

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2013

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Hartley-Melvin-Sanborn Community School District

Officials

| <u>Name</u>               | <u>Title</u>   | <u>Term Expires</u> |
|---------------------------|--|---------------------|
| <b>Board of Education</b> |  |                     |
| William Treimer           | President  | 2013                |
| Scott Heetland            | Vice President                                       | 2015                |
| Jill Zuetenhorst          | Board Member   | 2015                |
| Ed Boll                   | Board Member   | 2013                |
| Val Moermond              | Board Member   | 2013                |
| <b>School Officials</b>   |  |                     |
| Bill Thompson             | Superintendent                                       | 2013                |
| Cathy Lyman               | District Secretary/Treasurer<br>and Business Manager | 2013                |
| Steve Avery               | Attorney   | 2013                |

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Financial Statements**

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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**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 as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Members American Institute & Iowa Society of Certified Public Accountants

## **Other Matters**

### *Required Supplementary Information*

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 7 through 15 and 42 through 44 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 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

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. Another auditor previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 8, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic 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.

## **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated March 11, 2014 on our consideration of Hartley-Melvin-Sanborn Community School District's internal control over financial reporting and on 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 in considering Hartley-Melvin-Sanborn Community School District's internal control over financial reporting and compliance.



NOLTE, CORNMAN & JOHNSON, P.C.

March 11, 2014  
Newton, Iowa

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Hartley-Melvin-Sanborn Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2013 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$7,195,887 in fiscal 2012 to \$7,053,137 in fiscal 2013, while General Fund expenditures increased from \$6,547,683 in fiscal 2012 to \$6,647,901 in fiscal 2012. This resulted in an increase in the District's General Fund balance from \$644,536 in fiscal 2012 to a balance of \$1,049,772 in fiscal 2013, a 62.87% increase from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in state and federal sources in fiscal 2013. The increase in expenditures was due primarily to an increase in negotiated salaries and benefits.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Hartley-Melvin-Sanborn Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Hartley-Melvin-Sanborn Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Hartley-Melvin-Sanborn Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the schedule of funding progress for the retiree health plan.

Supplementary Information provides detailed information about the nonmajor funds.

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

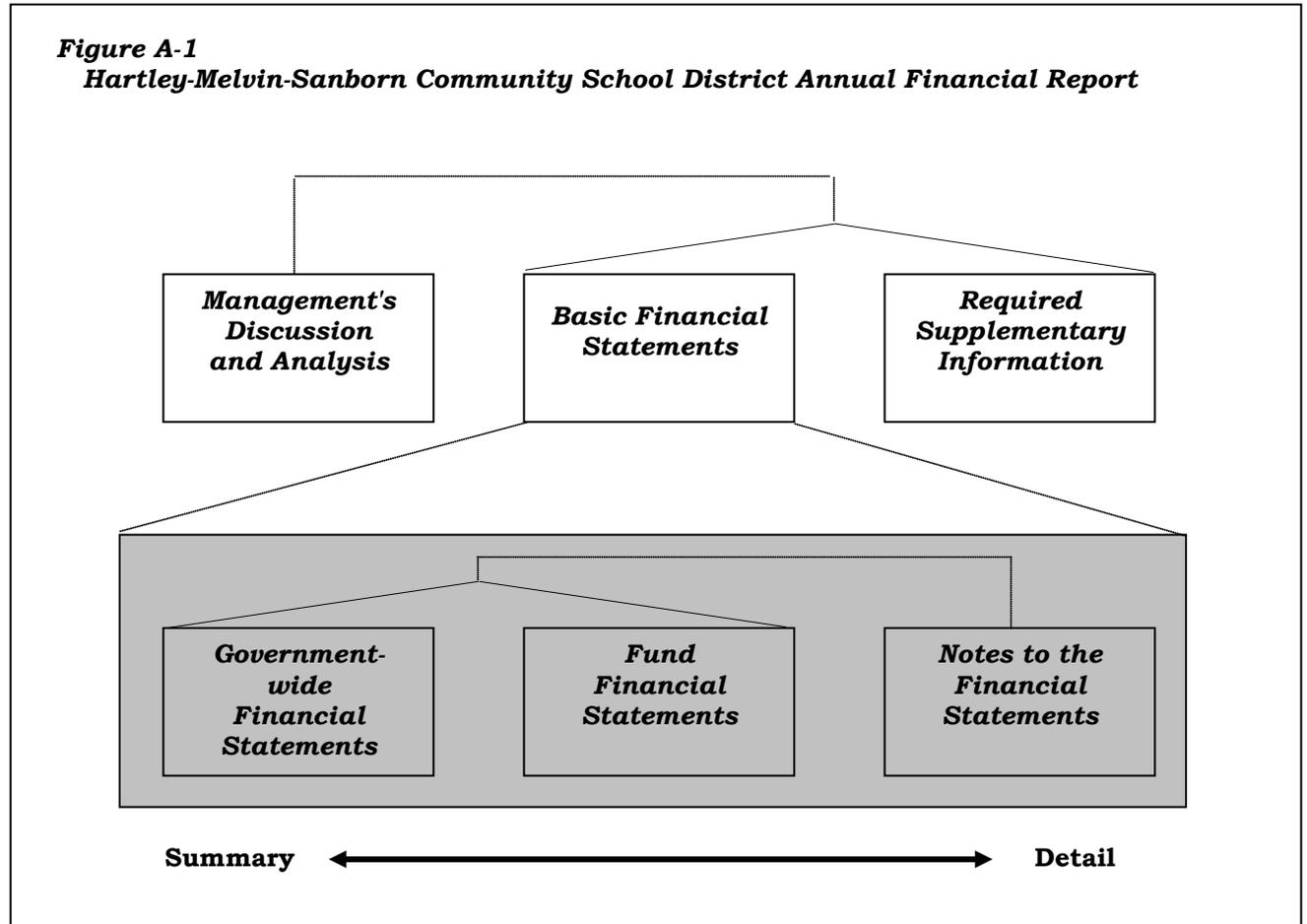


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

| <b>Figure A-2<br/>Major Features of the Government-Wide and Fund Financial Statements</b> |  |  |  |   |
|---|--|--|--|---|
|   | Government-wide Statements   | Fund 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 businesses, e.g., food service   | Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies       |
| Required financial statements   | <ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul> | <ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>   | <ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenues, expenses and changes in fund net position</li> <li>• Statement of cash flows</li> </ul> | <ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of changes in fiduciary net position</li> </ul> |
| Accounting basis and measurement focus  | Accrual accounting and economic resources focus  | Modified accrual accounting and current financial resources focus  | Accrual accounting and economic resources focus  | Accrual accounting and economic resources focus   |
| Type of asset/liability information   | All assets and liabilities, both financial and capital, short-term and long-term                                 | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included  | All assets and liabilities, both financial and capital, and short-term and long-term   | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can                       |
| Type of inflow/outflow information  | All revenues and expenses during year, regardless of when cash is received or paid                               | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter | 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   |

## **REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES**

### **Government-wide Financial Statements**

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position 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.

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The two government-wide financial statements report the District's net position and how they have changed. Net position – 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 position is an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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 tax 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 school nutrition program is 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:

- 1) *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 fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *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 financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private Purpose Trust.

- Private Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary 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.

The required financial statements for fiduciary funds include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net position at June 30, 2013 compared to June 30, 2012.

Figure A-3  
Condensed Statement of Net Position

|  | Governmental Activities |            | Business Type Activities |        | Total District |            | Total Change |
|--|-------------------------|------------|--------------------------|--------|----------------|------------|--------------|
|  | June 30,                |            | June 30,                 |        | June 30,       |            | June 30,     |
|  | 2013                    | 2012       | 2013                     | 2012   | 2013           | 2012       | 2012-13      |
| Current and other assets                           | \$ 6,561,195            | 6,338,649  | 64,308                   | 48,420 | 6,625,503      | 6,387,069  | 3.73%        |
| Capital assets                                     | 5,393,530               | 5,425,080  | 21,849                   | 17,265 | 5,415,379      | 5,442,345  | -0.50%       |
| Total assets                                       | 11,954,725              | 11,763,729 | 86,157                   | 65,685 | 12,040,882     | 11,829,414 | 1.79%        |
| Long-term obligations                              | 1,039,848               | 1,542,201  | 14,375                   | 8,594  | 1,054,223      | 1,550,795  | -32.02%      |
| Other liabilities                                  | 4,116,985               | 4,146,720  | 27,480                   | 23,700 | 4,144,465      | 4,170,420  | -0.62%       |
| Total liabilities                                  | 5,156,833               | 5,688,921  | 41,855                   | 32,294 | 5,198,688      | 5,721,215  | -9.13%       |
| Net position:                                      |                         |            |                          |        |                |            |              |
| Invested in capital assets,<br>net of related debt | 4,744,166               | 4,267,142  | 21,849                   | 17,265 | 4,766,015      | 4,284,407  | 11.24%       |
| Restricted   | 1,235,895               | 1,464,797  | -                        | -      | 1,235,895      | 1,464,797  | -15.63%      |
| Unrestricted                                       | 817,831                 | 342,869    | 22,453                   | 16,126 | 840,284        | 358,995    | 134.07%      |
| Total net position                                 | \$ 6,797,892            | 6,074,808  | 44,302                   | 33,391 | 6,842,194      | 6,108,199  | 12.02%       |

The District's combined net position increased by 12.02%, or \$733,995, over the prior year. The largest portion of the District's net position is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position decreased \$228,902, or 15.63% over the prior year. The increase was a result of the increase in the Capital Projects Funds.

Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$481,289, or 134.07%. This increase in unrestricted net position was primarily a result the District's increase in the General fund balance.

Figure A-4 shows the changes in net position for the year ended June 30, 2013 compared to June 30, 2012.

