HARLAN COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2004

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HARLAN COMMUNITY SCHOOL DISTRICT

OFFICIALS

Name	Title	Term Expires
	Board of Education (Before September 2003 Election)	
Susan Larson Christensen	President	2004
Steve Kenkel	Vice President	2005
Don Schomers	Board Member	2005
George Applegate	Board Member	2005
Jeff Swensen	Board Member	2004
Larry Hopp	Board Member	2003
Gaige Lytle	Board Member	2003
	Board of Education (After September 2003 Election)	
Susan Larson Christensen	President	2004
Steve Kenkel	Vice President	2005
Don Schomers	Board Member	2005
George Applegate	Board Member	2005
Jeff Swensen	Board Member	2004
Steve Finn	Board Member	2006
Tammy Schwartz	Board Member	2006
	School Officials	
Robert Broomfield	Superintendent	2004
Terri Cox	Director of Personnel/ Board Secretary	2004
John Helling	District Treasurer	2004
Kristy Hansen	Director of Finance	2004
Richard Schenk	Attorney	2004

HARLAN COMMUNITY SCHOOL DISTRICT

September 10, 2004

INDEPENDENT AUDITORS' REPORT

The Board of Education
Harlan Community School District
Harlan, IA 51537

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Harlan Community School District, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Harlan Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards* we have also issued our report dated September 10, 2004, on our consideration of Harlan Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, 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 *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Continued . . .

The management's discussion and analysis and budgetary comparison information on pages 8 through 16 and 44 through 47 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harlan Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003, (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The financial statements for the two years ended June 30, 2002 (none of which are presented herein) were previously audited by other auditors in accordance with the standards referred to in the second paragraph of this report, and they expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Harlan 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, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- General Fund revenues increased $807,567 from $11,015,837 in fiscal 2003 to $11,823,404 in fiscal 2004, while General Fund expenditures increased $730,230 from $10,131,795 in fiscal 2003 to $10,862,025 in fiscal 2004. The net increase in revenues and expenditures resulted in an increase in the District's General Fund balance from $1,726,773 in fiscal 2003 to $2,689,057 in fiscal 2004, a 56 percent increase from the prior year.

- The increase in General Fund revenues was attributable to increases in instructional support levy income surtax, open enrollment, and federal grant revenue in fiscal 2004. The increase in expenditures was due primarily to wages and benefit costs, and technology purchases funded by tax increment financing revenues.

- In fiscal 2004 the District received the first revenues generated from the voter approved Instructional Support Levy Income Surtax. Revenues increased $377,111 due to the levy.

- An increase in the District's General Fund balance resulted in the District's solvency ratio increasing from 15.4 percent in fiscal 2003 to 22.7 percent in fiscal 2004. The District's solvency level indicates the District is able to meet unforeseen financing requirements and presents a sound risk for the timely repayment of short-term debt obligations.

- The District completed several capital expenditure projects in fiscal 2004. Projects included replacement of exterior doors at the elementary and high school buildings, new phone systems at the two elementary buildings, and many other building repairs. As part of the Districts three year Physical Plant and Equipment Levy plan the District purchased two school buses.

- In Fiscal 2004 the District spent Quality Zone Academy Bond (QZAB) proceeds of $68,522 on various projects. The District has a remaining balance of $722,784 in proceeds that is required to be expensed by November 2011. The District has invested the proceeds and required reserve for repayment until needed. Earnings on these investments have yielded the District $94,795 as of June 30, 2004.

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 Assets and a Statement of Activities. These provide information about the activities of Harlan 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 Harlan 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 Harlan Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

- 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.

- Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

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

Figure A-1

Harlan Community School District Annual Financial Report

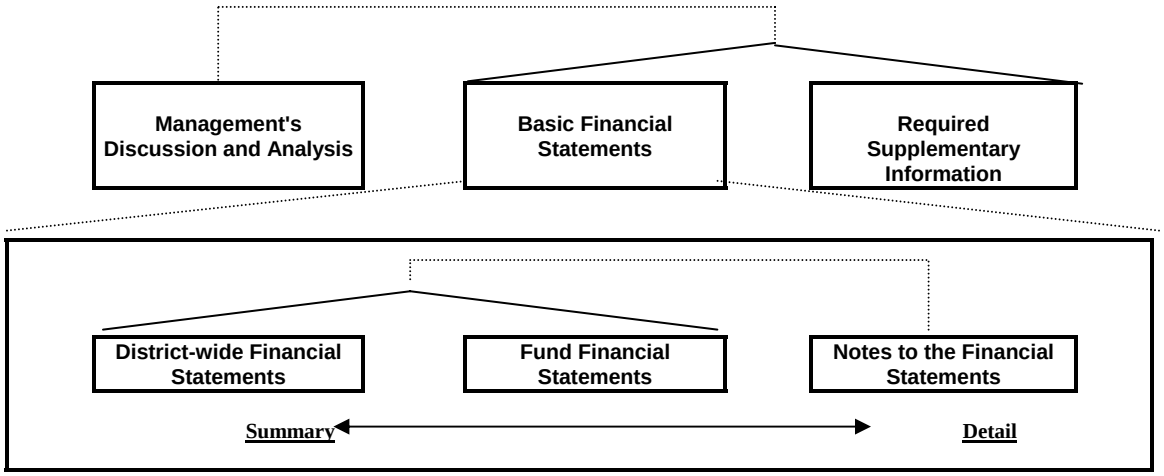

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents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

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 services	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	• Statement of net assets • Statement of activities	• Balance Sheet • Statement of revenues, expenditures, and changes in fund balances	• Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows	• Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

REPORTING OF DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Statements

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

The two Government-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the District's overall health, 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 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 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 the Government-wide 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 proprietary funds include a statement of revenues, expenses, and changes in fund net assets and a statement of cash flows.

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

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

   - Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

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 form the Government-wide financial statements because it cannot use these assets to finance it operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

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

Government-Wide Financial Analysis

Net assets – Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2003 and 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities June 30,		Business-type Activities June 30,		Total School District June 30,		Total Change June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
Current and other assets	$ 9,960,811	$ 9,220,060	$ 151,708	$ 143,773	$ 10,112,519	$ 9,363,833	8.0%
Capital assets	7,041,651	6,891,504	64,352	22,625	7,106,003	6,914,129	2.8%
Total assets	17,002,462	16,111,564	216,060	166,398	17,218,522	16,277,962	5.8%
Long-term obligations	4,068,104	4,697,295	-0-	-0-	4,068,104	4,697,295	(13.4%)
Other liabilities	4,894,954	5,136,044	42,077	63,704	4,937,031	5,199,748	(5.0%)
Total liabilities	8,963,058	9,833,339	42,077	63,704	9,005,135	9,897,043	(9.0%)
Net assets:							
Invested in capital assets Net of related debt	3,839,039	3,118,449	64,352	22,625	3,903,391	3,141,074	24.3%
Restricted	1,559,366	1,515,638	-0-	-0-	1,559,366	1,515,638	2.9%
Unrestricted	2,640,999	1,644,138	109,631	80,069	2,750,630	1,724,207	59.5%
Total net assets	$ 8,039,404	$ 6,278,225	$ 173,983	$ 102,694	$ 8,213,387	$ 6,380,919	28.7%

The Districts combined net assets increased by nearly 29%, or $1,832,468, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately $43,728 or 2.9% over the prior year. The increase was primarily a result of restriction of funds in the Physical Plant and Equipment Levy Fund for the repayment of debt.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased $1,026,423 or nearly 60%. The increase is the result of staff reductions and budget cuts in Fiscal 2003. Additional increases due to revenue from the voter approved instructional support levy.

