

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2015

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Hartley-Melvin-Sanborn Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Scott Heetland	President	2015
Jill Zuetenhorst	Vice President	2015
Scott Vollink	Board Member	2017
Lynn Younie	Board Member	2017
Terry Heyn	Board Member (resigned September 2014)	2017
Marne Schiphoff	Board Member (appointed September 2014)	2015
School Officials		
Bill Thompson	Superintendent	2015
Cathy Lyman	District Secretary/Treasurer Business Manager	2015
Dennis Cmelik	Attorney	2015
Steve Avery	Attorney	2015

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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, 2015, 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, 2015, 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.

Emphasis of Matter

As discussed in Note 14 to the financial statements, Hartley-Melvin-Sanborn Community School District adopted new accounting guidance related to Government Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of District Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 44 through 49 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 two years ended June 30, 2014 (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 seven 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 29, 2016 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 29, 2016
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, 2015. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2015 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$7,303,386 in fiscal year 2014 to \$7,042,864 in fiscal year 2015, while General Fund expenditures decreased from \$7,105,398 in fiscal year 2014 to \$7,066,596 in fiscal year 2015. The District's General Fund balance decreased from \$1,247,760 at June 30, 2014 to \$1,224,028 at June 30, 2015, a 1.90% decrease from the prior year.
- The decrease in General Fund revenues was attributable to decreases in local tax sources received as compared to the previous year. The decrease in expenditures was due primarily from a decrease in instruction expenditures incurred 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 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, the District's proportionate share of the net pension liability and related contributions, 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.

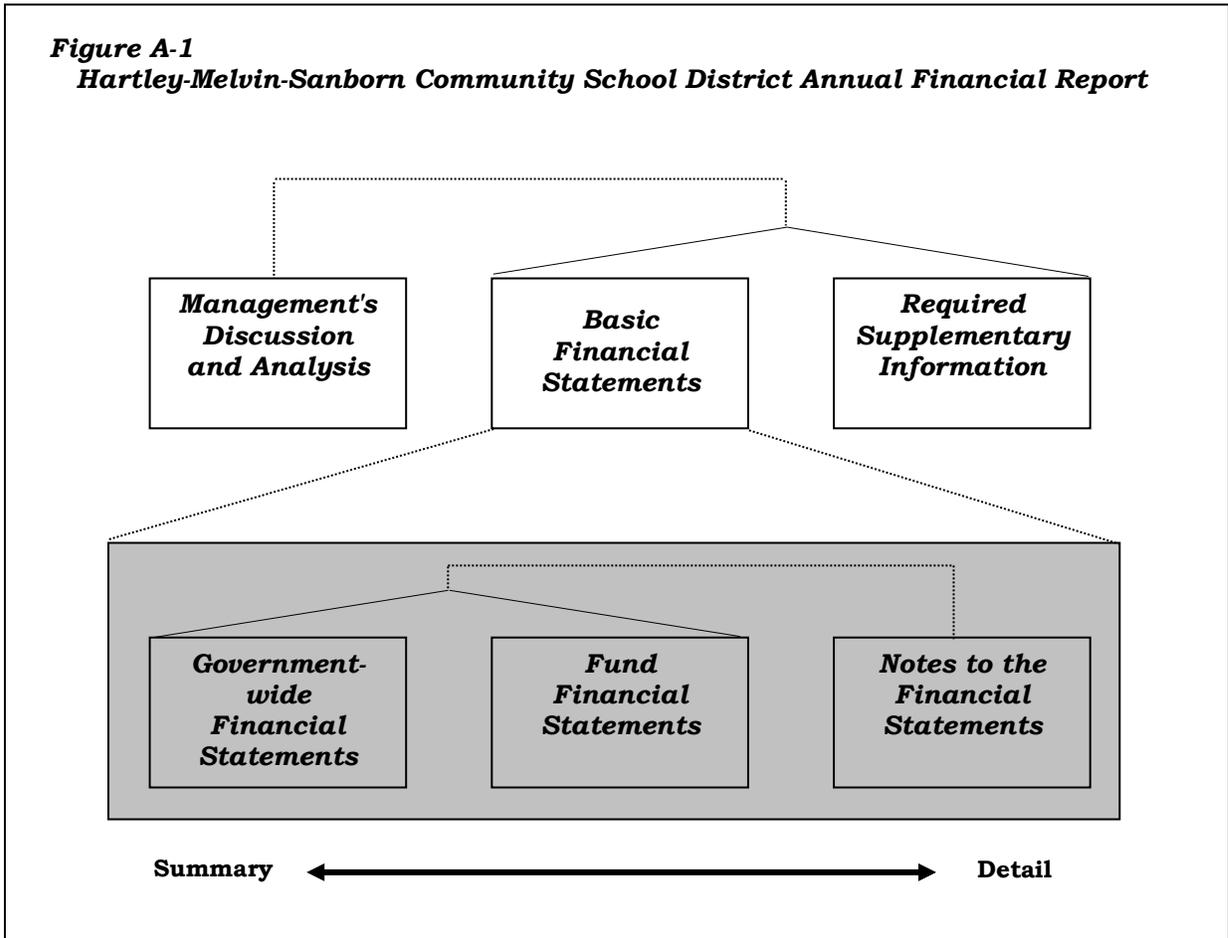


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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: food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net 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 deferred outflow / inflow information	Consumption/acquisition of net position that is applicable to a future reporting period	Consumption/ acquisition of fund balance that is applicable to a future reporting period	Consumption/ acquisition of net position that is applicable to a future reporting period	Consumption/ acquisition of net position that is applicable to a future reporting period.
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 the Private Purpose Trust Fund.

- 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, 2015 compared to June 30, 2014.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2015	2014 (Not restated)	2015	2014 (Not restated)	2015	2014 (Not restated)	2014-15
Current and other assets	\$ 8,144,689	7,399,664	97,640	90,742	8,242,329	7,490,406	10.04%
Capital assets	5,004,862	5,140,200	28,602	18,583	5,033,464	5,158,783	-2.43%
Total assets	13,149,551	12,539,864	126,242	109,325	13,275,793	12,649,189	4.95%
Deferred outflows of resources	555,638	-	12,316	-	567,954	-	100.00%
Long-term liabilities	3,295,928	889,576	83,126	17,884	3,379,054	907,460	272.36%
Other liabilities	923,220	941,170	30,087	23,876	953,307	965,046	-1.22%
Total liabilities	4,219,148	1,830,746	113,213	41,760	4,332,361	1,872,506	131.37%
Deferred inflows of resources	4,586,108	3,403,099	23,418	-	4,609,526	3,403,099	35.45%
Net position:							
Net investment in capital assets	4,644,862	4,670,211	28,602	18,583	4,673,464	4,688,794	-0.33%
Restricted	2,090,980	1,638,907	-	-	2,090,980	1,638,907	27.58%
Unrestricted	(1,835,909)	996,901	(26,675)	48,982	(1,862,584)	1,045,883	-278.09%
Total net position	\$ 4,899,933	7,306,019	1,927	67,565	4,901,860	7,373,584	-33.52%

The District's combined net position decreased by 33.52%, or \$2,471,724 from the prior year. The largest portion of the District's net position is 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 \$452,073, or 27.58% from 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 – decreased \$2,908,467, or 278.09%. This decrease was primarily a result of the District’s net pension liability net pension expense recorded in the current year.

