

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2014

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Hartley-Melvin-Sanborn Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2013 Election)		
William Treimer	President	2013
Scott Heetland	Vice President	2015
Jill Zuetenhorst	Board Member	2015
Ed Boll	Board Member	2013
Val Moermond	Board Member	2013
(After September 2013 Election)		
Scott Heetland	President	2015
Jill Zuetenhorst	Vice President	2015
Scott Vollink	Board Member	2017
Lynn Younie	Board Member	2017
Terry Heyn	Board Member	2017
School Officials		
Bill Thompson	Superintendent	2014
Cathy Lyman	District Secretary/Treasurer Business Manager	2014
Dennis Cmelik	Attorney	2014
Steve Avery	Attorney	2014

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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, 2014, 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, 2014, 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 16 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. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2013 (which is not presented herein) and expressed unmodified opinions on the 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 eight years ended June 30, 2012 (which are not presented herein) and expressed unmodified 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 13, 2015 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 13, 2015
Newton, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2014. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$7,053,137 in fiscal year 2013 to \$7,303,386 in fiscal year 2014, while General Fund expenditures increased from \$6,647,901 in fiscal year 2013 to \$7,105,398 in fiscal year 2014. Revenues still outpaced expenditures resulting in increase in the District's General Fund balance from \$1,049,772 at June 30, 2013 to \$1,247,760 at June 30, 2014, an 18.86% increase from the prior year.
- The increase in General Fund revenues was attributable to increases in local tax, state and federal sources in fiscal year 2014. The increase in expenditures was due primarily to an increase in negotiated salaries and benefits paid to District employees compared to the prior year.

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 governmental funds.

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

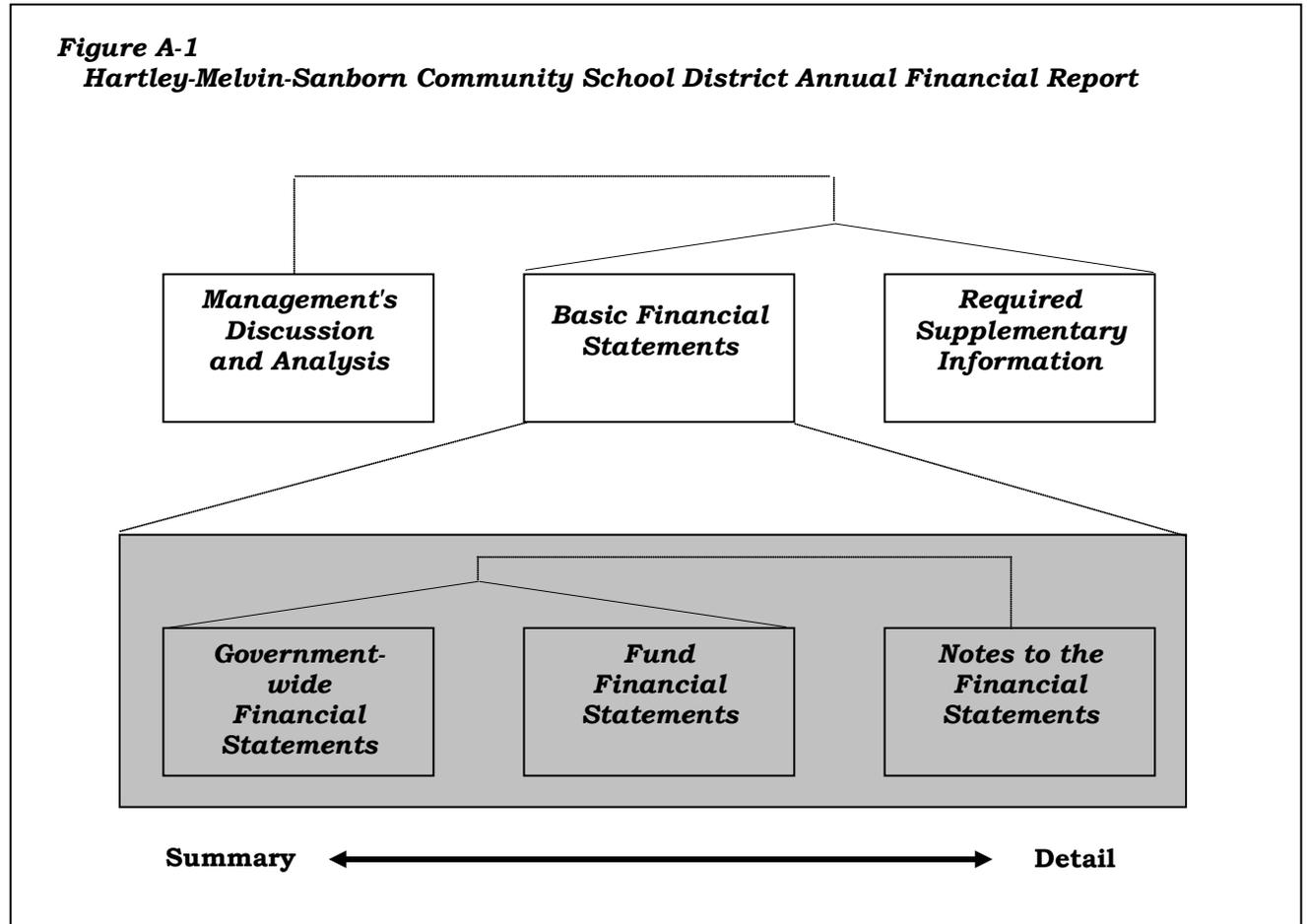


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	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"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in fund net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
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, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position. All of the current year’s revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net position and how it has changed. Net position is 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 Fund 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 governmental fund financial statements follow the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net position at June 30, 2014 compared to June 30, 2013.

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,
	2014	2013	2014	2013	2014	2013	2013-14
Current and other assets	\$ 7,399,664	6,561,195	90,742	64,308	7,490,406	6,625,503	13.05%
Capital assets	5,140,200	5,393,530	18,583	21,849	5,158,783	5,415,379	-4.74%
Total assets	12,539,864	11,954,725	109,325	86,157	12,649,189	12,040,882	5.05%
Long-term liabilities	889,576	1,039,848	17,884	14,375	907,460	1,054,223	-13.92%
Other liabilities	941,170	883,339	23,876	27,480	965,046	910,819	5.95%
Total liabilities	1,830,746	1,923,187	41,760	41,855	1,872,506	1,965,042	-4.71%
Deferred inflows of resources	3,403,099	3,233,646	-	-	3,403,099	3,233,646	5.24%
Net position:							
Net investment in capital assets	4,670,211	4,744,166	18,583	21,849	4,688,794	4,766,015	-1.62%
Restricted	1,638,907	1,235,895	-	-	1,638,907	1,235,895	32.61%
Unrestricted	996,901	817,831	48,982	22,453	1,045,883	840,284	24.47%
Total net position	\$ 7,306,019	6,797,892	67,565	44,302	7,373,584	6,842,194	7.77%

The District's combined net position increased by 7.77%, or \$531,390, over the prior year. The largest portion of the District's net position is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), 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 increased \$403,012, or 32.61% over the prior year. The increase was a result of the increase in fund balance of the Capital Projects: Statewide Sales, Services and Use Tax Fund.