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4
Changes in Net Assets

	Governmental Activities June 30,		Business-type Activities June 30,		Total School District June 30,	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services and sales	$ 1,294,949	$ 1,080,549	$ 343,479	$ 293,218	$ 1,638,428	$ 1,373,767
Operating grants, contributions and restricted interest	1,579,392	1,370,759	234,479	241,470	1,813,871	1,612,229
Capital grants, contributions and restricted interest	-0-	187,686	-0-	-0-	-0-	187,686
General revenue:						
Property tax	3,960,323	4,140,682	-0-	-0-	3,960,323	4,140,682
Local option sales tax	575,473	566,724	-0-	-0-	575,473	566,724
Unrestricted state grants	6,152,430	5,539,515	-0-	-0-	6,152,430	5,539,515
Unrestricted investment earnings	35,261	113,050	499	764	35,760	113,814
Other	61,824	22,567	-0-	-0-	61,824	22,567
Total revenues	13,659,652	13,021,532	578,457	535,452	14,238,109	13,556,984
Program expenses:						
Governmental activities:						
Instruction	7,795,596	7,285,588	-0-	-0-	7,795,596	7,285,588
Support services	3,327,838	3,083,160	-0-	-0-	3,327,838	3,083,160
Non-instructional programs	-0-	47	535,158	542,536	535,158	542,583
Other expenses	775,039	827,021	-0-	-0-	775,039	827,021
Total expenses	11,898,473	11,195,816	535,158	542,536	12,433,631	11,738,352
Change in net assets	$ 1,761,179	$ 1,825,716	$ 43,299	$ (7,084)	$ 1,804,478	$ 1,818,632

Property tax and unrestricted state grants account for 71% of total revenue. The District's expenses primarily relate to instruction and support services which account for 89% of the total expenses.

Governmental Activities

Revenues for governmental activities were $13,659,652 for Fiscal 2004 and $13,021,532 for Fiscal 2003. Expenses were $11,898,473 for Fiscal 2004 and $11,195,816 for Fiscal 2003. The District has been able to keep expenses lower than revenue allowing the District to improve its financial condition.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services June 30,		Net Cost of Services June 30,	
	2004	2003	2004	2003
Instruction	$ 7,795,596	$ 7,285,588	$ 5,718,238	$ 5,415,124
Support services	3,327,838	3,083,160	3,030,909	2,996,612
Non-instructional programs	-0-	47	-0-	47
Other expenses	775,039	827,021	274,985	145,039
Totals	$ 11,898,473	$ 11,195,816	$ 9,024,132	$ 8,556,822

- The cost financed by users of the District's programs was $1,294,949 for 2004 and $1,080,549 for 2003.

- Federal and state governments subsidized certain programs with grants and contributions totaling $1,579,392 for 2004 and $1,370,759 for 2003.

- The net cost of governmental activities was financed with:

	June 30, 2004	June 30, 2003
Property Taxes	$ 3,960,323	$ 4,140,682
Local Option Sales Tax	$ 575,473	$ 566,724
State Foundation Aid	$ 6,152,430	$ 5,539,515
Interest Income	$ 35,261	$ 113,050
Other Revenue	$ 61,824	$ 22,567

Business-Type Activities

Revenues of the District's business-type activities were $578,457 for 2004 and $534,688 for 2003 and expenses were $535,158 for 2004 and $542,536 for 2003. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of changes for services, federal and state reimbursements and investment income.

During the year ended June 30, 2004, the District increased meal prices. The increase resulted in increased revenues to the School Nutrition Fund. These revenues were used for the replacement of kitchen equipment in the middle school and the high school buildings.

Individual Fund Analysis

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

The financial performance of the District's as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of $5,055,857, well above last year's ending fund balances of $4,090,281. The primary reasons for the increase in combined fund balances in fiscal 2004 is due to the instructional support levy income surtax, open enrollment in, and the 2003 reduction in staff. The District's projections indicate that although enrollment is expected to remain the same or slightly increase the increase is not expected to cover additional expenses.

Governmental Fund Highlights

- The District's improved General Fund financial position is the product of many factors. Growth during the year in taxes, open enrollment, and grants resulted in an increase in revenues. However, the primary reason for the increase in General Fund balance is the income surtax portion of the instructional support levy.

- The General Fund balance increased from $1,726,773 to $2,689,057 due in part to the voter approved Instructional Support Levy, open enrollment, and federal funding.