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 for governmental activities and business type activities were restated by \$3,027,876 and \$75,409, respectively, to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. Fiscal year 2013 and 2014 financial statement amounts for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

Figure A-4 shows the changes in net position for the year ended June 30, 2015 compared to the year ended June 30, 2014.

Figure A-4							
Changes in Net Position							
	Governmental Activities		Business Type Activities		Total District		Total Change
	2015	2014 (Not restated)	2015	2014 (Not restated)	2015	2014 (Not restated)	2014-15
Revenues:							
Program revenues:							
Charges for service	\$ 487,700	526,020	173,825	175,700	661,525	701,720	-5.73%
Operating grants, contributions and restricted interest	580,049	571,218	201,043	191,876	781,092	763,094	2.36%
Capital grants, contributions and restricted interest	29,422	3,511	-	-	29,422	3,511	737.99%
General revenues:							
Property taxes	3,414,637	3,422,844	-	-	3,414,637	3,422,844	-0.24%
Income surtax	309,511	327,236	-	-	309,511	327,236	-5.42%
Statewide sales, services and use tax	591,628	543,231	-	-	591,628	543,231	8.91%
Unrestricted state grants	3,029,495	3,096,383	-	-	3,029,495	3,096,383	-2.16%
Unrestricted investment earnings	43,997	37,384	413	355	44,410	37,739	17.68%
Other	10,924	35,321	2,090	-	13,014	35,321	-63.16%
Total revenues	8,497,363	8,563,148	377,371	367,931	8,874,734	8,931,079	-0.63%
Program expenses:							
Instruction	5,277,146	5,560,151	-	-	5,277,146	5,560,151	-5.09%
Support services	2,099,933	2,000,742	4,953	2,358	2,104,886	2,003,100	5.08%
Non-instructional programs	-	-	362,647	342,310	362,647	342,310	5.94%
Other expenses	498,494	494,128	-	-	498,494	494,128	0.88%
Total expenses	7,875,573	8,055,021	367,600	344,668	8,243,173	8,399,689	-1.86%
Change in net position	621,790	508,127	9,771	23,263	631,561	531,390	18.85%
Net position beginning of year, as restated	4,278,143	6,797,892	(7,844)	44,302	4,270,299	6,842,194	-37.59%
Net position end of year	\$ 4,899,933	7,306,019	1,927	67,565	4,901,860	7,373,584	-33.52%

In fiscal year 2015, property tax and unrestricted state grants accounted for 75.84% of the revenue from governmental activities while charges for service and operating grants, contributions and restricted interest accounted for 99.34% of the revenue from business type activities.

The District's total revenues were approximately \$8.87 million, of which approximately \$8.50 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 0.63% decrease in revenues and a 1.86% decrease in expenditures as compared to the prior year.

Governmental Activities

Revenues for governmental activities were \$8,497,363 and expenses were \$7,875,573 for the year ended June 30, 2015.

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, 2015 compared to the year ended June 30, 2014.

	Total Cost of Services			Net Cost of Services		
	2015	2014 (Not restated)	Change 2014-15	2015	2014 (Not restated)	Change 2014-15
Instruction	\$ 5,277,146	5,560,151	-5.09%	4,504,322	4,787,052	-5.91%
Support services	2,099,933	2,000,742	4.96%	2,048,377	1,942,573	5.45%
Other expenses	498,494	494,128	0.88%	225,703	224,647	0.47%
Total	<u>\$ 7,875,573</u>	<u>8,055,021</u>	<u>-2.23%</u>	<u>6,778,402</u>	<u>6,954,272</u>	<u>-2.53%</u>

For the year ended June 30, 2015:

- The cost financed by users of the District's programs was \$487,700.
- Federal and state governments along with contributions from local sources subsidized certain programs with grants and contributions totaling \$609,471.
- The net cost of governmental activities was financed with \$3,414,637 in property tax, \$309,511 in income surtax, \$591,628 in statewide sales, services and use tax, \$3,029,495 in unrestricted state grants, \$43,997 in unrestricted investment earnings, and \$10,924 in other general revenues.

Business Type Activities

Revenues of the District's business type activities during the year ended June 30, 2015, were \$377,371 and expenses were \$367,600. 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, investment income and other general 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 the District completed the year, its governmental funds reported combined fund balances of \$3,277,540, above last year's ending fund balances of \$2,789,435. The primary reason for this increase is due to the increase in the Capital Projects: Statewide Sales, Services and Use Tax Fund balance during fiscal year 2015.

Governmental Fund Highlights

- The District's General Fund balance decreased from a \$1,247,760 at June 30, 2014 to \$1,224,028 at June 30, 2015, representing a decrease of 1.90%. This decrease in the General Fund balance is primarily due to decreased local sources as compared to the previous year.
- The Capital Projects Fund balance increased from \$1,300,465 at June 30, 2014 to \$1,701,173 at June 30, 2015. The primary reason for this increase is the increase in fund balance of the Capital Projects: Statewide Sales, Services and Use Tax Fund. This increase is due, in part, to decreased capital outlay expenditures and increased state sources received as compare to the prior year.

Proprietary Fund Highlights

The School Nutrition Fund net position increased from a restated deficit net position of \$7,844 at July 1, 2014 to \$1,927 at June 30, 2015, representing an increase of 124.57%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$54,810 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.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services functional area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the District had invested \$5,033,464, 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 2.43% 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 \$386,016.

The original cost of the District's capital assets was \$10,724,575. Governmental funds account for \$10,582,526 with the remainder of \$142,049 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the buildings and improvements category. The District's buildings and improvements totaled \$565,815 at June 30, 2014, compared to \$555,863 reported at June 30, 2015. This decrease resulted primarily from annual depreciation expense incurred.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2015	2014	2015	2014	2015	2014	2014-15
Land	\$ 81,804	81,804	-	-	81,804	81,804	0.00%
Buildings and improvements	3,971,956	4,085,973	-	-	3,971,956	4,085,973	-2.79%
Land improvements	555,863	565,815	-	-	555,863	565,815	-1.76%
Machinery and equipment	395,239	406,608	28,602	18,583	423,841	425,191	-0.32%
Total	\$ 5,004,862	5,140,200	28,602	18,583	5,033,464	5,158,783	-2.43%

Long-Term Debt

At June 30, 2015, the District had \$3,379,054 in long-term debt outstanding. This represents an increase of 272.36%. (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 \$360,000 payable from the Capital Project: Physical Plant and Equipment Levy Fund at June 30, 2015.