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 \$205,599, or 24.47%. 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, 2014 compared to the year ended June 30, 2013.

	Figure A-4 Changes in Net Position						
	Governmental Activities		Business Type Activities		Total District		Total Change
	2014	2013	2014	2013	2014	2013	2013-14
Revenues:							
Program revenues:							
Charges for service	\$ 526,020	603,155	175,700	168,723	701,720	771,878	-9.09%
Operating grants, contributions and restricted interest	571,218	556,983	191,876	175,104	763,094	732,087	4.24%
Capital grants, contributions and restricted interest	3,511	2,792	-	-	3,511	2,792	25.75%
General revenues:							
Property taxes	3,422,844	3,327,249	-	-	3,422,844	3,327,249	2.87%
Income surtax	327,236	279,860	-	-	327,236	279,860	16.93%
Statewide sales, services and use tax	543,231	552,661	-	-	543,231	552,661	-1.71%
Unrestricted state grants	3,096,383	2,955,366	-	-	3,096,383	2,955,366	4.77%
Unrestricted investment earnings	37,384	36,534	355	245	37,739	36,779	2.61%
Other	35,321	36,034	-	-	35,321	36,034	-1.98%
Total revenues	8,563,148	8,350,634	367,931	344,072	8,931,079	8,694,706	2.72%
Program expenses:							
Instructional	5,560,151	5,242,207	-	-	5,560,151	5,242,207	6.07%
Support services	2,000,742	1,801,065	2,358	-	2,003,100	1,801,065	11.22%
Non-instructional programs	-	-	342,310	341,203	342,310	341,203	0.32%
Other expenses	494,128	576,236	-	-	494,128	576,236	-14.25%
Total expenses	8,055,021	7,619,508	344,668	341,203	8,399,689	7,960,711	5.51%
Excess of revenues over expenses	508,127	731,126	23,263	2,869	531,390	733,995	-27.60%
Transfers	-	(8,042)	-	8,042	-	-	0.00%
Change in net position	508,127	723,084	23,263	10,911	531,390	733,995	-27.60%
Net position beginning of year	6,797,892	6,074,808	44,302	33,391	6,842,194	6,108,199	12.02%
Net position end of year	\$ 7,306,019	6,797,892	67,565	44,302	7,373,584	6,842,194	7.77%

In fiscal year 2014, property tax, income surtax, statewide sales, services and use tax, and unrestricted state grants account for 86.30% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.90% of the revenue from business type activities.

The District’s total revenues were approximately \$8.93 million of which approximately \$8.56 million was for governmental activities and approximately \$0.37 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 2.72% increase in revenues and a 5.51% increase in expenses. The increase in expenses was related to increase in the negotiated salary and benefits.

Governmental Activities

Revenues for governmental activities were \$8,563,148 and expenses were \$8,055,021 for the year ended June 30, 2014.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses, for the year ended June 30, 2014 compared to the year ended June 30, 2013.

	Total Cost of Services			Net Cost of Services		
	2014	2013	Change 2013-14	2014	2013	Change 2013-14
Instruction	\$ 5,560,151	5,242,207	6.07%	4,787,052	4,351,512	10.01%
Support services	2,000,742	1,801,065	11.09%	1,942,573	1,786,759	8.72%
Other expenses	494,128	576,236	-14.25%	224,647	318,307	-29.42%
Totals	\$ 8,055,021	7,619,508	5.72%	6,954,272	6,456,578	7.71%

For the year ended June 30, 2014:

- The cost financed by users of the District's programs was \$526,020.
- Federal and state governments along with contributions from local sources subsidized certain programs with grants and contributions totaling \$574,729.
- The net cost of governmental activities was financed with \$3,422,844 in property tax, \$327,236 in income surtax, \$543,231 in statewide sales, services and use tax, \$3,096,383 in unrestricted state grants, \$37,384 in unrestricted investment earnings, and \$35,321 in other general revenues.

Business Type Activities

Revenues of the District's business type activities during the year ended June 30, 2014, were \$367,931 and expenses were \$344,668. 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 \$2,789,435, above last year's ending fund balances of \$2,207,084. The primary reason for the increase in combined fund balances in fiscal year 2014 is due to the increases in the Capital Projects: Statewide Sales, Services and Use Tax Fund and General Fund balances.

Governmental Fund Highlights

- The District's General Fund balance increased from a \$1,049,772 at June 30, 2013 to \$1,247,760 at June 30, 2014. This increase is primarily due to increases in local tax and state source revenues received. Although expenditures also increased during the year the increase was not enough to offset the increase in revenues ensuring an increase in ending fund balance.
- The Capital Projects Fund balance increased from \$940,747 at June 30, 2013 to \$1,300,465 at June 30, 2014. The primary reason for this increase is the increase in fund balance of the Capital Projects: Statewide Sales, Services and Use Tax Fund. This fund balance increased primarily due to a decrease in capital outlay expenditures incurred.

Proprietary Fund Highlights

The School Nutrition Fund net position increased from \$44,302 at June 30, 2013 to \$67,565 at June 30, 2014, representing an increase of 52.51%. The primary reason for this increase in net position is due to an increase in federal source revenues received.

BUDGETARY HIGHLIGHTS

The District's revenues were \$7,493 less than budgeted revenues, a variance of less than one percent. The most significant variance resulted from the District receiving less from local 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, 2014, the District had invested \$5,158,783, 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) This represents a net decrease of 4.74% from the prior year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$369,431.

The original cost of the District's capital assets was \$10,521,758. Governmental funds account for \$10,393,435 with the remainder of \$128,323 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$592,390 at June 30, 2013, compared to \$425,191 reported at June 30, 2014. This decrease resulted primarily from annual depreciation expense incurred.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Land	\$ 81,804	81,804	-	-	81,804	81,804	0.00%
Buildings and improvements	4,085,973	4,238,683	-	-	4,085,973	4,238,683	-3.60%
Land improvements	565,815	502,502	-	-	565,815	502,502	12.60%
Machinery and equipment	406,608	570,541	18,583	21,849	425,191	592,390	-28.22%
Total	\$ 5,140,200	5,393,530	18,583	21,849	5,158,783	5,415,379	-4.74%

Long-Term Debt

At June 30, 2014, the District had \$907,460 in other long-term debt outstanding. This represents a decrease of 13.92% 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 capital loan note indebtedness of \$425,000 payable from the Capital Project: Physical Plant and Equipment Levy Fund at June 30, 2014.