- The Physical, Plant and Equipment Levy (PPEL) Fund balance decreased from $1,743,305 fiscal 2003 to $1,548,426 fiscal 2004. The primary reason for the reduction was the use of fund balance to cover costs.

- The Management Fund balance increased due to an increased property tax levy in anticipation of increases in early retirement benefits and insurance costs.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from $130,684 at June 30, 2003 to $173,983 at June 30, 2004, representing an increase of approximately 33%. As previously noted, the District increased meal price and used the fund balance for the replacement of equipment.

Budgetary Highlights

Over the course of the year, Harlan Community School District amended its annual budget one time to reflect additional expenditures associated with press box capital project.

The District's total actual receipts were approximately $118,000 more than the total budgeted receipts, a variance of .1%. The most significant change resulted from the District enrolling in a new federal program.

Total expenditures were less than budgeted due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures larger than anticipated to accommodate expenditures from grants or other revenues that are unknown at the time the budget is prepared. 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 the actual expenditures during the year.

The District did not exceed its certified budget during the fiscal 2004 year.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2004, the District had invested $7.1 million, 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 increase of 2.8% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year exceeded $360,000.

The original cost of the District's capital assets was $12 million. Governmental funds account for $11.8 million with the remainder of $.2 million in the Proprietary, School Nutrition Fund.

The significant capital assets activities include the replacement of exterior doors, new phone systems, and vehicle replacement.

Figure A-6

Capital Assets, net of Depreciation

	Governmental Activities June 30,		Business-type Activities June 30,		Total School District June 30,	
	2004	2003	2004	2003	2004	2003
Land	$ 25,700	$ 25,700	$ -0-	$ -0-	$ 25,700	$ 25,700
Land Improvements	$ 207,847	$ 186,140	$ -0-	$ -0-	$ 207,847	$ 186,140
Construction in Progress	$ 1,695	$ 138,449	$ -0-	$ -0-	$ 1,695	$ 138,449
Buildings	$ 6,236,324	$ 6,127,730	$ -0-	$ -0-	$ 6,236,324	$ 6,127,730
Furniture and equipment	$ 570,085	$ 413,485	$ 64,352	$ 22,625	$ 634,437	$ 436,110
Totals	$ 7,041,651	$ 6,891,504	$ 64,352	$ 22,625	$ 7,106,003	$ 6,914,129

Long-Term Debt

At June 30, 2004, the District had $4,068,104 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 13.4% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	2003-2004
General obligation bonds	$ 3,915,000	4,510,000	-13.2 %
Notes payable	$ 28,396	56,791	-50.0 %
Early retirement benefits	$ 60,138	77,099	-22.0 %
Compensated absences	$ 64,570	53,405	20.9 %
Totals	$ 4,068,104	4,697,295	-13.4 %

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 District is expecting a slight decrease in revenues due to a decline in September 2003 enrollment used in calculating Fiscal 2005 funding. The District will use fund balance to cover expenses.

- The District will negotiate a new agreement during fiscal 2005 with the Harlan Education Association. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance. Increased cost of employee insurance will be a significant cost factor of the new agreement.

- The District has entered into a 40 year long-term lease agreement for classroom space in the Early Childhood Center. The lease gives the District first option to purchase the facility if the owner wants to sells or is delinquent on the debt. The space is being used for the District's Pre-Kindergarten and Bridges Pre-School programs.

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 Kristy Hansen, Director of Finance, Harlan Community School District, 2102 Durant Street, Harlan, Iowa, 51537.