The District had total termination benefits payable of \$120,785 payable from the Special Revenue, Management Levy Fund at June 30, 2015.

The District had a net pension liability of \$2,526,974 at June 30, 2015. \$2,465,569 was attributed to governmental activities and \$61,405 was attributed to business type activities.

The District had a net OPEB liability of \$371,295 at June 30, 2015. Governmental activities account for \$349,574 of this total while business type activities account for the remaining \$21,721.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2015	2014 (Not restated)	2015	2014 (Not restated)	2015	2014 (Not restated)	2014-15
Capital loan note	\$ 360,000	425,000	-	-	360,000	425,000	-15.29%
Computer lease	-	44,989	-	-	-	44,989	-100.00%
Termination benefits	120,785	131,765	-	-	120,785	131,765	-8.33%
Net pension liability	2,465,569	-	61,405	-	2,526,974	-	100.00%
Net OPEB liability	349,574	287,822	21,721	17,884	371,295	305,706	21.45%
Total	\$ 3,295,928	889,576	83,126	17,884	3,379,054	907,460	272.36%

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 2016 is set at 1.25% and 2.25% for fiscal year 2017. Continued appropriate and timely funding by the state is critical for balancing budgets. Continued funding at the current rates are not appropriate levels for success.
- 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, 2015

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and pooled investments	\$ 3,933,672	92,959	4,026,631
Receivables:			
Property tax:			
Delinquent	61,606	-	61,606
Succeeding year	3,645,811	-	3,645,811
Income surtax	299,379	-	299,379
Due from other governments	204,221	-	204,221
Inventories	-	4,681	4,681
Capital assets, net of accumulated depreciation	5,004,862	28,602	5,033,464
TOTAL ASSETS	13,149,551	126,242	13,275,793
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows	555,638	12,316	567,954
LIABILITIES			
Accounts payable	113,622	2,065	115,687
Salaries and benefits payable	808,337	23,604	831,941
Accrued interest payable	1,261	-	1,261
Unearned revenue	-	4,418	4,418
Long-term liabilities:			
Portion due within one year:			
Capital loan note payable	65,000	-	65,000
Termination benefits payable	53,943	-	53,943
Portion due after one year:			
Capital loan note payable	295,000	-	295,000
Termination benefits payable	66,842	-	66,842
Net pension liability	2,465,569	61,405	2,526,974
Net OPEB liability	349,574	21,721	371,295
TOTAL LIABILITIES	4,219,148	113,213	4,332,361
DEFERRED INFLOWS OF RESOURCES			
Unavailable property tax revenue	3,645,811	-	3,645,811
Pension related deferred inflows	940,297	23,418	963,715
TOTAL DEFERRED INFLOWS OF RESOURCES	4,586,108	23,418	4,609,526
NET POSITION			
Net investment in capital assets	4,644,862	28,602	4,673,464
Restricted for:			
Categorical funding	158,253	-	158,253
Management levy purposes	109,010	-	109,010
Student activities	122,544	-	122,544
School infrastructure	1,508,560	-	1,508,560
Physical plant and equipment	192,613	-	192,613
Unrestricted	(1,835,909)	(26,675)	(1,862,584)
TOTAL NET POSITION	\$ 4,899,933	1,927	4,901,860

SEE NOTES TO FINANCIAL STATEMENTS.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

	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	\$ 2,839,287	208,328	43,020	-	(2,587,939)	-	(2,587,939)
Special	1,136,566	59,244	43,955	-	(1,033,367)	-	(1,033,367)
Other	1,301,293	220,128	198,149	-	(883,016)	-	(883,016)
	<u>5,277,146</u>	<u>487,700</u>	<u>285,124</u>	<u>-</u>	<u>(4,504,322)</u>	<u>-</u>	<u>(4,504,322)</u>
Support services:							
Student	139,662	-	-	-	(139,662)	-	(139,662)
Instructional staff	156,267	-	-	-	(156,267)	-	(156,267)
Administration	900,870	-	-	-	(900,870)	-	(900,870)
Operation and maintenance of plant	619,146	-	-	29,422	(589,724)	-	(589,724)
Transportation	283,988	-	22,134	-	(261,854)	-	(261,854)
	<u>2,099,933</u>	<u>-</u>	<u>22,134</u>	<u>29,422</u>	<u>(2,048,377)</u>	<u>-</u>	<u>(2,048,377)</u>
Long-term debt interest	18,225	-	-	-	(18,225)	-	(18,225)
AEA flowthrough	272,791	-	272,791	-	-	-	-
Depreciation(unallocated)*	207,478	-	-	-	(207,478)	-	(207,478)
	<u>480,269</u>	<u>-</u>	<u>272,791</u>	<u>-</u>	<u>(207,478)</u>	<u>-</u>	<u>(207,478)</u>
Total governmental activities	<u>7,875,573</u>	<u>487,700</u>	<u>580,049</u>	<u>29,422</u>	<u>(6,778,402)</u>	<u>-</u>	<u>(6,778,402)</u>
Business type activities:							
Support services:							
Operation and maintenance of plant	4,953	-	-	-	-	(4,953)	(4,953)
Non-instructional programs:							
Food service operations	362,647	173,825	201,043	-	-	12,221	12,221
Total business type activities	<u>367,600</u>	<u>173,825</u>	<u>201,043</u>	<u>-</u>	<u>-</u>	<u>7,268</u>	<u>7,268</u>
Total	<u>\$ 8,243,173</u>	<u>661,525</u>	<u>781,092</u>	<u>29,422</u>	<u>(6,778,402)</u>	<u>7,268</u>	<u>(6,771,134)</u>
General Revenues:							
Property tax levied for:							
General purposes				\$ 3,187,414	-		3,187,414
Capital outlay				227,223	-		227,223
Income surtax				309,511	-		309,511
Statewide sales, services and use tax				591,628	-		591,628
Unrestricted state grants				3,029,495	-		3,029,495
Unrestricted investment earnings				43,997	413		44,410
Other general revenues				10,924	2,090		13,014
Total general revenues				<u>7,400,192</u>	<u>2,503</u>		<u>7,402,695</u>
Change in net position				621,790	9,771		631,561
Net position beginning of year, as restated				<u>4,278,143</u>	<u>(7,844)</u>		<u>4,270,299</u>
Net position end of year				<u>\$ 4,899,933</u>	<u>1,927</u>		<u>4,901,860</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, 2015