The District had total outstanding computer lease indebtedness of \$44,989 payable from the Capital Projects: Physical Plant and Equipment Levy Fund at June 30, 2014.

The District had total outstanding termination benefits payable of \$131,765 payable from the Special Revenue, Management Levy Fund at June 30, 2014.

The District had total outstanding other postemployment benefits liability of \$305,706 at June 30, 2014. Governmental activities account for \$287,822 of this total while business type activities account for the remaining \$17,884.

Figure A-7
Outstanding Long-Term Obligations

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Revenue bonds	\$ -	30,000	-	-	-	30,000	-100.00%
Capital loan note	425,000	485,000	-	-	425,000	485,000	-12.37%
Computer lease	44,989	134,364	-	-	44,989	134,364	-66.52%
Termination benefits	131,765	159,220	-	-	131,765	159,220	-17.24%
Net OPEB liability	287,822	231,264	17,884	14,375	305,706	245,639	24.45%
Totals	\$ 889,576	1,039,848	17,884	14,375	907,460	1,054,223	-13.92%

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 2015 is set at 4% and undetermined for fiscal year 2016. 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.
 - Future plans include reconfiguration of the district's school buildings from 3 to 2 which should help save in operating costs.

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 1st Street SE, Hartley, Iowa, 51346.

BASIC FINANCIAL STATEMENTS

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and pooled investments	\$ 3,400,955	85,667	3,486,622
Receivables:			
Property tax:			
Delinquent	53,341	-	53,341
Succeeding year	3,403,099	-	3,403,099
Income surtax	267,463	-	267,463
Accounts	10,918	-	10,918
Due from other governments	263,888	-	263,888
Inventories	-	5,075	5,075
Capital assets, net of accumulated depreciation	5,140,200	18,583	5,158,783
TOTAL ASSETS	12,539,864	109,325	12,649,189
LIABILITIES			
Accounts payable	192,751	376	193,127
Salaries and benefits payable	746,916	18,525	765,441
Accrued interest payable	1,503	-	1,503
Unearned revenue	-	4,975	4,975
Long-term liabilities:			
Portion due within one year:			
Capital loan note payable	65,000	-	65,000
Computer lease payable	44,989	-	44,989
Termination benefits payable	27,430	-	27,430
Portion due after one year:			
Capital loan note payable	360,000	-	360,000
Termination benefits payable	104,335	-	104,335
Net OPEB liability	287,822	17,884	305,706
TOTAL LIABILITIES	1,830,746	41,760	1,872,506
DEFERRED INFLOWS OF RESOURCES			
Unavailable property tax revenue	3,403,099	-	3,403,099
NET POSITION			
Net investment in capital assets	4,670,211	18,583	4,688,794
Restricted for:			
Categorical funding	169,994	-	169,994
Student activities	168,448	-	168,448
School infrastructure	934,129	-	934,129
Physical plant and equipment	366,336	-	366,336
Unrestricted	996,901	48,982	1,045,883
TOTAL NET POSITION	\$ 7,306,019	67,565	7,373,584

SEE NOTES TO FINANCIAL STATEMENTS.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 3,032,353	186,281	32,327	-	(2,813,745)	-	(2,813,745)
Special	1,318,717	58,688	54,932	-	(1,205,097)	-	(1,205,097)
Other	1,209,081	246,437	194,434	-	(768,210)	-	(768,210)
	<u>5,560,151</u>	<u>491,406</u>	<u>281,693</u>	<u>-</u>	<u>(4,787,052)</u>	<u>-</u>	<u>(4,787,052)</u>
Support services:							
Student	138,600	-	-	-	(138,600)	-	(138,600)
Instructional staff	114,462	34,614	-	-	(79,848)	-	(79,848)
Administration	700,891	-	-	-	(700,891)	-	(700,891)
Operation and maintenance of plant	694,023	-	-	3,511	(690,512)	-	(690,512)
Transportation	352,766	-	20,044	-	(332,722)	-	(332,722)
	<u>2,000,742</u>	<u>34,614</u>	<u>20,044</u>	<u>3,511</u>	<u>(1,942,573)</u>	<u>-</u>	<u>(1,942,573)</u>
Long-term debt interest	21,344	-	-	-	(21,344)	-	(21,344)
AEA flowthrough	269,481	-	269,481	-	-	-	-
Depreciation(unallocated)*	203,303	-	-	-	(203,303)	-	(203,303)
	<u>472,784</u>	<u>-</u>	<u>269,481</u>	<u>-</u>	<u>(203,303)</u>	<u>-</u>	<u>(203,303)</u>
Total governmental activities	<u>8,055,021</u>	<u>526,020</u>	<u>571,218</u>	<u>3,511</u>	<u>(6,954,272)</u>	<u>-</u>	<u>(6,954,272)</u>
Business Type activities:							
Support services:							
Operation and maintenance of plant	2,358	-	-	-	-	(2,358)	(2,358)
Non-instructional programs:							
Food service operations	342,310	175,700	191,876	-	-	25,266	25,266
	<u>344,668</u>	<u>175,700</u>	<u>191,876</u>	<u>-</u>	<u>-</u>	<u>22,908</u>	<u>22,908</u>
Total	<u>\$ 8,399,689</u>	<u>701,720</u>	<u>763,094</u>	<u>3,511</u>	<u>(6,954,272)</u>	<u>22,908</u>	<u>(6,931,364)</u>
General Revenues:							
Property tax levied for:							
General purposes					\$ 3,199,172	-	3,199,172
Capital outlay					223,672	-	223,672
Income surtax					327,236	-	327,236
Statewide sales, services and use tax					543,231	-	543,231
Unrestricted state grants					3,096,383	-	3,096,383
Unrestricted investment earnings					37,384	355	37,739
Other general revenues					35,321	-	35,321
Total general revenues					<u>7,462,399</u>	<u>355</u>	<u>7,462,754</u>
Change in net position					508,127	23,263	531,390
Net position beginning of year					<u>6,797,892</u>	<u>44,302</u>	<u>6,842,194</u>
Net position end of year					<u>\$ 7,306,019</u>	<u>67,565</u>	<u>7,373,584</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, 2014