BASIC FINANCIAL STATEMENTS

Exhibit A

HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	$ 5,993,740	132,171	6,125,911
Receivables:			
Property tax:			
Current year	90,706	0	90,706
Succeeding year	3,637,256	0	3,637,256
Accounts	85,939	0	85,939
Accrued interest	10,812	0	10,812
Prepaid expense	10,000	0	10,000
Due from other governments	132,358	0	132,358
Inventories	0	19,537	19,537
Capital assets, net of accumulated depreciation	7,041,651	64,352	7,106,003
Total assets	17,002,462	216,060	17,218,522
Liabilities			
Accounts payable	204,971	2,031	207,002
Salaries and benefits payable	1,031,507	33,057	1,064,564
Accrued interest payable	9,931	0	9,931
Deferred revenue:			
Succeeding year property tax	3,637,256	0	3,637,256
Other	11,289	6,989	18,278
Long-term liabilities:			
Portion due within one year:			
Bonds payable	625,000	0	625,000
Notes payable	28,396	0	28,396
Early retirement benefits	19,444	0	19,444
Compensated absences	64,570	0	64,570
Portion due after one year:		0	
Bonds payable	3,290,000	0	3,290,000
Early retirement benefits	40,694	0	40,694
Total liabilities	8,963,058	42,077	9,005,135
Net Assets			
Invested in capital assets, net of related debt	3,821,039	64,352	3,885,391
Restricted for:			
Management levy	347,742	0	347,742
Physical plant and equipment levy	826,681	0	826,681
Other special revenue purposes	402,943	0	402,943
Unrestricted	2,640,999	109,631	2,750,630
Total net assets	$ 8,039,404	173,983	8,213,387

See notes to financial statements

HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

		Program Revenues	
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	$ 4,837,114	716,913	473,036
Special instruction	1,734,308	116,062	278,982
Other instruction	1,224,174	450,761	41,604
	7,795,596	1,283,736	793,622
Support services:			
Student services	407,948	0	202,058
Instructional staff services	324,079	0	2,212
Administration services	991,545	0	0
Operation and plant maintenance	1,038,884	11,213	14,600
Transportation services	564,746	0	66,846
Other support services	636	0	0
	3,327,838	11,213	285,716
Other expenditures:			
Long-term debt interest	135,621	0	42,309
AEA flowthrough	457,745	0	457,745
Depreciation (unallocated)*	181,673	0	0
	775,039	0	500,054
Total governmental activities	11,898,473	1,294,949	1,579,392
Business-type activities:			
Non-instructional programs:			
Nutrition services	535,158	343,479	234,479
Total	$ 12,433,631	1,638,428	1,813,871
General Revenues:			
Property tax levied for:			
General purposes			
Debt service			
Capital outlay			
Local option sales tax			
Unrestricted state grants			
Unrestricted investment earnings			
Other			
Total general revenues			
Change in net assets			
Net assets beginning of year, as restated			
Net assets end of year			

- This amount excludes the depreciation that is included in the direct expense of the various programs

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(3,647,165)	0	(3,647,165)
(1,339,264)	0	(1,339,264)
(731,809)	0	(731,809)
(5,718,238)	0	(5,718,238)
(205,890)	0	(205,890)
(321,867)	0	(321,867)
(991,545)	0	(991,545)
(1,013,071)	0	(1,013,071)
(497,900)	0	(497,900)
(636)		(636)
(3,030,909)	0	(3,030,909)
(93,312)	0	(93,312)
0	0	0
(181,673)	0	(181,673)
(274,985)	0	(274,985)
(9,024,132)	0	(9,024,132)
0	42,800	42,800
(9,024,132)	42,800	(8,981,332)
3,475,319	0	3,475,319
253,111	0	253,111
231,893	0	231,893
575,473	0	575,473
6,152,430	0	6,152,430
35,261	499	35,760
61,824	0	61,824
10,785,311	499	10,785,810
1,761,179	43,299	1,804,478
6,278,225	130,684	6,408,909
8,039,404	173,983	8,213,387