	General	Capital Projects	Nonmajor	Total
ASSETS				
Cash and pooled investments	\$ 1,965,417	1,618,096	350,159	3,933,672
Receivables:				
Property tax:				
Delinquent	52,776	3,706	5,124	61,606
Succeeding year	3,001,194	244,616	400,001	3,645,811
Income surtax	213,842	85,537	-	299,379
Due from other governments	113,096	91,125	-	204,221
TOTAL ASSETS	\$ 5,346,325	2,043,080	755,284	8,144,689
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 98,924	11,754	2,944	113,622
Salaries and benefits payable	808,337	-	-	808,337
Total liabilities	907,261	11,754	2,944	921,959
Deferred inflows of resources:				
Unavailable revenue:				
Succeeding year property tax	3,001,194	244,616	400,001	3,645,811
Income surtax	213,842	85,537	-	299,379
Total deferred inflows of resources	3,215,036	330,153	400,001	3,945,190
Fund balances:				
Restricted for:				
Categorical funding	158,253	-	-	158,253
Management levy purposes	-	-	229,795	229,795
Student activities	-	-	122,544	122,544
School infrastructure	-	1,508,560	-	1,508,560
Physical plant and equipment	-	192,613	-	192,613
Unassigned	1,065,775	-	-	1,065,775
Total fund balances	1,224,028	1,701,173	352,339	3,277,540
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 5,346,325	2,043,080	755,284	8,144,689

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, 2015

Total fund balances of governmental funds (page 20)	\$	3,277,540
 <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.		5,004,862
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.		(1,261)
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.		299,379
Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:		
Deferred outflows of resources	\$ 555,638	
Deferred inflows of resources	<u>(940,297)</u>	(384,659)
Long-term liabilities, including termination benefits payable, capital loan note payable, other postemployment benefits payable and net pension liability, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(3,295,928)</u>
Net position of governmental activities (page 18)	\$	<u><u>4,899,933</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, 2015

	General	Capital Projects	Nonmajor	Total
REVENUES:				
Local sources:				
Local tax	\$ 3,104,737	306,536	280,959	3,692,232
Tuition	277,428	-	-	277,428
Other	67,555	23,417	191,334	282,306
Intermediate sources	200	-	-	200
State sources	3,415,758	593,819	2,696	4,012,273
Federal sources	177,186	23,822	-	201,008
TOTAL REVENUES	7,042,864	947,594	474,989	8,465,447
EXPENDITURES:				
Current:				
Instruction:				
Regular	2,875,247	-	28,071	2,903,318
Special	1,120,734	-	-	1,120,734
Other	1,065,354	-	229,752	1,295,106
	<u>5,061,335</u>	<u>-</u>	<u>257,823</u>	<u>5,319,158</u>
Support services:				
Student	138,748	-	-	138,748
Instructional staff	96,482	60,970	-	157,452
Administration	777,837	83,910	38,229	899,976
Operation and maintenance of plant	481,629	109,060	50,981	641,670
Transportation	237,774	147,082	16,827	401,683
	<u>1,732,470</u>	<u>401,022</u>	<u>106,037</u>	<u>2,239,529</u>
Capital outlay	-	66,908	-	66,908
Long-term debt:				
Principal	-	-	109,989	109,989
Interest and fiscal charges	-	-	18,467	18,467
	<u>-</u>	<u>-</u>	<u>128,456</u>	<u>128,456</u>
Other expenditures:				
AEA flowthrough	272,791	-	-	272,791
TOTAL EXPENDITURES	7,066,596	467,930	492,316	8,026,842
Excess(Deficiency) of revenues over(under) expenditures	(23,732)	479,664	(17,327)	438,605
OTHER FINANCING SOURCES(USES):				
Transfer in	-	-	128,456	128,456
Transfer out	-	(128,456)	-	(128,456)
Proceeds from sale of equipment	-	49,500	-	49,500
TOTAL OTHER FINANCING SOURCES(USES)	-	(78,956)	128,456	49,500
Change in fund balances	(23,732)	400,708	111,129	488,105
Fund balances beginning of year	1,247,760	1,300,465	241,210	2,789,435
Fund balances end of year	<u>\$ 1,224,028</u>	<u>1,701,173</u>	<u>352,339</u>	<u>3,277,540</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, 2015

Net change in fund balances - total governmental funds (page 22)	\$	488,105
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlay and depreciation expense in the year are as follows:		
Capital outlay	\$ 246,971	
Depreciation expense	<u>(382,309)</u>	(135,338)
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.		109,989
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.		242
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.		31,916
The current year District employer share of IPERS contributions are reported as expenditures in the governmental funds, but are reported as a deferred outflow of resources in the Statement of Net Position.		373,145
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	10,980	
Pension expense	(195,497)	
Other postemployment benefits	<u>(61,752)</u>	<u>(246,269)</u>
Changes in net position of governmental activities (page 19)	\$	<u>621,790</u>

SEE NOTES TO FINANCIAL STATEMENTS.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2015

	Enterprise, School Nutrition
ASSETS	
Current assets:	
Cash and pooled investments	\$ 92,959
Inventories	4,681
Total current assets	97,640
Noncurrent assets:	
Capital assets:	
Machinery and equipment, net of accumulated depreciation	28,602
TOTAL ASSETS	126,242
DEFERRED OUTFLOWS OF RESOURCES	
Pension related deferred outflows	12,316
LIABILITIES	
Current liabilities:	
Accounts payable	2,065
Salaries and benefits payable	23,604
Unearned revenue	4,418
Total current liabilities	30,087
Noncurrent liabilities:	
Net pension liability	61,405
Net OPEB liability	21,721
Total noncurrent liabilities	83,126
TOTAL LIABILITIES	113,213
DEFERRED INFLOWS OF RESOURCES	
Pension related deferred inflows	23,418
NET POSITION	
Net investment in capital assets	28,602
Unrestricted	(26,675)
TOTAL NET POSITION	\$ 1,927

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, 2015

	<u>Enterprise, School Nutrition</u>
OPERATING REVENUES:	
Local sources:	
Charges for service	\$ 173,825
Miscellaneous	2,090
TOTAL OPERATING REVENUES	<u>175,915</u>
OPERATING EXPENSES:	
Support services:	
Operation and maintenance of plant:	
Services	4,675
Supplies	278
Total support services	<u>4,953</u>
Non-instructional programs:	
Salaries	90,621
Benefits	49,881
Services	3,296
Supplies	215,142
Depreciation	3,707
Total non-instructional programs	<u>362,647</u>
TOTAL OPERATING EXPENSES	<u>367,600</u>
OPERATING LOSS	<u>(191,685)</u>
NON-OPERATING REVENUES:	
State sources	3,020
Federal sources	198,023
Interest income	413
TOTAL NON-OPERATING REVENUES	<u>201,456</u>
Change in net position	9,771
Net position beginning of year, as restated	<u>(7,844)</u>
Net position end of year	<u>\$ 1,927</u>

SEE NOTES TO FINANCIAL STATEMENTS.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2015

	Enterprise, School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 173,268
Cash received from miscellaneous	2,090
Cash payments to employees for services	(134,488)
Cash payments to suppliers for goods or services	(185,577)
Net cash used in operating activities	(144,707)
Cash flows from non-capital financing activities:	
State grants received	3,020
Federal grants received	162,292
Net cash provided by non-capital financing activities	165,312
Cash flows from capital financing activities:	
Purchase of capital assets	(13,726)
Cash flows from investing activities:	
Interest on investments	413
Net increase in cash and pooled investments	7,292
Cash and pooled investments beginning of year	85,667
Cash and pooled investments end of year	\$ 92,959
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (191,685)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities used	35,731
Depreciation	3,707
Decrease in inventories	394
Increase in accounts payable	1,689
Increase in salaries and benefits payable	5,079
Decrease in net pension liability	(23,052)
Increase in deferred outflows of resources	(3,268)
Increase in deferred inflows of resources	23,418
Decrease in unearned revenue	(557)
Increase in other postemployment benefits	3,837
Net cash used in operating activities	\$ (144,707)

NON-CASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES:

During the year ended June 30, 2015, the District received Federal commodities valued at \$35,731.