Figure A-4  
Changes of Net Position

|  | Governmental Activities |           | Business Type Activities |         | Total     |           | Total Change |
|--|-------------------------|-----------|--------------------------|---------|-----------|-----------|--------------|
|  | 2013                    | 2012      | 2013                     | 2012    | 2013      | 2012      | 2012-13      |
| Revenues:  |                         |           |                          |         |           |           |              |
| Program revenues:  |                         |           |                          |         |           |           |              |
| Charges for services                                       | \$ 603,155              | 628,839   | 168,723                  | 166,283 | 771,878   | 795,122   | -2.92%       |
| Operating grants and contributions and restricted interest | 556,983                 | 1,023,105 | 175,104                  | 171,194 | 732,087   | 1,194,299 | -38.70%      |
| Capital grants and contributions and restricted interest   | 2,792                   | 15,000    | -                        | -       | 2,792     | 15,000    | -81.39%      |
| General revenues:  |                         |           |                          |         |           |           |              |
| Local taxes  | 3,327,249               | 3,097,123 | -                        | -       | 3,327,249 | 3,097,123 | 7.43%        |
| Income surtax  | 279,860                 | 277,100   | -                        | -       | 279,860   | 277,100   | 1.00%        |
| Statewide sales, services and use tax                      | 552,661                 | 507,417   | -                        | -       | 552,661   | 507,417   | 8.92%        |
| Unrestricted state grants                                  | 2,955,366               | 2,747,823 | -                        | -       | 2,955,366 | 2,747,823 | 7.55%        |
| Unrestricted investment earnings                           | 36,534                  | 60,515    | 245                      | 303     | 36,779    | 60,818    | -39.53%      |
| Other  | 36,034                  | 10,002    | -                        | -       | 36,034    | 10,002    | 260.27%      |
| Transfers  | (8,042)                 | -         | 8,042                    | -       | -         | -         | 100.00%      |
| Total revenues   | 8,342,592               | 8,366,924 | 352,114                  | 337,780 | 8,694,706 | 8,704,704 | -0.11%       |
| Program expenses:  |                         |           |                          |         |           |           |              |
| Governmental activities:                                   |                         |           |                          |         |           |           |              |
| Instructional  | 5,242,207               | 5,092,015 | -                        | -       | 5,242,207 | 5,092,015 | 2.95%        |
| Support services   | 1,801,065               | 1,816,826 | -                        | -       | 1,801,065 | 1,816,826 | -0.87%       |
| Non-instructional programs                                 | -                       | -         | 341,203                  | 337,914 | 341,203   | 337,914   | 0.97%        |
| Other expenses   | 576,236                 | 532,071   | -                        | -       | 576,236   | 532,071   | 8.30%        |
| Total expenses   | 7,619,508               | 7,440,912 | 341,203                  | 337,914 | 7,960,711 | 7,778,826 | 2.34%        |
| Change in net position                                     | 723,084                 | 926,012   | 10,911                   | (134)   | 733,995   | 925,878   | -20.72%      |
| Beginning net position                                     | 6,074,808               | 5,148,796 | 33,391                   | 33,525  | 6,108,199 | 5,182,321 | 17.87%       |
| Ending net position  | \$ 6,797,892            | 6,074,808 | 44,302                   | 33,391  | 6,842,194 | 6,108,199 | 12.02%       |

In fiscal 2013, local tax, income surtax, statewide sales, services and use tax, and unrestricted state grants account for 85.29% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 97.65% of the revenue from business type activities.

The District's total revenues were approximately \$8.70 million of which \$8.35 million was for governmental activities and \$0.35 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 0.11% decrease in revenues and a 2.34% increase in expenses. The increase in expenses related to increase in the negotiated salary and benefits.

### Governmental Activities

Revenues for governmental activities were \$8,342,592 and expenses were \$7,619,508.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

|                  | Total Cost of Services |           |         | Net Cost of Services |           |         |
|------------------|------------------------|-----------|---------|----------------------|-----------|---------|
|                  |                        |           | Change  |                      |           | Change  |
|                  | 2013                   | 2012      | 2012-13 | 2013                 | 2012      | 2012-13 |
| Instruction      | \$ 5,242,207           | 5,092,015 | 2.95%   | 4,351,512            | 3,709,747 | 17.30%  |
| Support services | 1,801,065              | 1,816,826 | -0.87%  | 1,786,759            | 1,805,450 | -1.04%  |
| Other expenses   | 576,236                | 532,071   | 8.30%   | 318,307              | 258,771   | 23.01%  |
| Totals           | \$ 7,619,508           | 7,440,912 | 2.40%   | 6,456,578            | 5,773,968 | 11.82%  |

- The cost financed by users of the District’s programs was \$603,155.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$559,775.
- The net cost of governmental activities was financed with \$3,327,249 in local tax, \$279,860 in income surtax, \$552,661 in statewide sales, services and use tax, \$2,955,366 in unrestricted state grants, \$36,534 in unrestricted investment earnings, and \$27,992 in other general revenues, net of transfers.

**Business Type Activities**

Revenues of the District’s business type activities were \$352,114 and expenses were \$341,203. The District’s business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

**INDIVIDUAL FUND ANALYSIS**

As previously noted, the Hartley-Melvin-Sanborn Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$2,207,084, above last year’s ending fund balances of \$1,929,516. The primary reason for the increase in combined fund balances in fiscal 2013 is due to the increase in the Management Fund and Student Activity Fund.

**Governmental Fund Highlights**

- Overall, District revenues in the General Fund for fiscal 2013 decreased 1.98% or \$142,750, to \$7,053,137 compared to \$7,195,887 in fiscal 2012. The expenses increased by 1.53% or \$100,218, to \$6,647,901 compared to \$6,547,683 in fiscal 2012. The General Fund balance increased \$405,236.
- The Capital Projects Fund balance decreased from \$1,078,684 in fiscal 2012 to \$940,747 in fiscal 2013. The decrease was due to the construction costs incurred during the year.

**Proprietary Fund Highlights**

The School Nutrition Fund net position increased from \$33,391 at June 30, 2012 to \$44,302 at June 30, 2013, representing an increase of 32.68%.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$335,925 less than budgeted revenues, a variance of 3.71%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were less than budgeted, 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

At June 30, 2013, the District had invested \$5,415,379, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$464,405.

The original cost of the District's capital assets was \$10,478,717. Governmental funds account for \$10,350,394 with the remainder of \$128,323 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$0 at June 30, 2013, compared to \$16,857 reported at June 30, 2012. This decrease resulted from the construction projects that were completed during the year.

Figure A-6  
Capital Assets, Net of Depreciation

|                                   | Governmental |           | Business Type |        | Total     |           | Total    |
|-----------------------------------|--------------|-----------|---------------|--------|-----------|-----------|----------|
|                                   | Activities   |           | Activities    |        | District  |           | Change   |
|                                   | June 30,     |           | June 30,      |        | June 30,  |           | June 30, |
|                                   | 2013         | 2012      | 2013          | 2012   | 2013      | 2012      | 2012-13  |
| Land                              | \$ 81,804    | 81,804    | -             | -      | 81,804    | 81,804    | 0.00%    |
| Construction in progress          | -            | 16,857    | -             | -      | -         | 16,857    | -100.00% |
| Buildings and improvements        | 4,238,683    | 4,483,379 | -             | -      | 4,238,683 | 4,483,379 | -5.46%   |
| Improvements other than buildings | 502,502      | 251,284   | -             | -      | 502,502   | 251,284   | 99.97%   |
| Machinery and equipment           | 570,541      | 591,756   | 21,849        | 17,265 | 592,390   | 609,021   | -2.73%   |
| Total                             | \$ 5,393,530 | 5,425,080 | 21,849        | 17,265 | 5,415,379 | 5,442,345 | -0.50%   |

### Long-Term Debt

At June 30, 2013, the District had \$1,054,223 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of 32.02% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding revenue bonded indebtedness of \$30,000 at June 30, 2013.

The District had total outstanding capital loan note indebtedness of \$485,000 at June 30, 2013.

The District had total outstanding computer lease indebtedness of \$134,364 at June 30, 2013.

The District had total termination benefits payable of \$159,220 at June 30, 2013.

The District had total outstanding other postemployment benefits payable of \$245,639 at June 30, 2013.

Figure A-7  
Outstanding Long-Term Obligations

|                          | Governmental Activities |           | Business Type Activities |       | Total District |           | Total Change |
|--------------------------|-------------------------|-----------|--------------------------|-------|----------------|-----------|--------------|
|                          | June 30,                |           | June 30,                 |       | June 30,       |           | June 30,     |
|                          | 2013                    | 2012      | 2013                     | 2012  | 2013           | 2012      | 2012-13      |
| General obligation bonds | \$ -                    | 330,000   | -                        | -     | -              | 330,000   | -100.00%     |
| Revenue bonds            | 30,000                  | 60,000    | -                        | -     | 30,000         | 60,000    | -50.00%      |
| Capital loan note        | 485,000                 | 545,000   | -                        | -     | 485,000        | 545,000   | -11.01%      |
| Computer lease           | 134,364                 | 222,939   | -                        | -     | 134,364        | 222,939   | -39.73%      |
| Termination benefits     | 159,220                 | 212,382   | -                        | -     | 159,220        | 212,382   | -25.03%      |
| Net OPEB liability       | 231,264                 | 171,880   | 14,375                   | 8,594 | 245,639        | 180,474   | 36.11%       |
| Totals                   | \$ 1,039,848            | 1,542,201 | 14,375                   | 8,594 | 1,054,223      | 1,550,795 | -32.02%      |

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several 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 2014 is set at 2% + 2% and 4% for fiscal year 2015. Continued appropriate and timely funding by the state is critical for balancing budgets.
- District enrollment has suffered substantial decline the last ten years. Under Iowa's school funding formula, District funding is highly dependent 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.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cathy Lyman, Board Secretary/Business Manager, Hartley-Melvin-Sanborn Community School District, 240 1<sup>st</sup> Street SE, Hartley, Iowa, 51346.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2013

|   | Governmental<br>Activities | Business Type<br>Activities | Total             |
|---|----------------------------|-----------------------------|-------------------|
| <b>ASSETS</b>                                   |                            |                             |                   |
| Cash and pooled investments                     | \$ 2,810,401               | 62,035                      | 2,872,436         |
| Receivables:                                    |                            |                             |                   |
| Property tax:                                   |                            |                             |                   |
| Delinquent                                      | 53,170                     | -                           | 53,170            |
| Succeeding year                                 | 3,233,646                  | -                           | 3,233,646         |
| Income surtax                                   | 239,625                    | -                           | 239,625           |
| Due from other governments                      | 224,353                    | -                           | 224,353           |
| Inventories                                     | -                          | 2,273                       | 2,273             |
| Capital assets, net of accumulated depreciation | 5,393,530                  | 21,849                      | 5,415,379         |
| <b>TOTAL ASSETS</b>                             | <b>11,954,725</b>          | <b>86,157</b>               | <b>12,040,882</b> |
| <b>LIABILITIES</b>                              |                            |                             |                   |
| Accounts payable                                | 112,553                    | 186                         | 112,739           |
| Salaries and benefits payable                   | 768,287                    | 22,277                      | 790,564           |
| Interest payable                                | 2,499                      | -                           | 2,499             |
| Deferred revenue:                               |                            |                             |                   |
| Succeeding year property tax                    | 3,233,646                  | -                           | 3,233,646         |
| Unearned revenue                                | -                          | 5,017                       | 5,017             |
| Long-term liabilities:                          |                            |                             |                   |
| Portion due within one year:                    |                            |                             |                   |
| Revenue bonds payable                           | 30,000                     | -                           | 30,000            |
| Capital loan note payable                       | 60,000                     | -                           | 60,000            |
| Computer lease payable                          | 89,374                     | -                           | 89,374            |
| Termination benefits payable                    | 27,526                     | -                           | 27,526            |
| Portion due after one year:                     |                            |                             |                   |
| Capital loan note payable                       | 425,000                    | -                           | 425,000           |
| Computer lease payable                          | 44,990                     | -                           | 44,990            |
| Termination benefits payable                    | 131,694                    | -                           | 131,694           |
| Net OPEB liability                              | 231,264                    | 14,375                      | 245,639           |
| <b>TOTAL LIABILITIES</b>                        | <b>5,156,833</b>           | <b>41,855</b>               | <b>5,198,688</b>  |
| <b>NET POSITION</b>                             |                            |                             |                   |
| Invested in capital assets, net of related debt | 4,744,166                  | 21,849                      | 4,766,015         |
| Restricted for:                                 |                            |                             |                   |
| Categorical funding                             | 132,377                    | -                           | 132,377           |
| Student activities                              | 162,771                    | -                           | 162,771           |
| School infrastructure                           | 543,472                    | -                           | 543,472           |
| Physical plant and equipment                    | 397,275                    | -                           | 397,275           |
| Unrestricted                                    | 817,831                    | 22,453                      | 840,284           |
| <b>TOTAL NET POSITION</b>                       | <b>\$ 6,797,892</b>        | <b>44,302</b>               | <b>6,842,194</b>  |

SEE NOTES TO FINANCIAL STATEMENTS.

**HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2013**

|                                    | Program Revenues    |                         |  |  | Net (Expense) Revenue<br>and Changes in Net Position |                             | Total              |
|------------------------------------|---------------------|-------------------------|--|--|--|-----------------------------|--------------------|
|                                    | Expenses            | Charges for<br>Services | Operating Grants,<br>Contributions<br>and Restricted<br>Interest | Capital Grants,<br>Contributions<br>and Restricted<br>Interest | Governmental<br>Activities                           | Business Type<br>Activities |                    |
|                                    |                     |                         |  |  |  |                             |                    |
| <b>Functions/Programs:</b>         |                     |                         |  |  |  |                             |                    |
| Governmental activities:           |                     |                         |  |  |  |                             |                    |
| Instruction:                       |                     |                         |  |  |  |                             |                    |
| Regular                            | \$ 3,121,252        | 321,415                 | 35,221   | -  | (2,764,616)  | -                           | (2,764,616)        |
| Special                            | 1,196,335           | 86,289                  | 52,127   | -  | (1,057,919)  | -                           | (1,057,919)        |
| Other                              | 924,620             | 195,451                 | 200,192  | -  | (528,977)  | -                           | (528,977)          |
|                                    | <u>5,242,207</u>    | <u>603,155</u>          | <u>287,540</u>   | <u>-</u>   | <u>(4,351,512)</u>                                   | <u>-</u>                    | <u>(4,351,512)</u> |
| Support services:                  |                     |                         |  |  |  |                             |                    |
| Student                            | 136,866             | -                       | -  | -  | (136,866)  | -                           | (136,866)          |
| Instructional staff                | 122,435             | -                       | -  | -  | (122,435)  | -                           | (122,435)          |
| Administration                     | 656,239             | -                       | -  | -  | (656,239)  | -                           | (656,239)          |
| Operation and maintenance of plant | 573,172             | -                       | -  | 2,792  | (570,380)  | -                           | (570,380)          |
| Transportation                     | 312,353             | -                       | 11,514   | -  | (300,839)  | -                           | (300,839)          |
|                                    | <u>1,801,065</u>    | <u>-</u>                | <u>11,514</u>  | <u>2,792</u>   | <u>(1,786,759)</u>                                   | <u>-</u>                    | <u>(1,786,759)</u> |
| Other expenses:                    |                     |                         |  |  |  |                             |                    |
| Long-term debt interest            | 36,365              | -                       | -  | -  | (36,365)   | -                           | (36,365)           |
| AEA flowthrough                    | 257,929             | -                       | 257,929  | -  | -  | -                           | -                  |
| Depreciation(unallocated)*         | 281,942             | -                       | -  | -  | (281,942)  | -                           | (281,942)          |
|                                    | <u>576,236</u>      | <u>-</u>                | <u>257,929</u>   | <u>-</u>   | <u>(318,307)</u>                                     | <u>-</u>                    | <u>(318,307)</u>   |
| Total governmental activities      | 7,619,508           | 603,155                 | 556,983  | 2,792  | (6,456,578)  | -                           | (6,456,578)        |
| Business Type activities:          |                     |                         |  |  |  |                             |                    |
| Non-instructional programs:        |                     |                         |  |  |  |                             |                    |
| Nutrition services                 | 341,203             | 168,723                 | 175,104  | -  | -  | 2,624                       | 2,624              |
| Total                              | <u>\$ 7,960,711</u> | <u>771,878</u>          | <u>732,087</u>   | <u>2,792</u>   | <u>(6,456,578)</u>                                   | <u>2,624</u>                | <u>(6,453,954)</u> |
| <b>General Revenues:</b>           |                     |                         |  |  |  |                             |                    |
| Property tax levied for:           |                     |                         |  |  |  |                             |                    |
| General purposes                   |                     |                         |  |  | \$ 3,025,072   | -                           | 3,025,072          |
| Debt service                       |                     |                         |  |  | 82,804   | -                           | 82,804             |
| Capital outlay                     |                     |                         |  |  | 219,373  | -                           | 219,373            |
| Income surtax                      |                     |                         |  |  | 279,860  | -                           | 279,860            |
| Statewide sales and services tax   |                     |                         |  |  | 552,661  | -                           | 552,661            |
| Unrestricted state grants          |                     |                         |  |  | 2,955,366  | -                           | 2,955,366          |
| Unrestricted investment earnings   |                     |                         |  |  | 36,534   | 245                         | 36,779             |
| Other general revenues             |                     |                         |  |  | 36,034   | -                           | 36,034             |
| Transfers                          |                     |                         |  |  | (8,042)  | 8,042                       | -                  |
| Total general revenues             |                     |                         |  |  | <u>7,179,662</u>                                     | <u>8,287</u>                | <u>7,187,949</u>   |
| Changes in net position            |                     |                         |  |  | 723,084  | 10,911                      | 733,995            |
| Net position beginning of year     |                     |                         |  |  | 6,074,808  | 33,391                      | 6,108,199          |
| Net position end of year           |                     |                         |  |  | <u>\$ 6,797,892</u>                                  | <u>44,302</u>               | <u>6,842,194</u>   |

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

SEE NOTES TO FINANCIAL STATEMENTS.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2013

|  | General             | Capital<br>Projects | Nonmajor       | Total            |
|--|---------------------|---------------------|----------------|------------------|
| <b>ASSETS</b>                              |                     |                     |                |                  |
| Cash and pooled investments                | \$ 1,741,509        | 855,618             | 213,274        | 2,810,401        |
| Receivables:                               |                     |                     |                |                  |
| Property tax:                              |                     |                     |                |                  |
| Delinquent                                 | 46,739              | 3,140               | 3,291          | 53,170           |
| Succeeding year                            | 2,884,903           | 218,743             | 130,000        | 3,233,646        |
| Income surtax                              | 171,161             | 68,464              | -              | 239,625          |
| Due from other governments                 | 133,158             | 91,195              | -              | 224,353          |
| <b>TOTAL ASSETS</b>                        | <b>\$ 4,977,470</b> | <b>1,237,160</b>    | <b>346,565</b> | <b>6,561,195</b> |
| <b>LIABILITIES AND FUND BALANCES</b>       |                     |                     |                |                  |
| Liabilities:                               |                     |                     |                |                  |
| Accounts payable                           | \$ 103,347          | 9,206               | -              | 112,553          |
| Salaries and benefits payable              | 768,287             | -                   | -              | 768,287          |
| Deferred revenue:                          |                     |                     |                |                  |
| Succeeding year property tax               | 2,884,903           | 218,743             | 130,000        | 3,233,646        |
| Income surtax                              | 171,161             | 68,464              | -              | 239,625          |
| Total liabilities                          | <b>3,927,698</b>    | <b>296,413</b>      | <b>130,000</b> | <b>4,354,111</b> |
| Fund balances:                             |                     |                     |                |                  |
| Restricted for:                            |                     |                     |                |                  |
| Categorical funding                        | 132,377             | -                   | -              | 132,377          |
| Debt service                               | -                   | -                   | 1,185          | 1,185            |
| Management levy purposes                   | -                   | -                   | 52,609         | 52,609           |
| Student activities                         | -                   | -                   | 162,771        | 162,771          |
| School infrastructure                      | -                   | 543,472             | -              | 543,472          |
| Physical plant and equipment               | -                   | 397,275             | -              | 397,275          |
| Unassigned                                 | 917,395             | -                   | -              | 917,395          |
| Total fund balances                        | <b>1,049,772</b>    | <b>940,747</b>      | <b>216,565</b> | <b>2,207,084</b> |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <b>\$ 4,977,470</b> | <b>1,237,160</b>    | <b>346,565</b> | <b>6,561,195</b> |

SEE NOTES TO FINANCIAL STATEMENTS.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET POSITION  
 JUNE 30, 2013

|   |           |                                |
|---|-----------|--------------------------------|
| <b>Total fund balances of governmental funds(page 20)</b>   | \$        | 2,207,084                      |
| <br><i>Amounts reported for governmental activities in the Statement of Net Possition are different because:</i>  |           |                                |
| Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.   |           | 5,393,530                      |
| 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.  |           | (2,499)                        |
| Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.  |           | 239,625                        |
| Long-term liabilities, including bonds payable, compensated absences payable and other post employment benefits payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. |           | <u>(1,039,848)</u>             |
| <b>Net position of governmental activities(page 18)</b>   | <b>\$</b> | <b><u><u>6,797,892</u></u></b> |