See notes to financial statements

Exhibit C

HARLAN COMMUNITY SCHOOL DISTRICT
GOVERNMENTAL FUND BALANCE SHEET
YEAR ENDED JUNE 30, 2004

		General	Special Revenue Physical Plant and Equipment Levy	Nonmajor Funds	Total
ASSETS					
Assets:					
Cash and pooled investments	$	3,674,539	1,565,717	753,484	5,993,740
Receivables:					
Property tax:					
Delinquent		74,750	4,994	10,962	90,706
Succeeding year		3,073,460	193,490	370,306	3,637,256
Accounts		12,483	0	73,456	85,939
Accrued interest		3,509	6,724	579	10,812
Prepaid expense		10,000	0	0	10,000
Due from other governments		132,358	0	0	132,358
Total assets	$	6,981,099	1,770,925	1,208,787	9,960,811
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$	159,274	27,970	17,727	204,971
Salaries and benefits payable		1,031,507	0	0	1,031,507
Deferred revenue:					
Succeeding year property tax		3,073,460	193,490	370,306	3,637,256
Other		27,801	1,039	2,380	31,220
Total liabilities		4,292,042	222,499	390,413	4,904,954
Fund balances:					
Reserved for:					
Debt service		0	0	250,073	250,073
Unreserved		2,689,057	1,548,426	568,301	4,805,784
Total fund balances		2,689,057	1,548,426	818,374	5,055,857
Total liabilities and fund balances	$	6,981,099	1,770,925	1,208,787	9,960,811

See notes to financial statements

Exhibit D

HARLAN COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
YEAR ENDED JUNE 30, 2004

Total fund balances of governmental funds	$	5,055,857
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources, and therefore, are not reported as assets in the governmental funds.		7,041,651
Other long-term assets are not available to pay for current period expenditures, and therefore, are deferred in the governmental funds.		19,931
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.		(9,931)
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period, and therefore, are not reported as liabilities of the governmental funds.		(4,068,104)
Net assets of governmental activities	$	8,039,404

See notes to financial statements

Exhibit F

HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

		General	Special Revenue Physical Plant and Equipment Levy	Nonmajor Funds	Total
Revenues:					
Local sources:					
Local tax	$	3,792,155	231,166	1,077,817	5,101,138
Tuition		602,786	0	0	602,786
Other		371,229	54,019	458,046	883,294
State sources		6,448,278	0	0	6,448,278
Federal sources		608,956	0	0	608,956
Total revenues		11,823,404	285,185	1,535,863	13,644,452
Expenditures:					
Current:					
Instruction:					
Regular instruction		4,864,900	51,712	22,633	4,939,245
Special instruction		1,734,308	0	0	1,734,308
Other instruction		754,910	0	465,303	1,220,213
		7,354,118	51,712	487,936	7,893,766
Support services:					
Student services		407,190	0	0	407,190
Instructional staff services		321,182	0	0	321,182
Administration services		913,416	0	79,415	992,831
Operation and maintenance of plant services		906,221	252,497	21,351	1,180,069
Transportation services		501,517	102,752	16,399	620,668
Other support services		636	0	0	636
		3,050,162	355,249	117,165	3,522,576
Other expenditures:					
Facilities acquisition		0	44,707	0	44,707
Long-term debt:					
Principal		0	0	623,396	623,396
Interest and fiscal charges		0	0	137,591	137,591
AEA flowthrough		457,745	0	0	457,745
Total		457,745	44,707	760,987	1,263,439
		10,862,025	451,668	1,366,088	12,679,781
Excess (deficiency) of revenues over (under) expenditures		961,379	(166,483)	169,775	964,671
Other financing sources (uses):					
Sale of fixed assets		905	0	0	905
Operating transfers in		0	0	615,025	615,025
Operating transfers out		0	(28,396)	(586,629)	(615,025)
Total other financing sources (uses)		905	(28,396)	28,396	905
Net change in fund balances		962,284	(194,879)	198,171	965,576
Fund balances beginning of year		1,726,773	1,743,305	620,203	4,090,281
Fund balances end of year	$	2,689,057	1,548,426	818,374	5,055,857

See notes to financial statements

Exhibit E

HARLAN 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, 2004

Net change in fund balances – total governmental funds		$ 965,576
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:		
Capital outlays	$ 516,255	
Depreciation expense	(366,108)	
		150,147
Certain delinquent property tax not collected for several months after year end is not considered available revenue in the governmental funds and is deferred. It is recorded as revenue in the Statement of Activities.		14,295
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		623,395
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.		1,970
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.		
Early retirement	16,961	
Compensated absences	(11,165)	
		5,796
Change in net assets of governmental activities		$ 1,761,179