SEE NOTES TO FINANCIAL STATEMENTS.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2015

	<u>Private Purpose Trust Scholarship</u>
ASSETS	
Cash and pooled investments	\$ 4,713
LIABILITIES	<u>-</u>
NET POSITION	
Held in trust for scholarships	<u>\$ 4,713</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, 2015

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Interest income	\$ 113
Deductions:	
Regular instruction:	
Scholarships awarded	1,000
Books purchased for individuals	159
Total deductions	<u>1,159</u>
Change in net position	(1,046)
Net position beginning of year	<u>5,759</u>
Net position end of year	<u>\$ 4,713</u>

SEE NOTES TO FINANCIAL STATEMENTS.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity

The following accounting policies are followed in preparing the financial statements.

Cash, Pooled Investments and Cash Equivalents - The cash balance of most District funds are pooled and invested. Investments are stated at fair value except for the 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, 2013 assessed property valuations; is for the tax accrual period July 1, 2014 through June 30, 2015 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2014.

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

Deferred Outflows of Resources - Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

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.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources - Deferred inflows of resources represent an acquisition of net position that applies to future period(s) and will not be recognized as an inflow of resources (revenue) until that time. 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 and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

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

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

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2015, District expenditures exceeded the amount budgeted in the support services functional area.

Note 2. Cash, Cash Equivalents and Pooled Investments

The District's deposits in banks at June 30, 2015 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, 2015, the District had no investments.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

Transfer to	Transfer from	Amount
	Capital Projects:	
Debt Service	Physical Plant and Equipment Levy	\$ 128,456

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

Capital assets activity for the year ended June 30, 2015 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	81,804	-	-	81,804
Capital assets being depreciated:				
Buildings and improvements	7,481,054	52,873	-	7,533,927
Improvements other than buildings	1,083,675	30,636	-	1,114,311
Machinery and equipment	1,746,902	163,462	57,880	1,852,484
Total capital assets being depreciated	10,311,631	246,971	57,880	10,500,722
Less accumulated depreciation for:				
Buildings and improvements	3,395,081	166,890	-	3,561,971
Improvements other than buildings	517,860	40,588	-	558,448
Machinery and equipment	1,340,294	174,831	57,880	1,457,245
Total accumulated depreciation	5,253,235	382,309	57,880	5,577,664
Total capital assets being depreciated, net	5,058,396	(135,338)	-	4,923,058
Governmental activities capital assets, net	\$ 5,140,200	(135,338)	-	5,004,862
Business type activities:				
Machinery and equipment	\$ 128,323	13,726	-	142,049
Less accumulated depreciation	109,740	3,707	-	113,447
Business type activities capital assets, net	\$ 18,583	10,019	-	28,602
Depreciation expense was charged by the District as follows:				
Governmental activities:				
Instruction:				
Regular			\$	78,077
Other				4,128
Support services:				
Student				3,778
Instructional staff				1,139
Administration				3,052
Operation and maintenance of plant				8,265
Transportation				76,392
				174,831
Unallocated depreciation				207,478
Total governmental activities depreciation expense			\$	382,309
Business type activities:				
Food service operations			\$	3,707

Note 5. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2015 is as follows:

	Balance Beginning of Year Restated	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
Capital loan note	\$ 425,000	-	65,000	360,000	65,000
Computer lease	44,989	-	44,989	-	-
Termination benefits	131,765	23,140	34,120	120,785	53,943
Net pension liability	3,391,155	-	925,586	2,465,569	-
Net OPEB liability	287,822	61,752	-	349,574	-
Total	\$ 4,280,731	84,892	1,069,695	3,295,928	118,943
Business type activities:					
Net pension liability	\$ 84,457	-	23,052	61,405	-
Net OPEB liability	17,884	3,837	-	21,721	-
Total	\$ 102,341	3,837	23,052	83,126	-

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, 2015, are as follows:

Year Ending June 30,	Capital Loan Note Dated December 4, 2007			
	Interest Rate	Principal	Interest	Total
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
Total		\$ 360,000	46,801	406,801

Termination Benefits

The District offered a voluntary early retirement incentive to its employees during fiscal year 2015. 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.

At June 30, 2015 the District had obligations to eight participants with a total liability of \$120,785. Actual early retirement expenditures for the year ended June 30, 2015 totaled \$34,120.

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, 2015, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 88,656
Interest on net OPEB obligation	7,643
Adjustment to annual required contribution	<u>(20,049)</u>
Annual OPEB cost	76,250
Contributions made	<u>(10,661)</u>
Increase in net OPEB obligation	65,589
Net OPEB obligation beginning of year	<u>305,706</u>
Net OPEB obligation end of year	<u><u>\$ 371,295</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, 2015.

For the year ended June 30, 2015 the District contributed \$10,661 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
2013	\$72,618	10.26%	\$245,639
2014	\$68,547	12.37%	\$305,706
2015	\$76,250	13.98%	\$371,295

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2015, the actuarial accrued liability was \$545,719, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$545,719. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$4,129,606, and the ratio of the UAAL to covered payroll was 13.2%. As of June 30, 2015, 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

Plan Description - IPERS membership is mandatory for employees of the District, except for those covered by another retirement system. Employees of the District are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general information purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's

beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the District contributed 8.93 percent for a total rate of 14.88 percent.

The District's contributions to IPERS for the year ended June 30, 2015 were \$380,916.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the District reported a liability of \$2,526,974 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the District's collective proportion was 0.062439 percent, which was an increase of 0.001055 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$200,366. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 27,463	\$ -
Changes of assumptions	111,521	-
Net difference between projected and actual earnings on pension plan investments	-	963,715
Changes in proportion and differences between District contributions and proportionate share of contributions	48,054	-
District contributions subsequent to the measurement date	380,916	-
Total	\$ 567,954	\$ 963,715

\$380,916 reported as deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	
June 30,	
2016	\$ (197,228)
2017	(197,228)
2018	(197,228)
2019	(197,228)
2020	12,235
	<u>\$ (776,677)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	\$ 4,774,646	\$ 2,526,974	\$ 629,706

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan - At June 30, 2015, the District reported payables to the defined benefit pension plan of \$54,929 for legally required employer contributions and \$36,599 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

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, 2015 were \$944,121.