SEE NOTES TO FINANCIAL STATEMENTS.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2013

|  | General             | Capital<br>Projects | Nonmajor       | Total            |
|--|---------------------|---------------------|----------------|------------------|
| <b>REVENUES:</b>   |                     |                     |                |                  |
| Local sources:   |                     |                     |                |                  |
| Local tax  | \$ 3,085,678        | 886,660             | 213,242        | 4,185,580        |
| Tuition  | 407,654             | -                   | -              | 407,654          |
| Other  | 53,135              | 17,239              | 206,166        | 276,540          |
| State sources  | 3,330,176           | -                   | -              | 3,330,176        |
| Federal sources  | 176,494             | -                   | -              | 176,494          |
| Total revenues   | <u>7,053,137</u>    | <u>903,899</u>      | <u>419,408</u> | <u>8,376,444</u> |
| <b>EXPENDITURES:</b>                                       |                     |                     |                |                  |
| Current:   |                     |                     |                |                  |
| Instruction:   |                     |                     |                |                  |
| Regular  | 2,821,665           | -                   | 236,169        | 3,057,834        |
| Special  | 1,174,829           | -                   | -              | 1,174,829        |
| Other  | 928,548             | -                   | -              | 928,548          |
|  | <u>4,925,042</u>    | <u>-</u>            | <u>236,169</u> | <u>5,161,211</u> |
| Support services:  |                     |                     |                |                  |
| Student  | 128,168             | -                   | -              | 128,168          |
| Instructional staff  | 92,220              | 28,487              | -              | 120,707          |
| Administration   | 564,147             | 48,266              | 34,416         | 646,829          |
| Operation and maintenance of plant                         | 430,932             | 92,490              | 42,124         | 565,546          |
| Transportation   | 249,463             | 91,489              | 14,458         | 355,410          |
|  | <u>1,464,930</u>    | <u>260,732</u>      | <u>90,998</u>  | <u>1,816,660</u> |
| Capital outlay   | -                   | 317,613             | -              | 317,613          |
| Long-term debt:  |                     |                     |                |                  |
| Principal  | -                   | -                   | 508,575        | 508,575          |
| Interest and fiscal charges                                | -                   | -                   | 36,888         | 36,888           |
|  | <u>-</u>            | <u>-</u>            | <u>545,463</u> | <u>545,463</u>   |
| Other expenditures:  |                     |                     |                |                  |
| AEA flowthrough  | 257,929             | -                   | -              | 257,929          |
| Total expenditures   | <u>6,647,901</u>    | <u>578,345</u>      | <u>872,630</u> | <u>8,098,876</u> |
| Excess(deficiency) of revenues<br>over(under) expenditures | 405,236             | 325,554             | (453,222)      | 277,568          |
| Other financing sources(uses):                             |                     |                     |                |                  |
| Transfers in   | -                   | -                   | 463,491        | 463,491          |
| Transfers out  | -                   | (463,491)           | -              | (463,491)        |
| Total other financing sources(uses)                        | <u>-</u>            | <u>(463,491)</u>    | <u>463,491</u> | <u>-</u>         |
| Net change in fund balances                                | 405,236             | (137,937)           | 10,269         | 277,568          |
| Fund balances beginning of year                            | 644,536             | 1,078,684           | 206,296        | 1,929,516        |
| Fund balances end of year                                  | <u>\$ 1,049,772</u> | <u>940,747</u>      | <u>216,565</u> | <u>2,207,084</u> |

SEE NOTES TO FINANCIAL STATEMENTS.

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, 2013

|  |                  |                           |
|--|------------------|---------------------------|
| <b>Net change in fund balances - total governmental funds(page 22)</b>   | \$               | 277,568                   |
| <br><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. The amounts of capital outlays and depreciation expense in the year are as follows: |                  |                           |
| Capital outlays  | \$ 429,397       |                           |
| Depreciation expense   | <u>(460,947)</u> | (31,550)                  |
| <br>Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Current year repayments exceeded issues, as follows:   |                  |                           |
| Repaid   |                  | 508,575                   |
| <br>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.   |                  |                           |
|  |                  | 523                       |
| <br>Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.  |                  |                           |
|  |                  | (25,810)                  |
| <br>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.  |                  |                           |
| Termination benefit  | \$ 53,162        |                           |
| Other postemployment benefits  | <u>(59,384)</u>  | (6,222)                   |
| <br><b>Changes in net position of governmental activities(page 19)</b>   | <br>\$           | <br><u><u>723,084</u></u> |

SEE NOTES TO FINANCIAL STATEMENTS.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 JUNE 30, 2013

|   | <u>School<br/>Nutrition</u> |
|---|-----------------------------|
| <u>ASSETS</u>   |                             |
| Current assets:   |                             |
| Cash and pooled investments                                 | \$ 62,035                   |
| Inventories   | 2,273                       |
| Total current assets  | <u>64,308</u>               |
| Non-current assets:   |                             |
| Capital assets:   |                             |
| Machinery and equipment, net of<br>accumulated depreciation | <u>21,849</u>               |
| Total non-current assets                                    | <u>21,849</u>               |
| TOTAL ASSETS  | <u>86,157</u>               |
| <u>LIABILITIES</u>  |                             |
| Current liabilities:  |                             |
| Accounts payable  | 186                         |
| Salaries and benefits payable                               | 22,277                      |
| Unearned revenue  | 5,017                       |
| Total current liabilities                                   | <u>27,480</u>               |
| Long-term liabilities:                                      |                             |
| Net OPEB liability  | <u>14,375</u>               |
| TOTAL LIABILITIES   | <u>41,855</u>               |
| <u>NET POSITION</u>   |                             |
| Invested in capital assets                                  | 21,849                      |
| Unrestricted  | 22,453                      |
| Total net position  | <u>\$ 44,302</u>            |

SEE NOTES TO FINANCIAL STATEMENTS.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2013

|   | School<br>Nutrition |
|---|---------------------|
| OPERATING REVENUE:                                  |                     |
| Local sources:                                      |                     |
| Charges for service                                 | \$ 168,723          |
| OPERATING EXPENSES:                                 |                     |
| Non-instructional programs:                         |                     |
| Salaries  | 98,588              |
| Benefits  | 53,923              |
| Services  | 1,718               |
| Supplies  | 183,516             |
| Depreciation  | 3,458               |
| TOTAL OPERATING EXPENSES                            | 341,203             |
| OPERATING LOSS                                      | (172,480)           |
| NON-OPERATING REVENUES:                             |                     |
| State sources                                       | 2,925               |
| Federal sources                                     | 172,179             |
| Interest on investments                             | 245                 |
| TOTAL NON-OPERATING REVENUES                        | 175,349             |
| Change in net position before capital contributions | 2,869               |
| Capital contributions                               | 8,042               |
| Changes in net position                             | 10,911              |
| Net position beginning of year                      | 33,391              |
| Net position end of year                            | \$ 44,302           |

SEE NOTES TO FINANCIAL STATEMENTS.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND TYPE  
YEAR ENDED JUNE 30, 2013

|  | School<br>Nutrition |
|--|---------------------|
| Cash flows from operating activities:  |                     |
| Cash received from sale of lunches and breakfasts                            | \$ 168,863          |
| Cash payments to employees for services                                      | (142,916)           |
| Cash payments to suppliers for goods or services                             | (149,195)           |
| Net cash provided by(used in) operating activities                           | (123,248)           |
| Cash flows from non-capital financing activities:                            |                     |
| State grants received  | 2,925               |
| Federal grants received  | 136,966             |
| Net cash provided by non-capital financing activities                        | 139,891             |
| Cash flows from investing activities:  |                     |
| Interest on investments  | 245                 |
| Net increase in cash and cash equivalents                                    | 16,888              |
| Cash and cash equivalents at beginning of year                               | 45,147              |
| Cash and cash equivalents at end of year                                     | \$ 62,035           |
| Reconciliation of operating loss to net cash used in operating activities:   |                     |
| Operating income(loss)   | \$ (172,480)        |
| Adjustments to reconcile operating loss to net used in operating activities: |                     |
| Commodities used   | 35,213              |
| Depreciation   | 3,458               |
| Decrease in inventories  | 1,000               |
| Decrease in accounts payable   | (174)               |
| Increase in salaries and benefits payable                                    | 3,814               |
| Increase in unearned revenue   | 140                 |
| Increase in other postemployment benefits                                    | 5,781               |
| Net cash provided by(used in) operating activities                           | \$ (123,248)        |

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2013, the District received Federal commodities valued at \$35,213.

During the year ended June 30, 2013 the District received capital contributions valued at \$8,042 from the Capital Projects: Physical plant and equipment fund.

SEE NOTES TO FINANCIAL STATEMENTS.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2013

|                             | <u>Private Purpose<br/>Trust</u> |
|-----------------------------|----------------------------------|
|                             | <u>Scholarship<br/>Fund</u>      |
| <b>ASSETS</b>               |                                  |
| Cash and pooled investments | \$ 6,847                         |
| <b>LIABILITIES</b>          |                                  |
| Total liabilities           | <u>-</u>                         |
| <b>NET POSITION</b>         |                                  |
| Restricted for scholarships | <u>\$ 6,847</u>                  |

SEE NOTES TO FINANCIAL STATEMENTS.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 YEAR ENDED JUNE 30, 2013

|                                 | Private Purpose<br>Trust |
|---------------------------------|--------------------------|
|                                 | Scholarship<br>Fund      |
| Additions:                      |                          |
| Local sources:                  |                          |
| Interest                        | \$ 261                   |
| Deductions:                     |                          |
| Regular instruction:            |                          |
| Scholarships awarded            | 1,000                    |
| Books purchased for individuals | 175                      |
| Total deductions                | 1,175                    |
| Change in net position          | (914)                    |
| Net position beginning of year  | 7,761                    |
| Net position end of year        | \$ 6,847                 |

SEE NOTES TO FINANCIAL STATEMENTS.

# HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

### **Note 1. Summary of Significant Accounting Policies**

The 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 city of Hartley, Melvin, and Sanborn, Iowa, and the predominantly agricultural territory in 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 Government 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 which 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 do 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 O'Brien, Osceola, Clay and Dickinson Counties Assessors' Conference Board.

#### B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Position (previously referred to as 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 support.

The Statement of Net Position presents the District's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation plus unspent bond proceeds and reduced by outstanding principal balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

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

*Unrestricted net position* consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management, but 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 that 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 that are 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 other 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 receipts that are 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 also reports the following nonmajor proprietary funds:

The District's proprietary funds is the School Nutrition Fund. The School Nutrition Fund is a nonmajor fund used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net position and changes in net position. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

### 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 judgments, 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 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 position 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.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 Funds 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 nonoperating 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 balance 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 purpose 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, they have a maturity date no longer than three months.

Property Taxes - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax revenue receivable is recognized in these funds on the levy date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year delinquent property taxes receivable represents unpaid taxes from the current year. 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 Board of Education is required to certify its budget to the County Auditor by April 15 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 and will not be recorded as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2012.

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 - The Enterprise Fund inventories are accounted for using the consumption method by which inventory acquisitions are recorded in inventory accounts when purchased or received by other means and are charged to operations when consumed or sold. The enterprise fund inventory consists primarily of food, with purchased food recorded at the lower cost (first-in, first-out method) or market and food commodities which were received from the federal government recorded at the contributed value as of the date received.

Capital Assets - Capital assets, which include property, machinery and equipment, and intangibles are reported in the applicable governmental or business-type activities columns in the government-wide statement of net position. 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 repairs 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.

| Asset Class                       | Amount |
|-----------------------------------|--------|
| Land                              | \$ -   |
| Buildings and improvements        | 5,000  |
| Improvements other than buildings | 5,000  |
| Intangibles                       | 25,000 |
| Machinery and equipment:          |        |
| School Nutrition Fund equipment   | 500    |
| Other machinery and equipment     | 5,000  |

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

| Asset Class                       | Estimated Useful Lives (In Years) |
|-----------------------------------|-----------------------------------|
| Buildings and improvements        | 50 years                          |
| Improvements other than buildings | 20 years                          |
| Intangibles                       | 2-10 years                        |
| Machinery and equipment           | 5-20 years                        |

Salaries and Benefits Payable - Payroll and related payroll taxes and benefits for teachers with annual contracts corresponding to the school year, but which have balances payable in July and August 2013, have been accrued as a liability as it is applicable to the fiscal year ended June 30, 2013.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents 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 revenues consist of unspent federal grant proceeds, succeeding year property tax receivable, and other receivables not collected within sixty days after year end.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Position in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation benefits payable to employees. The cost of vacation payments expected to be liquidated currently is recorded as a liability in the government-wide statement of net position. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2013.