	General	Capital Projects	Nonmajor	Total
ASSETS				
Cash and pooled investments	\$ 1,974,901	1,187,139	238,915	3,400,955
Receivables:				
Property tax:				
Delinquent	47,931	3,115	2,295	53,341
Succeeding year	2,896,573	226,527	279,999	3,403,099
Income surtax	191,045	76,418	-	267,463
Accounts	10,918	-	-	10,918
Due from other governments	148,113	115,775	-	263,888
TOTAL ASSETS	\$ 5,269,481	1,608,974	521,209	7,399,664
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 187,187	5,564	-	192,751
Salaries and benefits payable	746,916	-	-	746,916
Total liabilities	934,103	5,564	-	939,667
Deferred inflows of resources:				
Unavailable revenue:				
Succeeding year property tax	2,896,573	226,527	279,999	3,403,099
Income surtax	191,045	76,418	-	267,463
Total deferred inflows of resources	3,087,618	302,945	279,999	3,670,562
Fund balances:				
Restricted for:				
Categorical funding	169,994	-	-	169,994
Management levy purposes	-	-	72,762	72,762
Student activities	-	-	168,448	168,448
School infrastructure	-	934,129	-	934,129
Physical plant and equipment	-	366,336	-	366,336
Unassigned	1,077,766	-	-	1,077,766
Total fund balances	1,247,760	1,300,465	241,210	2,789,435
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 5,269,481	1,608,974	521,209	7,399,664

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, 2014

Total fund balances of governmental funds (page 20)	\$	2,789,435
 <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		5,140,200
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.		(1,503)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal year, and therefore, is recognized as deferred inflows of resources in the governmental funds.		267,463
Long-term liabilities, including bonds payable, computer lease 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>(889,576)</u>
Net position of governmental activities (page 18)	\$	<u><u>7,306,019</u></u>

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, 2014

	General	Capital Projects	Nonmajor	Total
REVENUES:				
Local sources:				
Local tax	\$ 3,267,546	309,213	145,483	3,722,242
Tuition	280,309	-	-	280,309
Other	89,453	17,250	219,148	325,851
State sources	3,467,451	543,231	-	4,010,682
Federal sources	196,226	-	-	196,226
Total revenues	<u>7,300,985</u>	<u>869,694</u>	<u>364,631</u>	<u>8,535,310</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	2,926,605	-	27,510	2,954,115
Special	1,304,206	-	-	1,304,206
Other	994,109	-	208,947	1,203,056
	<u>5,224,920</u>	<u>-</u>	<u>236,457</u>	<u>5,461,377</u>
Support services:				
Student	133,629	-	-	133,629
Instructional staff	89,202	23,402	-	112,604
Administration	602,274	49,659	39,857	691,790
Operation and maintenance of plant	507,014	111,494	46,502	665,010
Transportation	270,913	-	15,985	286,898
	<u>1,603,032</u>	<u>184,555</u>	<u>102,344</u>	<u>1,889,931</u>
Capital outlay	-	132,856	-	132,856
Long-term debt:				
Principal	-	-	179,375	179,375
Interest and fiscal charges	-	-	22,340	22,340
	<u>-</u>	<u>-</u>	<u>201,715</u>	<u>201,715</u>
Other expenditures:				
AEA flowthrough	269,481	-	-	269,481
Total expenditures	<u>7,097,433</u>	<u>317,411</u>	<u>540,516</u>	<u>7,955,360</u>
Excess(Deficiency) of revenues over(under) expenditures	203,552	552,283	(175,885)	579,950
Other financing sources(uses):				
Sale of equipment	2,401	-	-	2,401
Transfers in	-	7,965	200,530	208,495
Transfers out	(7,965)	(200,530)	-	(208,495)
Total other financing sources(uses)	<u>(5,564)</u>	<u>(192,565)</u>	<u>200,530</u>	<u>2,401</u>
Change in fund balances	197,988	359,718	24,645	582,351
Fund balances beginning of year	<u>1,049,772</u>	<u>940,747</u>	<u>216,565</u>	<u>2,207,084</u>
Fund balances end of year	<u>\$ 1,247,760</u>	<u>1,300,465</u>	<u>241,210</u>	<u>2,789,435</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, 2014

Net change in fund balances - total governmental funds (page 22) \$ 582,351

*Amounts reported for governmental activities in the
 Statement of Activities are different because:*

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 outlay, depreciation expense and loss on disposal in the year are as follows:

Capital outlay	\$ 113,906	
Depreciation expense	(366,165)	
Loss on disposal	(1,071)	(253,330)

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. 179,375

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. 996

Income surtax account receivable is not available to finance expenditures of the current year and is recognized as deferred inflows of resources in the governmental funds. 27,838

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 benefits	\$ 27,455	
Other postemployment benefits	(56,558)	(29,103)

Changes in net position of governmental activities (page 19) \$ 508,127

SEE NOTES TO FINANCIAL STATEMENTS.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET POSITION
 PROPRIETARY FUND
 JUNE 30, 2014

	<u>Enterprise, School Nutrition</u>
ASSETS	
Current assets:	
Cash and pooled investments	\$ 85,667
Inventories	<u>5,075</u>
Total current assets	<u>90,742</u>
Non-current assets:	
Capital assets:	
Machinery and equipment, net of accumulated depreciation	<u>18,583</u>
TOTAL ASSETS	<u>109,325</u>
LIABILITIES	
Current liabilities:	
Accounts payable	376
Salaries and benefits payable	18,525
Unearned revenue	<u>4,975</u>
Total current liabilities	<u>23,876</u>
Long-term liabilities:	
Net OPEB liability	<u>17,884</u>
TOTAL LIABILITIES	<u>41,760</u>
NET POSITION	
Net investment in capital assets	18,583
Unrestricted	<u>48,982</u>
TOTAL NET POSITION	<u>\$ 67,565</u>

SEE NOTES TO FINANCIAL STATEMENTS.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2014

	<u>Enterprise, School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for service	\$ 175,700
OPERATING EXPENSES:	
Support services:	
Operation and maintenance of plant:	
Services	1,778
Supplies	580
Total support services	<u>2,358</u>
Non-instructional programs:	
Salaries	105,252
Benefits	55,570
Services	3,381
Supplies	174,841
Depreciation	3,266
Total non-instructional programs	<u>342,310</u>
TOTAL OPERATING EXPENSES	<u>344,668</u>
OPERATING LOSS	<u>(168,968)</u>
NON-OPERATING REVENUES:	
State sources	3,000
Federal sources	188,876
Interest income	355
TOTAL NON-OPERATING REVENUES	<u>192,231</u>
Change in net position	23,263
Net position beginning of year	<u>44,302</u>
Net position end of year	<u>\$ 67,565</u>

SEE NOTES TO FINANCIAL STATEMENTS.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2014

	Enterprise, School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 175,658
Cash payments to employees for services	(161,065)
Cash payments to suppliers for goods or services	(150,555)
Net cash used in operating activities	(135,962)
Cash flows from non-capital financing activities:	
State grants received	3,000
Federal grants received	156,239
Net cash provided by non-capital financing activities	159,239
Cash flows from investing activities:	
Interest on investments	355
Net increase in cash and cash equivalents	23,632
Cash and cash equivalents beginning of year	62,035
Cash and cash equivalents end of year	\$ 85,667
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (168,968)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities used	32,637
Depreciation	3,266
Increase in inventories	(2,802)
Increase in accounts payable	190
Decrease in salaries and benefits payable	(3,752)
Decrease in unearned revenue	(42)
Increase in other postemployment benefits	3,509
Net cash used in operating activities	\$ (135,962)

NON-CASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES:

During the year ended June 30, 2014, the District received Federal commodities valued at \$32,637.