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 \$272,791 for the year ended June 30, 2015 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, 2015 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
Limited english proficient	\$ 4,747
Gifted and talented programs	77,072
Returning dropouts and dropout prevention programs	1,884
Beginning teacher mentoring and induction program	111
Teacher salary supplement	36
Four-year-old preschool state aid	42,811
Successful progression for early readers	14,471
Professional development for model core curriculum	4,853
Professional development	4,062
Teacher leadership grants	7,315
STEM scale-up programs	891
Total	<u>\$ 158,253</u>

Note 11. Deficit Unrestricted Net Position

At June 30, 2015, the District had deficit unrestricted net position of \$26,675 in its business type activities and \$1,835,909 in its governmental activities.

Note 12. Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2015, expenditures exceeded the amount budgeted in the support services functional area.

Note 13. Reconciliation of Governmental Fund Balances to Net Position

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

	Net Investment in Capital Assets	Management Levy	Unassigned/ Unrestricted
Fund balance (Exhibit C)	\$ -	229,795	1,065,775
Capital assets, net of accumulated depreciation	5,004,862	-	-
Capital loan note capitalized indebtedness	(360,000)	-	-
Termination benefits payable	-	(120,785)	-
Accrued interest payable	-	-	(1,261)
Income surtax receivable	-	-	299,379
Pension related deferred outflows	-	-	555,638
Pension related deferred inflows	-	-	(940,297)
Net pension liability	-	-	(2,465,569)
Net OPEB liability	-	-	(349,574)
Net position (Exhibit A)	\$ 4,644,862	109,010	(1,835,909)

Note 14. Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27 was implemented during fiscal year 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, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position for governmental and business type activities were restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	Governmental Activities	Business Type Activities
Net position June 30, 2014, as previously reported	\$ 7,306,019	\$ 67,565
Net pension liability at June 30, 2014	(3,391,155)	(84,457)
Deferred outflows of resources related to the contributions made after the June 30, 2013 measurement date	363,279	9,048
Net position July 1, 2014, as restated	<u>\$ 4,278,143</u>	<u>\$ (7,844)</u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

HARTLEY-MELVIN-SANDBORN COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES
 AND CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2015

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds Actual	Fund Actual		Original	Final	
Revenues:						
Local sources	\$ 4,251,966	176,328	4,428,294	5,041,595	5,041,595	(613,301)
Intermediate sources	200	-	200	-	-	200
State sources	4,012,273	3,020	4,015,293	3,506,033	3,506,033	509,260
Federal sources	201,008	198,023	399,031	350,000	350,000	49,031
Total revenues	<u>8,465,447</u>	<u>377,371</u>	<u>8,842,818</u>	<u>8,897,628</u>	<u>8,897,628</u>	<u>(54,810)</u>
Expenditures/expenses:						
Instruction	5,319,158	-	5,319,158	5,615,000	5,615,000	295,842
Support services	2,239,529	4,953	2,244,482	2,151,500	2,151,500	(92,982)
Non-instructional programs	-	362,647	362,647	385,000	385,000	22,353
Other expenditures	468,155	-	468,155	628,459	628,459	160,304
Total expenditures/expenses	<u>8,026,842</u>	<u>367,600</u>	<u>8,394,442</u>	<u>8,779,959</u>	<u>8,779,959</u>	<u>385,517</u>
Excess of revenues over expenditures/expenses	438,605	9,771	448,376	117,669	117,669	330,707
Other financing sources, net	<u>49,500</u>	-	<u>49,500</u>	-	-	<u>49,500</u>
Excess of revenues and other financing sources over expenditures/expenses	488,105	9,771	497,876	117,669	117,669	380,207
Balances beginning of year, as restated	<u>2,789,435</u>	<u>(7,844)</u>	<u>2,781,591</u>	<u>2,736,786</u>	<u>2,736,786</u>	<u>44,805</u>
Balances end of year	<u>\$ 3,277,540</u>	<u>1,927</u>	<u>3,279,467</u>	<u>2,854,455</u>	<u>2,854,455</u>	<u>425,012</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2015

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.

During the year ended June 30, 2015, expenditures exceeded the amount budgeted in the support services functional area.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
 LAST FISCAL YEAR*
 REQUIRED SUPPLEMENTARY INFORMATION

	2015
District's proportion of the net pension liability	0.062439%
District's proportionate share of the net pension liability	\$ 2,526,974
District's covered-employee payroll	\$ 4,265,568
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	59.24%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amount presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST TEN FISCAL YEARS
REQUIRED SUPPLEMENTARY INFORMATION

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 380,916	372,327	344,213	320,142	281,623	264,883	258,485	231,228	208,141	212,882
Contributions in relation to the statutorily required contribution	<u>(380,916)</u>	<u>(372,327)</u>	<u>(344,213)</u>	<u>(320,142)</u>	<u>(281,623)</u>	<u>(264,883)</u>	<u>(258,485)</u>	<u>(231,228)</u>	<u>(208,141)</u>	<u>(212,882)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>								
District's covered-employee payroll	\$ 4,265,568	4,169,395	3,970,161	3,967,063	4,052,129	3,811,266	4,070,630	3,821,950	3,619,843	3,702,296
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%	6.95%	6.95%	6.35%	6.05%	5.75%	5.75%

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2015

Changes of benefit terms

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

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%
2015	July 1, 2012	-	545,719	545,719	0.0%	4,129,606	13.2%

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.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

SUPPLEMENTARY INFORMATION

HARTLEY-MELVIN-SANDBORN COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2015

	Special Revenue		
	Student Activity	Management Levy	Total
ASSETS			
Cash and pooled investments	\$ 122,544	227,615	350,159
Receivables:			
Property tax:			
Delinquent	-	5,124	5,124
Succeeding year	-	400,001	400,001
TOTAL ASSETS	\$ 122,544	632,740	755,284
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	2,944	2,944
Deferred inflows of resources:			
Unavailable revenue:			
Succeeding year property tax	-	400,001	400,001
Fund balances:			
Restricted for:			
Management levy purposes	-	229,795	229,795
Student activities	122,544	-	122,544
Total fund balances	122,544	229,795	352,339
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 122,544	632,740	755,284

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARTLEY-MELVIN-SANDBORN COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2015

	Special Revenue			Debt Service	Total Nonmajor Governmental Funds
	Student Activity	Management Levy	Total		
REVENUES:					
Local sources:					
Local tax	\$ -	280,959	280,959	-	280,959
Other	183,848	7,486	191,334	-	191,334
State sources	-	2,696	2,696	-	2,696
TOTAL REVENUES	183,848	291,141	474,989	-	474,989
EXPENDITURES:					
Current:					
Instruction:					
Regular	-	28,071	28,071	-	28,071
Other	229,752	-	229,752	-	229,752
Support services:					
Administration	-	38,229	38,229	-	38,229
Operation and maintenance of plant	-	50,981	50,981	-	50,981
Transportation	-	16,827	16,827	-	16,827
Long-term debt:					
Principal	-	-	-	109,989	109,989
Interest and fiscal charges	-	-	-	18,467	18,467
TOTAL EXPENDITURES	229,752	134,108	363,860	128,456	492,316
Excess(Deficiency) of revenues over(under) expenditures	(45,904)	157,033	111,129	(128,456)	(17,327)
OTHER FINANCING SOURCES:					
Transfer in	-	-	-	128,456	128,456
Change in fund balances	(45,904)	157,033	111,129	-	111,129
Fund balances beginning of year	168,448	72,762	241,210	-	241,210
Fund balances end of year	\$ 122,544	229,795	352,339	-	352,339