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 position.

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

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 spendable classifications.

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

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

#### **Note 2. Deposits and Pooled Investments**

The District's deposits in banks at June 30, 2013 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 Direct Government Obligations Portfolio which are valued at an amortized cost of \$291 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor's Financial Services.

#### **Note 3. Transfers**

The detail of transfers for the year ended June 30, 2013 is as follows:

| Transfer to  | Transfer from   | Amount            |
|--------------|---|-------------------|
| Debt Service | Capital Projects:<br>Statewide Sales,<br>Services and Use Tax | \$ 290,044        |
| Debt Service | Capital Projects:<br>Physical Plant and<br>Equipment Levy     | 173,447           |
| Total        |   | <u>\$ 463,491</u> |

The transfer from the Capital Projects: Statewide Sales, Services, and Use Tax Fund to the Debt Service Fund was for the principal and interest payment for the District's revenue bond and general obligation bond indebtedness.

The transfer from the Capital Projects: Physical Plant and Equipment Levy Fund to the Debt Service Fund was for the principal and interest payment for the District's capital loan note and computer lease indebtedness.

#### **Note 4. Capital Assets**

A summary of changes in property and equipment comprising capital assets is as follows:

|  | Balance<br>Beginning<br>of Year | Increases       | Decreases      | Balance<br>End<br>of Year |
|--|---------------------------------|-----------------|----------------|---------------------------|
| Governmental activities:                     |                                 |                 |                |                           |
| Capital assets not being depreciated:        |                                 |                 |                |                           |
| Land   | \$ 81,804                       | -               | -              | 81,804                    |
| Construction in progress                     | 16,857                          | 271,607         | 288,464        | -                         |
| Total capital assets not being depreciated   | <u>98,661</u>                   | <u>271,607</u>  | <u>288,464</u> | <u>81,804</u>             |
| Capital assets being depreciated:            |                                 |                 |                |                           |
| Buildings and improvements                   | 7,469,517                       | -               | -              | 7,469,517                 |
| Improvements other than buildings            | 692,842                         | 288,464         | -              | 981,306                   |
| Machinery and equipment                      | 1,680,927                       | 157,790         | 20,950         | 1,817,767                 |
| Total capital assets being depreciated       | <u>9,843,286</u>                | <u>446,254</u>  | <u>20,950</u>  | <u>10,268,590</u>         |
| Less accumulated depreciation for:           |                                 |                 |                |                           |
| Buildings and improvements                   | 2,986,138                       | 244,696         | -              | 3,230,834                 |
| Improvements other than buildings            | 441,558                         | 37,246          | -              | 478,804                   |
| Machinery and equipment                      | 1,089,171                       | 179,005         | 20,950         | 1,247,226                 |
| Total accumulated depreciation               | <u>4,516,867</u>                | <u>460,947</u>  | <u>20,950</u>  | <u>4,956,864</u>          |
| Total capital assets being depreciated, net  | <u>5,326,419</u>                | <u>(14,693)</u> | <u>-</u>       | <u>5,311,726</u>          |
| Governmental activities capital assets, net  | <u>\$ 5,425,080</u>             | <u>256,914</u>  | <u>288,464</u> | <u>5,393,530</u>          |
|  |                                 |                 |                |                           |
|  |                                 |                 |                |                           |
| Business Type activities:                    |                                 |                 |                |                           |
| Machinery and equipment                      | \$ 120,281                      | 8,042           | -              | 128,323                   |
| Less accumulated depreciation                | 103,016                         | 3,458           | -              | 106,474                   |
| Business-type activities capital assets, net | <u>\$ 17,265</u>                | <u>4,584</u>    | <u>-</u>       | <u>21,849</u>             |

Depreciation expense was charged by the District as follows:

|                                    |  |                |
|------------------------------------|--|----------------|
| Governmental activities:           |  |                |
| Instruction:                       |  |                |
| Regular                            |  | \$ 92,257      |
| Other                              |  | 4,128          |
| Support services:                  |  |                |
| Student services                   |  | 3,777          |
| Instructional staff                |  | 1,139          |
| Administration                     |  | 2,485          |
| Operation and maintenance of plant |  | 7,339          |
| Transportation                     |  | 67,880         |
|                                    |  | <u>179,005</u> |
| Unallocated depreciation           |  | <u>281,942</u> |
|                                    |  | <u>460,947</u> |
| Business Type activities:          |  |                |
| Food services                      |  | <u>3,458</u>   |

**Note 5. Long-Term Debt**

All Long-Term Debt listed is related to governmental activities. A summary of changes in long-term debt for the year ended June 30, 2013 is as follows:

|                                  | Balance<br>Beginning<br>of Year | Additions     | Deletions      | Balance<br>End of<br>Year | Due<br>Within<br>One Year |
|----------------------------------|---------------------------------|---------------|----------------|---------------------------|---------------------------|
| <u>Governmental Activities:</u>  |                                 |               |                |                           |                           |
| General obligation bonds         | \$ 330,000                      | -             | 330,000        | -                         | -                         |
| Revenue bonds                    | 60,000                          | -             | 30,000         | 30,000                    | 30,000                    |
| Capital loan note                | 545,000                         | -             | 60,000         | 485,000                   | 60,000                    |
| Computer lease                   | 222,939                         | -             | 88,575         | 134,364                   | 89,374                    |
| Termination benefits             | 212,382                         | -             | 53,162         | 159,220                   | 27,526                    |
| Net OPEB liability               | 171,880                         | 59,384        | -              | 231,264                   | -                         |
| Total                            | <u>\$ 1,542,201</u>             | <u>59,384</u> | <u>561,737</u> | <u>1,039,848</u>          | <u>206,900</u>            |
| <u>Business Type Activities:</u> |                                 |               |                |                           |                           |
| Net OPEB liability               | \$ 8,594                        | 5,781         | -              | 14,375                    | -                         |

**Revenue Bonds Payable**

Details of the District's June 30, 2013 statewide sales, services, and use tax revenue bonded indebtedness are as follows:

| Year<br>Ending<br>June 30, | Bond Issue of December 4, 2007 |           |          |               |
|----------------------------|--------------------------------|-----------|----------|---------------|
|                            | Interest<br>Rate               | Principal | Interest | Total         |
| 2014                       | 2.00 %                         | \$ 30,000 | 1,335    | <u>31,335</u> |

The District has pledged future statewide sales and services tax revenues to repay the \$175,000 bonds issued December 4, 2007. The bonds were issued for the purpose of financing school renovations. The bonds are payable solely from the proceeds of the statewide sales and services tax revenues received by the District and are payable through 2014. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 6 percent of the statewide sales and services tax

revenues. The total principal and interest remaining to be paid on the notes is \$31,335. For the current year, \$30,000 in principal and \$2,640 in interest was paid on the bonds and total statewide sales and services tax revenues were \$552,661.

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

- a) 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 Capital Projects: Physical Plant and Equipment Levy. Details of the capital loan note are as follows:

| Year<br>Ending<br>June 30, | Capital Loan Note Issue of December 7, 2007 |            |          |         |
|----------------------------|---|------------|----------|---------|
|                            | Interest<br>Rate                            | Principal  | Interest | Total   |
| 2014                       | % \$  | 60,000     | 20,165   | 80,165  |
| 2015                       |   | 65,000     | 17,765   | 82,765  |
| 2016                       |   | 65,000     | 15,133   | 80,133  |
| 2017                       |   | 70,000     | 12,468   | 82,468  |
| 2018                       |   | 75,000     | 9,563    | 84,563  |
| 2019-2020                  |   | 150,000    | 9,637    | 159,637 |
| Totals                     |   | \$ 485,000 | 84,731   | 569,731 |

#### Computer Lease

Details of the District's June 30, 2013 computer lease indebtedness paid from the Capital Projects: Physical Plant and Equipment Levy are as follows:

| Year<br>Ending<br>June 30, | Computer Lease Issue of May 18, 2011 |            |          |         |
|----------------------------|--------------------------------------|------------|----------|---------|
|                            | Interest<br>Rate                     | Principal  | Interest | Total   |
| 2014                       | % \$                                 | 89,374     | 1,009    | 90,383  |
| 2015                       |                                      | 44,990     | 202      | 45,192  |
| Totals                     |                                      | \$ 134,364 | 1,211    | 135,575 |

#### Termination Benefits

The District offered a voluntary early retirement plan to its employees for a limited time during fiscal years 2012 and 2013. 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 was subject to approval by the Board of Education.

Early retirement benefits were equal to \$10,000 plus a reimbursement of \$20 per day for up to 120 of unused sick leave.

At June 30, 2013 the District had obligations to seven participants with a total liability of \$159,220. Actual early retirement expenditures for the year ended June 30, 2013 totaled \$53,162.

**Note 6. Other Postemployment Benefits (OPEB)**

Plan Description - The District operates a single-employer health plan which provides medical and prescription drug benefits for employees, retirees and their spouses. There are 89 active and 6 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through Wellmark. 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, 2013, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

|  |                   |
|--|-------------------|
| Annual required contribution               | \$ 74,071         |
| Interest on net OPEB obligation            | 4,648             |
| Adjustment to annual required contribution | <u>(6,101)</u>    |
| Annual OPEB cost                           | 72,618            |
| Contributions made                         | <u>(7,453)</u>    |
| Increase in net OPEB obligation            | 65,165            |
| Net OPEB obligation beginning of year      | <u>180,474</u>    |
| Net OPEB obligation end of year            | <u>\$ 245,639</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, 2013.

For the year ended June 30, 2013 the District contributed \$7,453 to the medical plan. Plan members contributed \$0.

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, 2013 are summarized as follows:

| Year Ended June 30, | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---------------------|------------------|--|---------------------|
| 2011                | \$ 61,200        | 0.80%                                      | \$ 119,746          |
| 2012                | 61,200           | 0.80%                                      | 180,474             |
| 2013                | 72,618           | 10.26%                                     | 245,639             |

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$582,095, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$582,095. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,739,223, and the ratio of the UAAL to covered payroll was 15.6%. As of June 30, 2013, 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, 2012 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6.0%.

Mortality rates are from the 94 Group Annuity Mortality Table projected to 2000, applied on a gender-specific basis.

Projected claim costs of the medical plan are is \$670 per month for retirees less than age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

#### **Note 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 5.78% of their annual salary and the District is required to contribute 8.67% of annual covered. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$344,213, \$320,142, and \$281,623 respectively, equal to the required contributions for each year.

#### **Note 8. Risk Management**

The District is a member in the Iowa Star Schools Employees Benefits Health Plan, an Iowa Code Chapter 28E organization. Iowa Star Schools was set up for the purpose of managing and funding employee benefits. Iowa Star Schools provides coverage and protection in the following categories: medical. District contributions to Iowa Star Schools for the year ended June 30, 2013 were \$858,092

Hartley-Melvin-Sanborn Community School 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. There have been no significant reductions in insurance coverage from coverage in the prior year.