SEE NOTES TO FINANCIAL STATEMENTS.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2014

	<u>Private Purpose Trust Scholarship</u>
ASSETS	
Cash and pooled investments	\$ 5,759
LIABILITIES	<u>-</u>
NET POSITION	
Restricted for scholarships	<u>\$ 5,759</u>

SEE NOTES TO FINANCIAL STATEMENTS.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2014

	Private Purpose Trust
	Scholarship Fund
Additions:	
Local sources:	
Interest income	\$ 81
Deductions:	
Regular instruction:	
Scholarships awarded	1,000
Books purchased for individuals	169
Total deductions	1,169
Change in net position	(1,088)
Net position beginning of year	6,847
Net position end of year	\$ 5,759

SEE NOTES TO FINANCIAL STATEMENTS.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

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 and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

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

Net investment in capital assets 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. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those 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 fund is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports a fiduciary fund which focuses on net position and changes in net position. The District's fiduciary fund is 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, Deferred Inflows of Resources and Fund Balances

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 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 Receivable - 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, 2012 assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2013.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, 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
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 expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

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.

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.

Deferred Inflows of Resources - Although certain revenues are measurable, they are not available. Available means collectible within the current year or soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of succeeding year property tax receivable and other receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Fund Balances - 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.

E. Budgets and Budgetary Accounting

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

Note 2. Cash, Cash Equivalents and Pooled Investments

The District's deposits in banks at June 30, 2014 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. As of June 30, 2014, the District had no investments.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfer to	Transfer from	Amount
Capital Projects: Physical Plant and Equipment Levy	General	\$ 7,965
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	30,667
Debt Service	Capital Projects: Physical Plant and Equipment Levy	169,863
Total		\$ 208,495

The transfer from the General Fund to the Capital Projects: Physical Plant and Equipment Levy Fund was to repay the Capital Projects: Physical Plant and Equipment Levy Fund for maintenance expenditures paid for by this fund in the prior fiscal year.

The transfer from the Capital Projects: Statewide Sales, Services, and Use Tax Fund to the Debt Service Fund was for the principal and interest payments on the District's revenue 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 payments on 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 Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 81,804	-	-	81,804
Total capital assets not being depreciated	<u>81,804</u>	<u>-</u>	<u>-</u>	<u>81,804</u>
Capital assets being depreciated:				
Buildings and improvements	7,469,517	11,537	-	7,481,054
Improvements other than buildings	981,306	102,369	-	1,083,675
Machinery and equipment	1,817,767	-	70,865	1,746,902
Total capital assets being depreciated	<u>10,268,590</u>	<u>113,906</u>	<u>70,865</u>	<u>10,311,631</u>
Less accumulated depreciation for:				
Buildings and improvements	3,230,834	164,247	-	3,395,081
Improvements other than buildings	478,804	39,056	-	517,860
Machinery and equipment	1,247,226	162,862	69,794	1,340,294
Total accumulated depreciation	<u>4,956,864</u>	<u>366,165</u>	<u>69,794</u>	<u>5,253,235</u>
Total capital assets being depreciated, net	<u>5,311,726</u>	<u>(252,259)</u>	<u>1,071</u>	<u>5,058,396</u>
Governmental activities capital assets, net	<u>\$ 5,393,530</u>	<u>(252,259)</u>	<u>1,071</u>	<u>5,140,200</u>
Business type activities:				
Machinery and equipment	\$ 128,323	-	-	128,323
Less accumulated depreciation	106,474	3,266	-	109,740
Business type activities capital assets, net	<u>\$ 21,849</u>	<u>(3,266)</u>	<u>-</u>	<u>18,583</u>
Depreciation expense was charged by the District as follows:				
Governmental activities:				
Instruction:				
Regular				\$ 77,185
Other				4,128
Support services:				
Student services				3,778
Instructional staff				1,139
Administration				2,484
Operation and maintenance of plant				7,339
Transportation				<u>66,809</u>
				162,862
Unallocated depreciation				<u>203,303</u>
Total governmental activities depreciation expense				<u>\$ 366,165</u>
Business type activities:				
Food service operations				<u>\$ 3,266</u>

Note 5. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2014 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
<u>Governmental activities:</u>					
Revenue bonds	\$ 30,000	-	30,000	-	-
Capital loan note	485,000	-	60,000	425,000	65,000
Computer lease	134,364	-	89,375	44,989	44,989
Termination benefits	159,220	-	27,455	131,765	27,430
Net OPEB liability	231,264	56,558	-	287,822	-
Total	\$ 1,039,848	56,558	206,830	889,576	137,419
<u>Business type activities:</u>					
Net OPEB liability	\$ 14,375	3,509	-	17,884	-

Capital Loan Notes

The District issued \$730,000 of capital loan notes during the year ended June 30, 2008 payable from the Capital Projects: Physical Plant and Equipment Levy Fund. Details of the capital loan note indebtedness as of June 30, 2014, are as follows:

Year Ending June 30,	Capital Loan Note Dated December 4, 2007			
	Interest Rate	Principal	Interest	Total
2015	4.05 %	\$ 65,000	17,765	82,765
2016	4.10	65,000	15,133	80,133
2017	4.15	70,000	12,468	82,468
2018	4.20	75,000	9,563	84,563
2019	4.25	75,000	6,412	81,412
2020	4.30	75,000	3,225	78,225
Totals		\$ 425,000	64,566	489,566

Computer Lease

Details of the District's June 30, 2014 computer lease indebtedness paid from the Capital Projects: Physical Plant and Equipment Levy Fund are as follows:

Year Ending June 30,	Computer Lease Dated May 18, 2011			
	Interest Rate	Principal	Interest	Total
2015	0.45 %	\$ 44,989	202	45,191

Termination Benefits

The District did not offer a voluntary early retirement incentive to its employees during fiscal year 2014. However, the District did offer a voluntary early retirement plan to its employees for a limited time during fiscal years 2011 and 2012. 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 for retirees in fiscal year 2011 were equal to \$35,000, payable in annual increments of \$5,000. Each retiree also received an additional benefit of \$20 per day of unused sick leave up to a max of 120 days of unused sick leave.

Early retirement benefits for retirees in fiscal year 2012 were equal to \$10,000 plus a reimbursement of \$20 per day of unused sick leave up to max of 120 days of unused sick leave. Retirees were given the option of having their retirement benefit paid in a cash settlement to paid in the October and March of the succeeding fiscal year, paid into a 403(b) plan by the District or to have it kept on account with the school and applied toward individual health insurance premiums.

At June 30, 2014 the District had obligations to seven participants with a total liability of \$131,765. Actual early retirement expenditures for the year ended June 30, 2014 totaled \$27,455.