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS ACCOUNTS
 JUNE 30, 2015

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
ASSETS			
Cash and pooled investments	\$ 1,429,189	188,907	1,618,096
Receivables:			
Property tax:			
Delinquent	-	3,706	3,706
Succeeding year	-	244,616	244,616
Income surtax	-	85,537	85,537
Due from other governments	91,125	-	91,125
TOTAL ASSETS	\$ 1,520,314	522,766	2,043,080
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 11,754	-	11,754
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	-	244,616	244,616
Income surtax	-	85,537	85,537
Total deferred inflows of resources	-	330,153	330,153
Fund balances:			
Restricted for:			
School infrastructure	1,508,560	-	1,508,560
Physical plant and equipment levy	-	192,613	192,613
Total fund balances	1,508,560	192,613	1,701,173
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 1,520,314	522,766	2,043,080

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECTS ACCOUNTS
 YEAR ENDED JUNE 30, 2015

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ -	306,536	306,536
Other	14,573	8,844	23,417
State sources	591,628	2,191	593,819
Federal sources	-	23,822	23,822
TOTAL REVENUES	606,201	341,393	947,594
EXPENDITURES:			
Current:			
Support services:			
Instructional staff	-	60,970	60,970
Administration	31,770	52,140	83,910
Operation and maintenance of plant	-	109,060	109,060
Transportation	-	147,082	147,082
Capital outlay	-	66,908	66,908
TOTAL EXPENDITURES	31,770	436,160	467,930
Excess(Deficiency) of revenues over(under) expenditures	574,431	(94,767)	479,664
OTHER FINANCING SOURCES(USES):			
Transfer out	-	(128,456)	(128,456)
Proceeds from sale of equipment	-	49,500	49,500
TOTAL FINANCING SOURCES(USES)	-	(78,956)	(78,956)
Change in fund balances	574,431	(173,723)	400,708
Fund balances beginning of year	934,129	366,336	1,300,465
Fund balances end of year	\$ 1,508,560	192,613	1,701,173

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2015

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intrafund Transfers	Balance End of Year
High School:					
All athletics	\$ 11,605	15,708	27,328	15	-
Cross country	1,053	518	1,126	-	445
Football	4,651	15,226	19,356	-	521
Volleyball	7,880	13,979	14,020	-	7,839
Boys basketball	9,036	9,588	11,153	-	7,471
Girls basketball	5,643	8,413	11,625	-	2,431
Boys track	2,874	462	3,711	375	-
Girls track	2,358	3,708	6,347	281	-
Boys golf	1,406	364	1,137	-	633
Girls golf	701	307	2,114	1,106	-
Baseball	2,067	3,858	5,208	-	717
Softball	3,333	4,573	6,578	-	1,328
Wrestling	3,518	3,866	5,896	-	1,488
Band	2,031	739	1,557	-	1,213
Chorus	2,346	-	2,027	-	319
Senior class	1,049	474	948	712	1,287
Junior class	2,714	900	2,327	1,229	2,516
Sophomore class	-	3,311	795	(2,516)	-
Class special	1,233	-	150	575	1,658
HS activities	18,829	56	8,760	-	10,125
Art club	240	-	43	-	197
Cheerleaders	3,220	18,997	22,161	416	472
Computer club	418	-	-	-	418
Drama club	1,217	1,940	2,295	-	862
FCA	3,527	-	-	-	3,527
FFA	19,734	38,488	30,629	-	27,593
Industrial tech club	494	-	-	-	494
Marketing club	1,297	2,816	2,790	-	1,323
Oracle yearbook	7,658	2,520	4,565	-	5,613
Science club	504	-	-	-	504
Spanish club	876	8,251	1,939	-	7,188
Student council - HS	770	852	1,083	(416)	123
National honor society	-	195	511	316	-
Speech club	3,486	200	2,086	-	1,600
Elementary School:					
Student council - K-4	17,101	4,168	5,498	-	15,771
Unallocated interest	5,629	393	-	(2,093)	3,929
Middle School:					
MS all athletics	791	-	299	-	492
MS football	-	1,229	1,574	345	-
MS volleyball	-	-	1,040	1,040	-
MS basketball	-	2,999	6,011	3,012	-
MS wrestling	-	-	30	30	-
MS track	-	540	470	-	70
MS golf	113	-	-	-	113
MS baseball	-	-	2,110	2,110	-
Bowling	204	-	-	-	204
MS softball	-	-	1,416	1,416	-
MS vocal music	-	-	70	70	-
MS band	453	692	1,793	1,394	746
Middle school activities	2,830	13,199	8,489	(7,263)	277
MS student council	7,968	218	687	-	7,499
Checking interest	5,591	101	-	(2,154)	3,538
TOTAL	\$ 168,448	183,848	229,752	-	122,544

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF FIDUCIARY NET POSITION
 PRIVATE PURPOSE TRUST ACCOUNTS
 JUNE 30, 2015

	Private Purpose Trust - Scholarship		
	McCarty Scholarship	Litts Memorial Scholarship	Total
ASSETS			
Cash and pooled investments	\$ 1,246	3,467	4,713
LIABILITIES			
	-	-	-
NET POSITION			
Held in trust for scholarships	\$ 1,246	3,467	4,713

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION
 PRIVATE PURPOSE TRUST ACCOUNTS
 YEAR ENDED JUNE 30, 2015

	Private Purpose Trust - Scholarship		
	McCarty Scholarship	Litts Memorial Scholarship	Total
Additions:			
Local sources:			
Interest income	\$ 23	90	113
Deductions:			
Instruction:			
Regular:			
Scholarships awarded	1,000	-	1,000
Books purchased for individuals	-	159	159
Total deductions	1,000	159	1,159
Change in net position	(977)	(69)	(1,046)
Net position beginning of year	2,223	3,536	5,759
Net position end of year	\$ 1,246	3,467	4,713