**Note 9. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$257,929 for the year ended June 30, 2013 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**Note 10. Categorical Funding**

The District's ending restricted fund balance for categorical funding at June 30, 2013 is comprised of the following programs:

| <u>Program</u>                             | <u>Amount</u>     |
|--|-------------------|
| Gifted and talented                        | \$ 63,763         |
| Dropout and dropout prevention             | 6,095             |
| Educator quality, professional development | 437               |
| Salary improvement program                 | 32                |
| Educator quality, model core curriculum    | 21,454            |
| Four-year-old preschool                    | 40,596            |
| Total restricted for cateforical funding   | <u>\$ 132,377</u> |

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

HARTLEY-MELVIN-SANDBORN COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES  
 AND CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2013

|  | Governmental           | Proprietary            | Total     | Budgeted Amounts |           | Final to<br>Actual<br>Variance |
|--|------------------------|------------------------|-----------|------------------|-----------|--------------------------------|
|  | Fund Types -<br>Actual | Fund Types -<br>Actual |           | Original         | Final     |                                |
| Revenues:  |                        |                        |           |                  |           |                                |
| Local sources  | \$ 4,869,774           | 168,968                | 5,038,742 | 4,927,585        | 4,927,585 | 111,157                        |
| State appropriations   | 3,330,176              | 2,925                  | 3,333,101 | 3,793,856        | 3,793,856 | (460,755)                      |
| Federal appropriations   | 176,494                | 172,179                | 348,673   | 335,000          | 335,000   | 13,673                         |
| Total revenues   | 8,376,444              | 344,072                | 8,720,516 | 9,056,441        | 9,056,441 | (335,925)                      |
| Expenditures/expenses:   |                        |                        |           |                  |           |                                |
| Instruction  | 5,161,211              | -                      | 5,161,211 | 5,920,000        | 5,920,000 | 758,789                        |
| Support services   | 1,816,660              | -                      | 1,816,660 | 2,184,500        | 2,184,500 | 367,840                        |
| Non-instructional programs   | -                      | 341,203                | 341,203   | 345,000          | 345,000   | 3,797                          |
| Other expenditures/expenses  | 1,121,005              | -                      | 1,121,005 | 1,252,387        | 1,252,387 | 131,382                        |
| Total expenditures/expenses  | 8,098,876              | 341,203                | 8,440,079 | 9,701,887        | 9,701,887 | 1,261,808                      |
| Excess(deficiency) of revenues<br>over(under) expenditures/expenses                                | 277,568                | 2,869                  | 280,437   | (645,446)        | (645,446) | 925,883                        |
| Other financing sources, net   | -                      | 8,042                  | 8,042     | -                | -         | 8,042                          |
| Excess(deficiency) of revenues and<br>other financing sources over(under)<br>expenditures/expenses | 277,568                | 10,911                 | 288,479   | (645,446)        | (645,446) | 933,925                        |
| Balance beginning of year  | 1,929,516              | 33,391                 | 1,962,907 | 1,270,744        | 1,270,744 | 692,163                        |
| Balance end of year  | \$ 2,207,084           | 44,302                 | 2,251,386 | 625,298          | 625,298   | 1,626,088                      |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2013

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards 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 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 the GAAP basis

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as function, 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 functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN  
REQUIRED SUPPLEMENTARY INFORMATION

| For Year<br>Ended<br>June 30, | Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>((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%   |
| 2013                          | July 1, 2012                   | -                                      | 582,095   | 582,095                            | 0.0%                     | 3,739,223                 | 15.6%   |

See Note 6 in the accompanying Notes to the Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

HARTLEY-MELVIN-SANDBORN COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2013

|   | Nonmajor Special Revenue Funds |                  |                | Debt Service | Total Nonmajor Governmental Funds |
|---|--------------------------------|------------------|----------------|--------------|-----------------------------------|
|   | Management Levy                | Student Activity | Total          |              |                                   |
| <b>ASSETS</b>                             |                                |                  |                |              |                                   |
| Cash and pooled investments               | \$ 50,503                      | 162,771          | 213,274        | -            | 213,274                           |
| Receivables:                              |                                |                  |                |              |                                   |
| Property tax:                             |                                |                  |                |              |                                   |
| Delinquent                                | 2,106                          | -                | 2,106          | 1,185        | 3,291                             |
| Succeeding year                           | 130,000                        | -                | 130,000        | -            | 130,000                           |
| <b>TOTAL ASSETS</b>                       | <b>\$ 182,609</b>              | <b>162,771</b>   | <b>345,380</b> | <b>1,185</b> | <b>346,565</b>                    |
| <b>LIABILITIES AND FUND BALANCES</b>      |                                |                  |                |              |                                   |
| Liabilities:                              |                                |                  |                |              |                                   |
| Deferred revenue:                         |                                |                  |                |              |                                   |
| Succeeding year property tax              | \$ 130,000                     | -                | 130,000        | -            | 130,000                           |
| Fund balances:                            |                                |                  |                |              |                                   |
| Restricted for:                           |                                |                  |                |              |                                   |
| Debt service                              | -                              | -                | -              | 1,185        | 1,185                             |
| Management levy purposes                  | 52,609                         | -                | 52,609         | -            | 52,609                            |
| Student activities                        | -                              | 162,771          | 162,771        | -            | 162,771                           |
| Total fund balances                       | 52,609                         | 162,771          | 215,380        | 1,185        | 216,565                           |
| <b>TOTAL LIABILITIES AND FUND BALANCE</b> | <b>\$ 182,609</b>              | <b>162,771</b>   | <b>345,380</b> | <b>1,185</b> | <b>346,565</b>                    |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARTLEY-MELVIN-SANDBORN COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2013

|  | Nonmajor Special Revenue Funds |                     |         | Debt<br>Service | Total<br>Nonmajor<br>Governmental<br>Funds |
|--|--------------------------------|---------------------|---------|-----------------|--|
|  | Manage-<br>ment<br>Levy        | Student<br>Activity | Total   |                 |  |
| REVENUES:  |                                |                     |         |                 |  |
| Local sources:   |                                |                     |         |                 |  |
| Local tax  | \$ 130,438                     | -                   | 130,438 | 82,804          | 213,242                                    |
| Other  | 5,942                          | 199,871             | 205,813 | 353             | 206,166                                    |
| Total revenues   | 136,380                        | 199,871             | 336,251 | 83,157          | 419,408                                    |
| EXPENDITURES:  |                                |                     |         |                 |  |
| Current:   |                                |                     |         |                 |  |
| Instruction:   |                                |                     |         |                 |  |
| Regular  | 44,450                         | 191,719             | 236,169 | -               | 236,169                                    |
| Support services:  |                                |                     |         |                 |  |
| Administration   | 34,416                         | -                   | 34,416  | -               | 34,416                                     |
| Operation and maintenance of plant                         | 42,124                         | -                   | 42,124  | -               | 42,124                                     |
| Transportation   | 14,458                         | -                   | 14,458  | -               | 14,458                                     |
| Long-term Debt:  |                                |                     |         |                 |  |
| Principal  | -                              | -                   | -       | 508,575         | 508,575                                    |
| Interest and fiscal charges                                | -                              | -                   | -       | 36,888          | 36,888                                     |
| Total expenditures   | 135,448                        | 191,719             | 327,167 | 545,463         | 872,630                                    |
| Excess(deficiency) of revenues<br>over(under) expenditures | 932                            | 8,152               | 9,084   | (462,306)       | (453,222)                                  |
| Other financing sources:                                   |                                |                     |         |                 |  |
| Transfer in  | -                              | -                   | -       | 463,491         | 463,491                                    |
| Net change in fund balances                                | 932                            | 8,152               | 9,084   | 1,185           | 10,269                                     |
| Fund balances beginning of year                            | 51,677                         | 154,619             | 206,296 | -               | 206,296                                    |
| Fund balances end of year                                  | \$ 52,609                      | 162,771             | 215,380 | 1,185           | 216,565                                    |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECTS FUNDS  
 JUNE 30, 2013

|  | Capital Projects                            |  |                  |
|--|---|--|------------------|
|  | Statewide<br>Sales, Services<br>and Use Tax | Physical<br>Plant and<br>Equipment<br>Levy | Total            |
| <b>ASSETS</b>                              |   |  |                  |
| Cash and pooled investments                | \$ 455,616                                  | 400,002                                    | 855,618          |
| Receivables:                               |   |  |                  |
| Property tax:                              |   |  |                  |
| Delinquent                                 | -   | 3,140                                      | 3,140            |
| Succeeding year                            | -   | 218,743                                    | 218,743          |
| Income surtax                              | -   | 68,464                                     | 68,464           |
| Due from other governments                 | 91,195                                      | -  | 91,195           |
| <b>TOTAL ASSETS</b>                        | <b>\$ 546,811</b>                           | <b>690,349</b>                             | <b>1,237,160</b> |
| <b>LIABILITIES AND FUND BALANCES</b>       |   |  |                  |
| Liabilities:                               |   |  |                  |
| Accounts payable                           | 3,339                                       | 5,867                                      | 9,206            |
| Succeeding year property tax               | \$ -  | 218,743                                    | 218,743          |
| Income surtax                              | -   | 68,464                                     | 68,464           |
| <b>Total liabilities</b>                   | <b>3,339</b>                                | <b>293,074</b>                             | <b>296,413</b>   |
| Fund balances:                             |   |  |                  |
| Restricted for:                            |   |  |                  |
| School infrastructure                      | 543,472                                     | -  | 543,472          |
| Physical plant and equipment levy          | -   | 397,275                                    | 397,275          |
| <b>Total fund balances</b>                 | <b>543,472</b>                              | <b>397,275</b>                             | <b>940,747</b>   |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <b>\$ 546,811</b>                           | <b>690,349</b>                             | <b>1,237,160</b> |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 CAPITAL PROJECTS FUNDS  
 YEAR ENDED JUNE 30, 2013

|                                      | Capital Projects                            |  |                  |
|--------------------------------------|---|--|------------------|
|                                      | Statewide<br>Sales, Services<br>and Use Tax | Physical<br>Plant and<br>Equipment<br>Levy | Total            |
| REVENUES:                            |   |  |                  |
| Local sources:                       |   |  |                  |
| Local tax                            | \$ 552,661                                  | 333,999                                    | 886,660          |
| Other                                | 7,454                                       | 9,785                                      | 17,239           |
| Total revenues                       | <u>560,115</u>                              | <u>343,784</u>                             | <u>903,899</u>   |
| EXPENDITURES:                        |   |  |                  |
| Current:                             |   |  |                  |
| Support services:                    |   |  |                  |
| Instructional staff                  | -   | 28,487                                     | 28,487           |
| Administration                       | 43,332                                      | 4,934                                      | 48,266           |
| Operation and maintenance of plant   | -   | 92,490                                     | 92,490           |
| Transportation                       | -   | 91,489                                     | 91,489           |
| Capital outlay                       | 266,224                                     | 51,389                                     | 317,613          |
| Total expenditures                   | <u>309,556</u>                              | <u>268,789</u>                             | <u>578,345</u>   |
| Excess of revenues over expenditures | 250,559                                     | 74,995                                     | 325,554          |
| Other financing uses:                |   |  |                  |
| Transfers out                        | <u>(290,044)</u>                            | <u>(173,447)</u>                           | <u>(463,491)</u> |
| Net change in fund balances          | (39,485)                                    | (98,452)                                   | (137,937)        |
| Fund balance beginning of year       | <u>582,957</u>                              | <u>495,727</u>                             | <u>1,078,684</u> |
| Fund balance end of year             | <u>\$ 543,472</u>                           | <u>397,275</u>                             | <u>940,747</u>   |