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. Retired 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, 2014, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 80,542
Interest on net OPEB obligation	6,141
Adjustment to annual required contribution	<u>(18,136)</u>
Annual OPEB cost	68,547
Contributions made	<u>(8,480)</u>
Increase in net OPEB obligation	60,067
Net OPEB obligation beginning of year	<u>245,639</u>
Net OPEB obligation end of year	<u><u>\$ 305,706</u></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, 2014.

For the year ended June 30, 2014 the District contributed \$8,480 to the medical plan.

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

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$61,200	0.80%	\$180,474
2013	\$72,618	10.26%	\$245,639
2014	\$68,547	12.37%	\$305,706

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$582,085, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$582,085. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,889,166, and the ratio of the UAAL to covered payroll was 15.0%. As of June 30, 2014, 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 for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents 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 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 5.95% of their annual covered salary and the District is required to contribute 8.93% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$372,327, \$344,213, and \$320,142 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, 2014 were \$1,009,162

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 \$269,481 for the year ended June 30, 2014 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, 2014 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
Gifted and talented	\$ 70,633
Returning dropout and dropout prevention	36,716
Teacher salary supplement	1,208
Four-year-old preschool state aid	35,817
Successful progression for early readers	6,137
Professional development for model core curriculum	7,490
Professional development	4,647
Teacher leadership grants	7,346
Total	<u>\$ 169,994</u>

Note 11. Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government's proportionate share of the employee pension plan.

Note 12. Reconciliation of Governmental Fund Balances to Net Position

Reconciliation of certain governmental fund balances to net position are as follows:

	<u>Net investment in capital assets</u>	<u>Management Levy</u>	<u>Unassigned/ Unrestricted</u>
Fund balance (Exhibit C)	\$ -	72,762	1,077,766
Capital assets, net of accumulated depreciation	5,140,200	-	-
General obligation bond capitalized indebtedness	(425,000)	-	-
Computer lease capitalized indebtedness	(44,989)	-	-
Termination benefits payable	-	(72,762)	(59,003)
Accrued interest payable	-	-	(1,503)
Income surtax receivable	-	-	267,463
Net OPEB liability	-	-	(287,822)
Net position (Exhibit A)	<u>\$ 4,670,211</u>	<u>-</u>	<u>996,901</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 FUND
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2014

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds Actual	Fund Actual		Original	Final	
Revenues:						
Local sources	\$ 4,328,402	176,055	4,504,457	5,082,136	5,082,136	(577,679)
State sources	4,010,682	3,000	4,013,682	3,503,598	3,503,598	510,084
Federal sources	196,226	188,876	385,102	325,000	325,000	60,102
Total revenues	<u>8,535,310</u>	<u>367,931</u>	<u>8,903,241</u>	<u>8,910,734</u>	<u>8,910,734</u>	<u>(7,493)</u>
Expenditures/expenses:						
Instruction	5,461,377	-	5,461,377	5,760,720	5,760,720	299,343
Support services	1,889,931	2,358	1,892,289	2,227,110	2,227,110	334,821
Non-instructional programs	-	342,310	342,310	355,000	355,000	12,690
Other expenditures	604,052	-	604,052	870,860	870,860	266,808
Total expenditures/expenses	<u>7,955,360</u>	<u>344,668</u>	<u>8,300,028</u>	<u>9,213,690</u>	<u>9,213,690</u>	<u>913,662</u>
Excess(Deficiency) of revenues over(under) expenditures/expenses	579,950	23,263	603,213	(302,956)	(302,956)	906,169
Other financing sources, net	<u>2,401</u>	-	<u>2,401</u>	-	-	<u>2,401</u>
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	582,351	23,263	605,614	(302,956)	(302,956)	908,570
Balances beginning of year	<u>2,207,084</u>	<u>44,302</u>	<u>2,251,386</u>	<u>1,833,110</u>	<u>1,833,110</u>	<u>418,276</u>
Balances end of year	<u>\$ 2,789,435</u>	<u>67,565</u>	<u>2,857,000</u>	<u>1,530,154</u>	<u>1,530,154</u>	<u>1,326,846</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2014

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 Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$ 535,586	535,586	0.0%	\$ 2,984,000	17.9%
2011	July 1, 2009	-	535,586	535,586	0.0%	3,767,000	14.2%
2012	July 1, 2009	-	535,586	535,586	0.0%	3,738,000	14.3%
2013	July 1, 2012	-	596,552	596,552	0.0%	3,739,223	16.0%
2014	July 1, 2012	-	582,085	582,085	0.0%	3,889,166	15.0%

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.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

HARTLEY-MELVIN-SANDBORN COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2014

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
ASSETS			
Cash and pooled investments	\$ 70,467	168,448	238,915
Receivables:			
Property tax:			
Delinquent	2,295	-	2,295
Succeeding year	279,999	-	279,999
TOTAL ASSETS	\$ 352,761	168,448	521,209
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities	\$ -	-	-
Deferred inflows of resources:			
Unavailable revenue:			
Succeeding year property tax	279,999	-	279,999
Fund balances:			
Restricted for:			
Management levy purposes	72,762	-	72,762
Student activities	-	168,448	168,448
Total fund balances	72,762	168,448	241,210
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 352,761	168,448	521,209

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, 2014

	Special Revenue				
	Manage- ment Levy	Student Activity	Total	Debt Service	Total
REVENUES:					
Local sources:					
Local tax	\$ 145,483	-	145,483	-	145,483
Other	4,524	214,624	219,148	-	219,148
Total revenues	150,007	214,624	364,631	-	364,631
EXPENDITURES:					
Current:					
Instruction:					
Regular	27,510	-	27,510	-	27,510
Other	-	208,947	208,947	-	208,947
Support services:					
Administration	39,857	-	39,857	-	39,857
Operation and maintenance of plant	46,502	-	46,502	-	46,502
Transportation	15,985	-	15,985	-	15,985
Long-term debt:					
Principal	-	-	-	179,375	179,375
Interest and fiscal charges	-	-	-	22,340	22,340
Total expenditures	129,854	208,947	338,801	201,715	540,516
Excess(Deficiency) of revenues over(under) expenditures	20,153	5,677	25,830	(201,715)	(175,885)
Other financing sources:					
Transfer in	-	-	-	200,530	200,530
Change in fund balances	20,153	5,677	25,830	(1,185)	24,645
Fund balances beginning of year	52,609	162,771	215,380	1,185	216,565
Fund balances end of year	\$ 72,762	168,448	241,210	-	241,210