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,									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Revenues:										
Local sources:										
Local tax	\$ 3,692,232	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
Tuition	277,428	280,309	407,654	331,592	285,033	318,811	354,080	252,675	213,057	204,989
Other	282,306	325,851	276,540	382,764	410,828	263,190	399,326	370,805	344,053	369,380
Intermediate sources	200	-	-	-	-	-	-	200	514	378
State sources	4,012,273	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
Federal sources	201,008	196,226	176,494	264,101	541,113	335,296	248,765	179,714	415,670	459,728
Total	\$ 8,465,447	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
Expenditures:										
Instruction:										
Regular	\$ 2,903,318	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
Special	1,120,734	1,304,206	1,174,829	1,095,134	1,018,411	966,916	1,084,474	895,547	781,369	809,660
Other	1,295,106	1,203,056	928,548	1,078,866	1,119,492	1,101,202	800,334	622,302	701,793	711,725
Support services:										
Student	138,748	133,629	128,168	124,432	94,490	111,163	101,907	92,051	83,672	99,065
Instructional staff	157,452	112,604	120,707	443,071	45,571	128,298	115,384	115,049	124,973	202,088
Administration	899,976	691,790	646,829	638,494	608,326	546,168	603,770	603,694	629,847	607,126
Operation and maintenance of plant	641,670	665,010	565,546	597,792	538,339	522,502	561,917	519,030	504,485	489,417
Transportation	401,683	286,898	355,410	284,090	256,078	410,839	297,001	245,763	315,604	318,798
Capital outlay	66,908	132,856	317,613	222,024	90,538	90,352	998,565	424,639	151,556	137,350
Long-term debt:										
Principal	109,989	179,375	508,575	487,783	385,000	375,000	340,000	1,780,000	250,353	243,489
Interest and other charges	18,467	22,340	36,888	51,460	61,574	74,150	106,137	78,663	89,450	99,950
Other expenditures:										
AEA flow-through	272,791	269,481	257,929	258,300	294,129	290,153	268,979	262,127	257,735	252,209
Total	\$ 8,026,842	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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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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, 2015, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 29, 2016.

Internal Control Over Financial Reporting

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

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

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-15 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. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-B-15 to be a significant deficiency.

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, 2015 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 29, 2016
Newton, Iowa

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2015

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-15 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.

I-B-15 Purchase Orders - We noted during our audit several instances of transactions lacking purchase orders dated after the ordering of goods/services had already taken place.

Recommendation - The advantage of using a purchase order system is that approvals of the items being purchased are noted prior to ordering of the items. In addition, when the items are approved and the purchase order is properly generated, it also reflects on the financial records as an outstanding order, which represents the amount as an obligation against the budget. When monitoring actual expenses, it can be helpful to know the outstanding orders which will be subsequently paid, therefore allowing the person who approves purchase orders the insight to know if there is still available funding to make the purchase.

Although districts are not required to use a purchase order system, the benefits to financial management make the system desirable. The District's current purchase order system should be reviewed and necessary changes made so that all disbursements are approved by the appropriate administrator before ordering of supplies takes place.

Response - The District will continue to review our procedures and try to complete purchase orders prior to purchases.

Conclusion - Response accepted.

OTHER MATTERS:

I-C-15 Scholarship Checks - 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 - The District has discontinued awarding scholarships from the Student Activity Fund.

Conclusion - Response accepted.

I-D-15 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.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-15 Certified Budget - District expenditures for the year ended June 30, 2015 exceeded the certified budget amount in the support services functional area.

Recommendation - The District should amend the budget in accordance with Chapter 24.9 of the Code of Iowa before expenditures exceed the budget.

Response - If District expenditures exceed the certified budget the District will amend its budget in accordance with Chapter 24.9.

Conclusion - Response accepted.

II-B-15 Questionable Disbursements - We noted during our audit the District is rewarding students with cash and other prizes for good behavior and being top sellers for fundraisers. We also noted the District is disbursing cash to students to pay for registration fees. Cash and other prizes given to students for these purposes do not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place, and make necessary adjustments to be in compliance with the Attorney General’s opinion dated April 25, 1979.

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

Conclusion - Response accepted.

II-C-15 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-15 Business Transactions - No business transactions between the District and District officials or employees were noted.

II-E-15 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-15 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-15 Certified Enrollment - We noted variances in the basic enrollment data certified to the Iowa Department of Education. The number certified to the Iowa Department of Education was overstated by 1.54 students.

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

Response - The Districts auditors will contact the Department of Education and the Department of Management to resolve the matter.

Conclusion - Response accepted.

II-H-15 Supplementary Weighting - No variances in the supplementary weighting data certified to the Department of Education were noted.

II-I-15 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-15 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-15 Categorical Funding - We noted during our audit that the District paid for travel costs and were coded to the Beginning Teacher Mentoring and Induction Program. Travel costs do not appear to be allowable use of teacher mentoring categorical funding.

The following is the adjustment to the ending restricted balance for categorical funding:

	Restricted Balance on District's CAR	Amount Of Expense Adjustment	Audited Ending Restricted Balance
	<u> </u>	<u> </u>	<u> </u>
Beginning Teacher Mentoring and Induction	\$ -	\$ 111	\$ 111

Recommendation - The District should review Chapter 98 of the Iowa Administrative Code “Financial Management of categorical funding” to better understand the appropriate vs. inappropriate expenditures for categorical funding. The District should contact the Iowa Department of Education regarding required corrective action.

Response - We will review the categorical allowable expenditures and use the money appropriately.

Conclusion - Response accepted.

II-L-15 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, 2015, the District reported the following information regarding the statewide sales, services, and use tax revenue in the District’s CAR:

Beginning balance		\$	934,129
Revenues:			
Sales tax revenues	\$	591,628	
Other local revenue		14,573	606,201
			<u>1,540,330</u>
Expenditures:			
Other expenditures			<u>31,770</u>
Ending balance		\$	<u>1,508,560</u>

For the year ended June 30, 2015, 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-15 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 revenues and expenditures which do not appear to be related to cocurricular or extracurricular activities.

Questionable Accounts: We noted the MS Activity and Elementary Activity accounts that appear 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 revenues and expenditures in these accounts appears to be more instructional in nature and would be more appropriate in the General Fund.

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

Conclusion - Response accepted.

Box Top Donations: We noted during our audit that the District receipts box top donations in the Student Activity Fund.

Recommendation - Box top 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 - Box top donations will be categorically receipted into the general fund.

Conclusion - Response accepted.

II-N-15 Check Signatures - We noted during our audit instances of checks clearing the bank that lacked the board president's authorized signature. Chapter 291.1 and 291.8 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 procedures to ensure that all checks are properly signed.

Conclusion - Response accepted.

II-O-15 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-P-15 Financial Condition - We noted during our audit that the District had deficit unrestricted net position of \$26,675 in its business type activities and \$1,835,909 in its governmental activities. The primary reason for these deficit net positions is due to the implementation of GASB Statements No. 68 and No. 71 during the year.

Recommendation - The District should take steps to ensure the District's administration and Board of Education understand this accounting change/restatement and how GASB Statements No. 68 and 71 will affect the District's financials moving forward.

Response - The District will attempt to educate the administration and board of education on the change/restatement of how GASB Statements 68 and 71 will affect the District's financials moving forward.

Conclusion - Response accepted.