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, 2013

| Account                       | Balance<br>Beginning<br>of Year | Revenues       | Expendi-<br>tures | Intrafund<br>Transfers | Balance<br>End<br>of Year |
|-------------------------------|---------------------------------|----------------|-------------------|------------------------|---------------------------|
| All athletics                 | \$ 7,755                        | 5,360          | 4,929             | -                      | 8,186                     |
| Cross country                 | 1,134                           | 610            | 1,101             | 900                    | 1,543                     |
| Football                      | 7,588                           | 22,909         | 24,953            | 2,000                  | 7,544                     |
| Volleyball                    | 5,061                           | 9,475          | 7,975             | 600                    | 7,161                     |
| Boys basketball               | 6,232                           | 12,096         | 14,724            | 3,034                  | 6,638                     |
| Girls basketball              | 5,022                           | 11,001         | 10,859            | 2,034                  | 7,198                     |
| Boys track                    | 3,832                           | 612            | 2,020             | (105)                  | 2,319                     |
| Girls track                   | 2,612                           | -              | 1,193             | 438                    | 1,857                     |
| Boys golf                     | 934                             | 371            | 512               | 500                    | 1,293                     |
| Girls golf                    | 858                             | 424            | 728               | 700                    | 1,254                     |
| Baseball                      | 1,934                           | 10,735         | 11,710            | 1,000                  | 1,959                     |
| Softball                      | 1,311                           | 6,838          | 6,438             | 1,000                  | 2,711                     |
| Wrestling                     | 5,107                           | 4,471          | 6,854             | 1,300                  | 4,024                     |
| Band                          | 3,832                           | 815            | 2,264             | 1,300                  | 3,683                     |
| Chorus                        | 4,476                           | -              | 2,124             | 1,300                  | 3,652                     |
| Senior class                  | 282                             | -              | 662               | 914                    | 534                       |
| Junior class                  | 1,197                           | 997            | 2,712             | 1,379                  | 861                       |
| Sophomore class               | 2,575                           | 6,004          | 2,395             | (2,575)                | 3,609                     |
| Class special                 | 77                              | -              | 163               | 283                    | 197                       |
| HS activities                 | 3,209                           | 23,877         | 4,137             | (19,908)               | 3,041                     |
| Art club                      | 240                             | -              | -                 | -                      | 240                       |
| Cheerleaders                  | 8,196                           | 11,137         | 15,250            | -                      | 4,083                     |
| Computer club                 | 418                             | -              | -                 | -                      | 418                       |
| Drama club                    | 1,834                           | 1,490          | 2,125             | -                      | 1,199                     |
| FCA                           | 3,527                           | -              | -                 | -                      | 3,527                     |
| FFA                           | 10,283                          | 21,675         | 18,724            | -                      | 13,234                    |
| Industrial tech club          | 508                             | -              | 14                | -                      | 494                       |
| Library reading club          | 678                             | 333            | -                 | -                      | 1,011                     |
| Marketing club                | 4,136                           | -              | 653               | -                      | 3,483                     |
| Oracle yearbook               | 16,344                          | 3,687          | 6,986             | -                      | 13,045                    |
| Science club                  | 504                             | -              | -                 | -                      | 504                       |
| Spanish club                  | 1,021                           | 2,348          | 1,832             | -                      | 1,537                     |
| Student council - HS          | 1,198                           | 1,980          | 1,998             | -                      | 1,180                     |
| Speech club                   | 4,749                           | 8              | 965               | -                      | 3,792                     |
| Student council - K-4         | 16,843                          | 6,879          | 6,420             | 3,971                  | 21,273                    |
| Unallocated interest          | 4,859                           | 876            | 313               | -                      | 5,422                     |
| MS all athletics              | -                               | 15             | 50                | 35                     | -                         |
| MS football                   | -                               | -              | 585               | 585                    | -                         |
| MS volleyball                 | -                               | -              | 1,365             | 1,365                  | -                         |
| MS basketball                 | -                               | 1,663          | 4,432             | 2,769                  | -                         |
| MS wrestling                  | -                               | -              | 225               | 225                    | -                         |
| MS track                      | 135                             | 690            | 1,677             | 852                    | -                         |
| MS golf                       | 113                             | -              | -                 | -                      | 113                       |
| MS baseball                   | -                               | -              | 1,216             | 1,216                  | -                         |
| Bowling                       | 187                             | 1,513          | 1,513             | -                      | 187                       |
| MS softball                   | -                               | 175            | 2,286             | 2,111                  | -                         |
| MS vocal music                | -                               | -              | 144               | 144                    | -                         |
| MS band                       | 754                             | 909            | 3,362             | 2,014                  | 315                       |
| Middle school activities      | 238                             | 19,496         | 9,919             | (9,243)                | 572                       |
| MS student council            | 12,349                          | 3,418          | 1,212             | (2,136)                | 12,419                    |
| Checking interest             | 5,314                           | 147            | -                 | (2)                    | 5,459                     |
| June 30, 2012 accrual entries | (4,837)                         | 4,837          | -                 | -                      | -                         |
| <b>TOTAL</b>                  | <b>\$ 154,619</b>               | <b>199,871</b> | <b>191,719</b>    | <b>-</b>               | <b>162,771</b>            |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF FIDUCIARY NET POSITION  
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS  
 JUNE 30, 2013

|                             | Private Purpose Trust - Scholarship |                                  |       |
|-----------------------------|-------------------------------------|----------------------------------|-------|
|                             | McCarty<br>Scholarship              | Litts<br>Memorial<br>Scholarship | Total |
| <b>Assets</b>               |                                     |                                  |       |
| Cash and pooled investments | \$ 3,188                            | 3,659                            | 6,847 |
| <b>Liabilities</b>          | -                                   | -                                | -     |
| <b>Net position</b>         |                                     |                                  |       |
| Restricted for scholarships | \$ 3,188                            | 3,659                            | 6,847 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS  
 YEAR ENDED JUNE 30, 2013

|                                 | Private Purpose Trust - Scholarship |                                  |       |
|---------------------------------|-------------------------------------|----------------------------------|-------|
|                                 | McCarty<br>Scholarship              | Litts<br>Memorial<br>Scholarship | Total |
| Additions:                      |                                     |                                  |       |
| Local sources:                  |                                     |                                  |       |
| Interest income                 | \$ 70                               | 191                              | 261   |
| Deductions:                     |                                     |                                  |       |
| Instruction:                    |                                     |                                  |       |
| Regular:                        |                                     |                                  |       |
| Scholarships awarded            | 1,000                               | -                                | 1,000 |
| Books purchased for individuals | -                                   | 175                              | 175   |
| Total deductions                | 1,000                               | 175                              | 1,175 |
| Changes in net position         | (930)                               | 16                               | (914) |
| Net position beginning of year  | 4,118                               | 3,643                            | 7,761 |
| Net position end of year        | \$ 3,188                            | 3,659                            | 6,847 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT**  
**SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -**  
**ALL GOVERNMENTAL FUND TYPES**  
**FOR THE LAST TEN YEARS**

|                                    | Modified Accrual Basis |                  |                  |                  |                  |                  |                  |                  |                  |                  |
|------------------------------------|------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                                    | Years Ended June 30,   |                  |                  |                  |                  |                  |                  |                  |                  |                  |
|                                    | 2013                   | 2012             | 2011             | 2010             | 2009             | 2008             | 2007             | 2006             | 2005             | 2004             |
| <b>Revenues:</b>                   |                        |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| <b>Local sources:</b>              |                        |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Local tax                          | \$ 4,185,580           | 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                            | 407,654                | 331,592          | 285,033          | 318,811          | 354,080          | 252,675          | 213,057          | 204,989          | 198,123          | 207,060          |
| Other                              | 276,540                | 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                      | 3,330,176              | 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                    | 176,494                | 264,101          | 541,113          | 335,296          | 248,765          | 179,714          | 415,670          | 459,728          | 281,937          | 220,990          |
| <b>Total</b>                       | <b>\$ 8,376,444</b>    | <b>8,358,292</b> | <b>8,162,877</b> | <b>7,074,053</b> | <b>7,286,356</b> | <b>6,882,872</b> | <b>7,053,540</b> | <b>6,972,373</b> | <b>6,813,429</b> | <b>6,593,459</b> |
| <b>Expenditures:</b>               |                        |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| <b>Instruction:</b>                |                        |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Regular                            | \$ 3,057,834           | 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                            | 1,174,829              | 1,095,134        | 1,018,411        | 966,916          | 1,084,474        | 895,547          | 781,369          | 809,660          | 742,105          | 691,506          |
| Other                              | 928,548                | 1,078,866        | 1,119,492        | 1,101,202        | 800,334          | 622,302          | 701,793          | 711,725          | 649,366          | 662,830          |
| <b>Support services:</b>           |                        |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Student                            | 128,168                | 124,432          | 94,490           | 111,163          | 101,907          | 92,051           | 83,672           | 99,065           | 137,792          | 138,479          |
| Instructional staff                | 120,707                | 443,071          | 45,571           | 128,298          | 115,384          | 115,049          | 124,973          | 202,088          | 175,448          | 152,242          |
| Administration                     | 646,829                | 638,494          | 608,326          | 546,168          | 603,770          | 603,694          | 629,847          | 607,126          | 606,568          | 564,238          |
| Operation and maintenance of plant | 565,546                | 597,792          | 538,339          | 522,502          | 561,917          | 519,030          | 504,485          | 489,417          | 457,928          | 436,054          |
| Transportation                     | 355,410                | 284,090          | 256,078          | 410,839          | 297,001          | 245,763          | 315,604          | 318,798          | 277,414          | 223,471          |
| Non-instructional programs         | -                      | -                | -                | -                | -                | -                | -                | -                | 4,337            | -                |
| <b>Other expenditures:</b>         |                        |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Capital outlays                    | 317,613                | 222,024          | 90,538           | 90,352           | 998,565          | 424,639          | 151,556          | 137,350          | 55,676           | 66,050           |
| <b>Long-term debt:</b>             |                        |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Principal                          | 508,575                | 487,783          | 385,000          | 375,000          | 340,000          | 1,780,000        | 250,353          | 243,489          | 236,000          | 346,000          |
| Interest and other charges         | 36,888                 | 51,460           | 61,574           | 74,150           | 106,137          | 78,663           | 89,450           | 99,950           | 111,101          | 126,519          |
| AEA flow-through                   | 257,929                | 258,300          | 294,129          | 290,153          | 268,979          | 262,127          | 257,735          | 252,209          | 252,328          | 255,572          |
| <b>Total</b>                       | <b>\$ 8,098,876</b>    | <b>8,175,644</b> | <b>7,646,534</b> | <b>7,584,215</b> | <b>8,414,068</b> | <b>8,789,529</b> | <b>6,995,728</b> | <b>6,926,314</b> | <b>6,775,354</b> | <b>6,509,437</b> |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

**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 the Hartley-Melvin-Sanborn Community School District:**

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the 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, 2013, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 11, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Hartley-Melvin-Sanborn Community School District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Hartley-Melvin-Sanborn Community School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

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 deficiency described in Part I of the accompanying Schedule of Findings as items I-A-13 to be a material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-B-13 to I-D-13 to be significant deficiencies.