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS FUNDS
 JUNE 30, 2014

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
ASSETS			
Cash and pooled investments	\$ 818,354	368,785	1,187,139
Receivables:			
Property tax:			
Delinquent	-	3,115	3,115
Succeeding year	-	226,527	226,527
Income surtax	-	76,418	76,418
Due from other governments	115,775	-	115,775
TOTAL ASSETS	\$ 934,129	674,845	1,608,974
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	5,564	5,564
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	-	226,527	226,527
Income surtax	-	76,418	76,418
Total deferred inflows of resources	-	302,945	302,945
Fund balances:			
Restricted for:			
School infrastructure	934,129	-	934,129
Physical plant and equipment levy	-	366,336	366,336
Total fund balances	934,129	366,336	1,300,465
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 934,129	674,845	1,608,974

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, 2014

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ -	309,213	309,213
Other	8,040	9,210	17,250
State sources	543,231	-	543,231
Total revenues	<u>551,271</u>	<u>318,423</u>	<u>869,694</u>
EXPENDITURES:			
Current:			
Support services:			
Instructional staff	-	23,402	23,402
Administration	25,578	24,081	49,659
Operation and maintenance of plant	-	111,494	111,494
Capital outlay	104,369	28,487	132,856
Total expenditures	<u>129,947</u>	<u>187,464</u>	<u>317,411</u>
Excess of revenues over expenditures	421,324	130,959	552,283
Other financing sources(uses):			
Transfer in	-	7,965	7,965
Transfer out	(30,667)	(169,863)	(200,530)
Total other financing sources(uses)	<u>(30,667)</u>	<u>(161,898)</u>	<u>(192,565)</u>
Change in fund balances	390,657	(30,939)	359,718
Fund balance beginning of year	<u>543,472</u>	<u>397,275</u>	<u>940,747</u>
Fund balance end of year	<u>\$ 934,129</u>	<u>366,336</u>	<u>1,300,465</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, 2014

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intrafund Transfers	Balance End of Year
High School:					
All athletics	\$ 8,186	9,126	5,606	(101)	11,605
Cross country	1,543	1,648	2,138	-	1,053
Football	7,544	15,948	18,841	-	4,651
Volleyball	7,161	10,682	9,963	-	7,880
Boys basketball	6,638	10,265	7,867	-	9,036
Girls basketball	7,198	9,822	11,377	-	5,643
Boys track	2,319	1,489	934	-	2,874
Girls track	1,857	2,223	1,722	-	2,358
Boys golf	1,293	680	567	-	1,406
Girls golf	1,254	711	1,264	-	701
Baseball	1,959	4,212	4,104	-	2,067
Softball	2,711	5,648	5,026	-	3,333
Wrestling	4,024	8,285	8,868	77	3,518
Band	3,683	985	2,637	-	2,031
Chorus	3,652	768	2,074	-	2,346
Senior class	534	10	263	768	1,049
Junior class	861	1,342	3,902	4,413	2,714
Sophomore class	3,609	3,631	917	(6,323)	-
Class special	197	-	106	1,142	1,233
HS activities	3,041	25,440	9,471	(181)	18,829
Art club	240	-	-	-	240
Cheerleaders	4,083	10,380	11,166	(77)	3,220
Computer club	418	-	-	-	418
Drama club	1,199	1,680	1,662	-	1,217
FCA	3,527	-	-	-	3,527
FFA	13,234	32,561	26,061	-	19,734
Industrial tech club	494	-	-	-	494
Library reading club	1,011	2,598	5,203	1,594	-
Marketing club	3,483	4,624	6,810	-	1,297
Oracle yearbook	13,045	3,019	8,406	-	7,658
Science club	504	-	-	-	504
Spanish club	1,537	9,906	10,567	-	876
Student council - HS	1,180	621	972	(59)	770
National honor society	-	-	247	247	-
Speech club	3,792	-	306	-	3,486
Elementary School:					
Student council - K-4	21,273	1,055	3,974	(1,253)	17,101
Unallocated interest	5,422	454	-	(247)	5,629
Middle School:					
MS all athletics	-	1,119	328	-	791
MS football	-	5,349	7,651	2,302	-
MS volleyball	-	2,162	5,499	3,337	-
MS basketball	-	-	2,172	2,172	-
MS wrestling	-	-	780	780	-
MS track	-	60	472	412	-
MS golf	113	-	-	-	113
MS baseball	-	379	1,587	1,208	-
Bowling	187	1,496	1,479	-	204
MS softball	-	306	1,531	1,225	-
MS vocal music	-	-	172	172	-
MS band	315	1,548	3,324	1,914	453
Middle school activities	572	21,142	8,694	(10,190)	2,830
MS student council	12,419	1,118	2,237	(3,332)	7,968
Checking interest	5,459	132	-	-	5,591
TOTAL	\$ 162,771	214,624	208,947	-	168,448

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, 2014

	Private Purpose Trust - Scholarship		
	McCarty Scholarship	Litts Memorial Scholarship	Total
ASSETS			
Cash and pooled investments	\$ 2,223	3,536	5,759
LIABILITIES			
	-	-	-
NET POSITION			
Restricted for scholarships	\$ 2,223	3,536	5,759

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, 2014

	Private Purpose Trust - Scholarship		
	McCarty Scholarship	Litts Memorial Scholarship	Total
Additions:			
Local sources:			
Interest income	\$ 35	46	81
Deductions:			
Instruction:			
Regular:			
Scholarships awarded	1,000	-	1,000
Books purchased for individuals	-	169	169
Total deductions	1,000	169	1,169
Change in net position	(965)	(123)	(1,088)
Net position beginning of year	3,188	3,659	6,847
Net position end of year	\$ 2,223	3,536	5,759

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis									
	Years Ended June 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues:										
Local sources:										
Local tax	\$ 3,722,242	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
Tuition	280,309	407,654	331,592	285,033	318,811	354,080	252,675	213,057	204,989	198,123
Other	325,851	276,540	382,764	410,828	263,190	399,326	370,805	344,053	369,380	295,101
Intermediate sources	-	-	-	-	-	-	200	514	378	486
State sources	4,010,682	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
Federal sources	196,226	176,494	264,101	541,113	335,296	248,765	179,714	415,670	459,728	281,937
Total	\$ 8,535,310	8,376,444	8,358,292	8,162,877	7,074,053	7,286,356	6,882,872	7,053,540	6,972,373	6,813,429
Expenditures:										
Instruction:										
Regular	\$ 2,954,115	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
Special	1,304,206	1,174,829	1,095,134	1,018,411	966,916	1,084,474	895,547	781,369	809,660	742,105
Other	1,203,056	928,548	1,078,866	1,119,492	1,101,202	800,334	622,302	701,793	711,725	649,366
Support services:										
Student	133,629	128,168	124,432	94,490	111,163	101,907	92,051	83,672	99,065	137,792
Instructional staff	112,604	120,707	443,071	45,571	128,298	115,384	115,049	124,973	202,088	175,448
Administration	691,790	646,829	638,494	608,326	546,168	603,770	603,694	629,847	607,126	606,568
Operation and maintenance of plant	665,010	565,546	597,792	538,339	522,502	561,917	519,030	504,485	489,417	457,928
Transportation	286,898	355,410	284,090	256,078	410,839	297,001	245,763	315,604	318,798	277,414
Non-instructional programs	-	-	-	-	-	-	-	-	-	4,337
Capital outlay	132,856	317,613	222,024	90,538	90,352	998,565	424,639	151,556	137,350	55,676
Long-term debt:										
Principal	179,375	508,575	487,783	385,000	375,000	340,000	1,780,000	250,353	243,489	236,000
Interest and other charges	22,340	36,888	51,460	61,574	74,150	106,137	78,663	89,450	99,950	111,101
Other expenditures:										
AEA flow-through	269,481	257,929	258,300	294,129	290,153	268,979	262,127	257,735	252,209	252,328
Total	\$ 7,955,360	8,098,876	8,175,644	7,646,534	7,584,215	8,414,068	8,789,529	6,995,728	6,926,314	6,775,354