## **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 which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2013 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**

Hartley-Melvin-Sanborn Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Hartley-Melvin-Sanborn Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.



NOLTE, CORNMAN & JOHNSON, P.C.

March 11, 2014  
Newton, Iowa

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2013

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-13 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual has control over each of the following areas for the District:

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash.
- 2) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 3) Receipts - collecting, recording, depositing, journalizing, posting and reconciling.
- 4) Disbursements - purchase order processing, check preparation, mailing and recording.
- 5) Inventories - ordering, receiving, issuing and storing.
- 6) Capital assets - purchasing, recording and reconciling.
- 7) Wire transfers - processing and approving.
- 8) Payroll - recording approved pay rates and deductions, recordkeeping, preparation, posting and distribution.
- 9) Transfers - preparing and approving.
- 10) Financial reporting - preparing, reconciling and approving.
- 11) Computer systems - performing all general accounting functions and controlling all data input and output.
- 12) School lunch program - collecting, recording, journalizing, posting, reconciling, purchase order processing, check preparation, mailing and recording.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances utilizing current personnel, including elected officials.

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

Conclusion - Response accepted.

I-B-13 Scholarship Awards - We noted during our audit that scholarship checks were being paid from the Student Activity Fund.

Recommendation - Scholarship awards to students are most appropriately handled through the Private Purpose Trust Fund. The District should determine the amount of scholarships to be awarded to students and receipt the proceeds and record subsequent expenditures in the Private Purpose Trust Fund.

Response - We will not award scholarships from the Student Activity Fund.

Conclusion - Response accepted.

I-C-13 Supporting Documentation for Meal Money - We noted during our audit instances of students receiving meal money during District sponsored trips. However, there was no documentation as to who received the funds and/or the amount of funds received.

Recommendation - The District should document who receives cash when going on trips. The District should have a list of who received the cash and the amount. The students should sign off upon receiving cash for the trip. The District should review procedures in place and implement controls to ensure documentation is gathered to support the check written for cash needed for the trip.

Response - We will discontinue writing checks for student meals.

Conclusion - Response accepted.

I-D-13 Employees who Officiate Athletic Events - We noted that the District had payrolled employees who officiated athletic events for the school. The District paid the employees with Student Activity Fund accounts payable checks instead of running it through regular payroll where applicable taxes could be applied.

Recommendation - These payments should be paid through payroll in order to be included with their income for quarterly Federal 941 reports and W-2's.

Response - We will pay district employee officials through payroll instead of the Activity Fund.

Conclusion - Response accepted.

Other Matters:

I-E-13 Commodity Pricing - We noted during our audit of the School Nutrition Fund that the District did not price the commodity inventory using the correct values provided by the Iowa Department of Education.

Recommendation - The District should review procedures in place for the calculation of commodity inventory at year end.

Response - We will use the correct commodity pricing.

Conclusion - Response accepted.

## Part II: Other Findings Related to Required Statutory Reporting:

II-A-13 Certified Budget - District expenditures/expenses for the year ended June 30, 2013, did not exceed the amount budgeted.

II-B-13 Questionable Disbursements - We noted during our audit that the District purchased gift cards from the Student Activity Fund FFA account to be given for “Adopt a Family”. We also noted that prizes were given to students for being top sellers for magazine sales. Giving cash or gift certificates/cards to students as incentives do not appear to meet public purpose as defined in the Attorney General’s opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place, and make necessary adjustments to comply.

Response - We will not purchase gift cards.

Conclusion - Response accepted.

II-C-13 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted; however, we noted that there were instances of reimbursements made to employees for meals while traveling which lacked a detailed receipt. According to board policy #802.9, employees and officers using a credit card must submit a detailed receipt in addition to a credit card receipt when requesting reimbursement.

Recommendation - The District should review procedures in place with personnel using the district credit cards to ensure the proper detailed documentation will be available with paid credit card statements.

Response - We will continue to emphasis the need for itemized receipts.

Conclusion - Response accepted.

II-D-13 Business Transactions - Business transactions between the District and District officials are detailed as follows:

| Name, Title and Business Connection                              | Transaction Description | Amount    |
|--|-------------------------|-----------|
| Bill Treimer, Board Member<br>Co-owner of local insurance agency | School insurance policy | \$ 91,131 |

In accordance with Chapter 279.7A of the Code of Iowa, the above transaction with Bill Treimer does appear to represent a conflict of interest, as the District.

Recommendation - Chapter 279.7A of the Code of Iowa states that a board member cannot have a direct or indirect interest in the contract of goods of the school district where the board member would derive a benefit of over \$2,500. The District should contact legal counsel in regard to related party transactions with the board member.

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 acknowledged. The benefit received by the Board member would not be easily determined. Chapter 279.7A identifies direct or indirect benefit. It would not appear reasonable that a co-owner would not receive a benefit for premiums at this amount. The District may competitively bid insurance to avoid an appearance of a conflict of interest.

- II-E-13 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-13 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-13 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The certified enrollment was overstated 1.0 for a student who was funded but not enrolled.

Recommendation - The Iowa Department of Education and the Department of Management should be contacted to resolve this matter.

Response - The District's auditors will contact the Iowa Department of Education and Department of Management on our behalf to resolve this matter.

Conclusion - Response accepted.

- II-H-13 Supplementary Weighting - We noted a variance in the supplementary weighting data certified to the Department of Education. The supplementary weighting was understated 0.738 for classes which were not included in the supplemental weighting count.

Recommendation - The Iowa Department of Education and the Department of Management should be contacted to resolve this matter.

Response - The District's auditors will contact the Iowa Department of Education and Department of Management on our behalf to resolve this matter.

Conclusion - Response accepted.

- II-I-13 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

- II-J-13 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

- II-K-13 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

- II-L-13 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax. 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, 2013, the District reported the following information regarding the statewide sales, services, and use tax revenue in the District's CAR:

|                                    |    |         |                  |
|------------------------------------|----|---------|------------------|
| Beginning balance                  |    | \$      | 582,957          |
| Revenues:                          |    |         |                  |
| Sales tax revenues                 | \$ | 552,661 |                  |
| Other local revenue                |    | 7,454   | 560,115          |
|                                    |    |         | <u>1,143,072</u> |
| Expenditures/transfers out:        |    |         |                  |
| School infrastructure construction | \$ | 266,224 |                  |
| Other expenditures                 |    | 43,332  |                  |
| Transfers to other funds:          |    |         |                  |
| Debt service fund                  |    | 290,044 | 599,600          |
|                                    |    |         | <u>599,600</u>   |
| Ending balance                     |    | \$      | <u>543,472</u>   |

For the year ended June 30, 2013, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

II-M-13 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. We noted the District does not obtain the image of the back of each cancelled check.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - We will obtain and retain an image of both the front and back of each cancelled check.

Conclusion - Response accepted.

II-N-13 Physical Plant and Equipment Levy(PPEL) Expenditures - We noted during our audit that the District made purchases from the PPEL Fund which do not appear to be in compliance with Chapter 423 and 298.3 of the Code of Iowa. The District had expenditures of \$7,965.50 for preventative maintenance.

Recommendation - Expenditures for preventative maintenance are more appropriate from the General Fund. We are requesting a corrective transfer from the General Fund to the Capital Projects: Physical, Plant and Equipment Levy Fund for \$7,965.50. The District should review Chapter 423 and Chapter 298 of the Code of Iowa for allowability of expenditures from the PPEL Fund.

Response - We will make a corrective transfer.

Conclusion - Response accepted.

II-O-13 Checks Outstanding - We noted during our audit that the District had checks included in the activity fund bank reconciliation which have been outstanding for over a year.

Recommendation - Per Chapter 556.1(10) and 556.11 of the Code of Iowa, the District is required to report unclaimed property to the State Treasurer annually before November 1<sup>st</sup>. The District should research the outstanding checks to determine if they should be reissued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - We will take care of our outstanding checks.

Conclusion - Response accepted.

II-P-13 Officiating Contracts - We noted during our audit that the Athletic Director was signing Activity Fund officiating contracts. According to Chapter 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts entered into by the District to be in compliance with Chapter 291.1 of the Code of Iowa.

Response - We will begin a procedure to have the board president sign officiating contracts.

Conclusion - Response accepted.

II-Q-13 Student Activity Fund - In accordance with 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1), the purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for students. However, we noted expenditures which do not appear to be related to cocurricular or extracurricular activities.

**Questionable Account:** We noted a Library Reading Club account in the Student Activity Fund. The revenues and expenditures related to the Library Reading Club account appear to be for instructional items and therefore, would be more appropriately handled in the General Fund.

Recommendation - The District should review the propriety of the revenues and expenditures that are approved in the Student Activity Fund. The revenues and expenditures in the Library Reading Club account appear to be more instructional in nature and would be more appropriate in the General Fund.

Response - We will transfer the Library Reading Club funds to the General Fund.

Conclusion - Response accepted.

**Questionable Revenues and Expenses:** We noted Scholastic book fair, box tops, refund book fees, and textbook/registration fees in the activity fund. In accordance with 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1), the Activity Fund shall not be used as a clearing account for any other fund.

Recommendation - Scholastic book fair, box tops, refund book fees, and textbook/registration fees are instructional in nature. Revenues and expenditures for instructional supplies are more appropriately handled in the General Fund. In the future, the District should record these revenues and expenses in the General Fund.

Response - We will record these revenues and expenses in the General Fund.

Conclusion - Response accepted.

**Pepsi Commissions:** We noted during our audit that Pepsi Commissions were receipted into the Student Activity Fund.

Recommendation - According to Chapter 298A.2 of the Code of Iowa all money received by a District must be accounted for in the General Fund excepted for money required by law to be accounted for in another fund. Commissions are not specifically identified as allowable revenue for the Student Activity Fund, therefore Pepsi commissions should be receipted into the General Fund.

Response - We will receipt commission revenues in the General Fund.

Conclusion - Response accepted.