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
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117 West 3rd Street North, Newton, Iowa 50208-3040
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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, 2014, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 13, 2015.

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 a deficiency in internal control we consider to be a material weakness.

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 item I-A-14 to be a material weakness.

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.

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, 2014 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 13, 2015
Newton, Iowa

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-14 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 - recording and reconciling.
- 7) Payroll - recording approved pay rates and deductions, recordkeeping, preparation, posting and distribution.
- 8) Transfers - preparing and approving.
- 9) Financial reporting - preparing, reconciling and approving.
- 10) Computer systems - performing all general accounting functions and controlling all data input and output.
- 11) 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.

OTHER MATTERS:

I-B-14 Scholarship Awards - We noted during our audit that scholarship checks were being paid from the Marketing Club account within the Student Activity Fund.

Recommendation - Scholarship awards to students are most appropriately handled through the District's Private Purpose Trust Funds. 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 instead of group accounts within the Student Activity Fund.

Response - After the final two payments this year of scholarships already awarded, the district will discontinue awarding scholarships from the student activity fund.

Conclusion - Response acknowledged. The District should record revenues and expenditures for scholarships in a Private Purpose Trust Fund.

I-C-14 Student Activity Fund Interest - We noted during our audit that the Student Activity Fund has a Checking interest account. It appears that interest earned during the year has not been allocated to individual accounts in the Student Activity Fund which have earned the interest.

Recommendation - Interest earned each year should be allocated to the individual student activity accounts that have earned the interest. The District's Board of Directors should develop a workout plan to reduce the carryover balance in the interest account to zero.

Response - Interest will be distributed among the activities at the end of the year.

Conclusion - Response accepted.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-14 Certified Budget - District expenditures for the year ended June 30, 2014, did not exceed the amounts budgeted.
- II-B-14 Questionable Disbursements - No expenditures we believe may not meet the requirements of public purpose as defined in Attorney General's opinion dated April 25, 1979 were noted.
- II-C-14 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees noted.
- II-D-14 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 Co-owner of local insurance agency	School insurance policy	\$ 99,051

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

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.

In the future, the board of directors should require competitive bids from area businesses. The competitive bids should be presented and acted upon by the District's entire board of directors. Board members that have an affiliation with businesses should recuse himself/herself from voting on the approval of the bid. The approval of the bid with any recusals of board members should be noted in the district board minutes to avoid the appearance of a conflict of interest. We recommend the District contact its legal counsel regarding these issues.

Response - Bill Treimer is no longer a school board member as of September 2013 so this is no longer a conflict of interest for the District going forward.

Conclusion - Response accepted.

- II-E-14 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-14 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted an instance of District board minutes which was not published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - The district will work hard to ensure minutes are published timely.

Conclusion - Response accepted.

- II-G-14 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- II-H-14 Supplementary Weighting - No variances in the supplementary weighting data certified to the Department of Education were noted.
- II-I-14 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-14 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-14 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- II-L-14 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax. 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, 2014, the District reported the following information regarding the statewide sales, services, and use tax revenue in the District's CAR:

Beginning balance		\$	543,472
Revenues:			
Sales tax revenues	\$	543,231	
Other local revenue		8,040	
		<u> </u>	<u>551,271</u>
			1,094,743
Expenditures/transfers out:			
School infrastructure construction	\$	103,319	
Other expenditures		26,628	
Transfers to other funds:			
Debt service fund		30,667	
		<u> </u>	<u>160,614</u>
Ending balance			<u>\$ 934,129</u>

For the year ended June 30, 2014, 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-14 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 have started having the board president sign officiating contracts.

Conclusion - Response accepted.

II-N-14 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.

Instructional Items Purchased: We noted the District paid for a bowling trip that was part of the middle school physical education curriculum. The purchase of bowling fees for physical education instruction appears to be instructional in nature and would be more appropriately handled in the General Fund.

Recommendation - The District should review the propriety of revenues and expenditures which are approved in the Student Activity Fund. The expenditures paid for fees for students as part of the Middle School physical education curriculum appear to be instructional in nature and more appropriate from the General Fund.

Response - We will pay middle school physical education curriculum fees from the General Fund.

Conclusion - Response accepted.

Target Donations: We noted during our audit that the District receipts Target donations received in the Student Activity Fund.

Recommendation - Target donations are considered an undesignated donation; therefore, they should be receipted into the General Fund for use as determined by the District's Board of Directors. This designation should be noted annually in the District's board minutes.

Response - We will deposit Target funds into the General Fund.

Conclusion - Response accepted.

II-O-14 Check Signatures - We noted during our audit, instances of a middle school activity fund checks clearing the bank that lacked the board president's authorized signature. Chapter 291.1 of the Code of Iowa requires the Board President, or designee, and Board Secretary to sign all checks.

Recommendation - The District should review their procedures to ensure the proper signatures are on all checks (Board President, or Designee, and Board Secretary) before sending them out, in order to be in compliance with Chapter 291.1 and Chapter 291.8 of the Code of Iowa.

Response - The district will review our procedure to ensure that all checks are properly signed.

Conclusion - Response accepted.

II-P-14 Payroll Authorization - We noted during our audit the District does not have written authorization to mail employee's payroll checks. Chapter 91A.3 of the Code of Iowa requires that an employer have a written request from an employee before wages can be sent to an employee by mail.

Recommendation - The District should obtain written authorization from each employee who desires to receive a payroll check by mail.

Response - The district will obtain written authorization from employees who desire to receive a payroll check by mail.

Conclusion - Response accepted.

II-Q-14 Non-certified Time Sheets - We noted during our audit that the District does not maintain documentation of hours worked by coaches who are non-certified staff. This creates a situation where calculating wage per hour amounts is not possible.

Recommendation - In order to comply with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches. The District should then determine if wages paid comply with minimum wage and overtime requirements.

Response - The district will track the hours worked for non certified coaches.

Conclusion – Response accepted.