See notes to financial statements

Exhibit G

HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

		School Nutrition
Assets		
Cash and cash equivalents	$	132,171
Inventories		19,537
Capital assets, net of accumulated depreciation		64,352
Total assets		216,060
Liabilities		
Accounts payable		2,031
Salaries and benefits payable		33,057
Deferred revenue		6,989
Total liabilities		42,077
Net Assets		
Invested in capital assets, net of related debt		64,352
Unrestricted		109,631
Total net assets	$	173,983

See notes to financial statements

HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

		School Nutrition
Operating revenue:		
Local sources:		
Charges for service	$	343,479
Operating expenses:		
Non-instructional programs:		
Food service operations:		
Salaries		220,885
Benefits		30,092
Purchased services		4,749
Supplies		272,057
Depreciation		7,375
Total operating expenses		535,158
Operating loss		(191,679)
Non-operating revenue:		
State sources		8,714
Federal sources		225,765
Interest on investments		499
Total non-operating revenue		234,978
Change in net assets		43,299
Net assets beginning of year, as restated		130,684
Net assets end of year	$	173,983

See notes to financial statements

Exhibit J

HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

		School Nutrition
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	$	344,553
Cash payments to employees for services		(246,911)
Cash payments to suppliers for goods or services		(268,442)
Net cash used in operating activities		(170,800)
Cash flows from non-capital financing activities:		
State grants received		8,714
Federal grants received		187,671
Net cash provided by non-capital financing sources		196,385
Cash flows from capital and related financing activities:		
Acquisition of capital assets		(21,112)
Cash flows from investing activities:		
Interest on investments		499
Net increase in cash and cash equivalents		4,972
Cash and cash equivalents at beginning of year		127,199
Cash and cash equivalents at end of year	$	132,171

Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(191,679)
Commodities used		38,094
Depreciation		7,375
Decrease in inventories		(2,963)
Increase in accounts payable		(26,767)
Increase in salaries and benefits payable		4,066
Increase in deferred revenue		1,074
Net cash used in operating activities	$	(170,800)

Non-cash investing, capital and financing activities:
During the year ended June 30, 2004, the District received $38,094 of federal commodities.

See notes to financial statements

HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS – FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2004

	Private Purpose Trust Scholarship	Agency
Assets		
Cash and pooled investments	$ 28,050	$ 3,882
Total assets	28,050	3,882
Liabilities		
Due to other governments	0	3,882
Total liabilities	0	3,882
Net Assets		
Reserved for scholarships	$ 28,050	$ 0

See notes to financial statements

Exhibit K

HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS – FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2004

		Private Purpose Trust
		Scholarship
Additions:		
Local sources:		
Gifts and contributions	$	2,483
Interest income		478
Total additions		2,961
Deductions:		
Support services:		
Scholarship awarded		11,528
Change in net assets		(8,567)
Net assets beginning of year		36,617
Net assets end of year	$	28,050

See notes to financial statements

NOTE 1 Summary of Significant Accounting Policies

The Harlan Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Harlan, Iowa and the predominately agricultural territory in Harrison and Shelby Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Harlan 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 Harlan Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in jointly governed organizations that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Harrison and Shelby Counties Assessor's Conference Boards.

B. Basis of Presentation

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

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

NOTE 1 Summary of Significant Accounting Policies (continued)

B. Basis of Presentation – (continued)

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

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are 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 District-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.

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 expenses, including instructional, support and other costs.

Special Revenue:

The Physical Plant and Equipment Levy is used to account for property taxes and other revenues designated to be used for the improvement of school facilities.

NOTE 1 Summary of Significant Accounting Policies (continued)

B. Basis of Presentation - (continued)

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

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

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

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

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 revenues 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.

NOTE 1 Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting - (continued)

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 assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from 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 Fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

NOTE 1 Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity - (continued)

Property Tax Receivable – Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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

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

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and 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	$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Furniture and equipment:	

School Nutrition Fund equipment	500
Other furniture and equipment	1,500

NOTE 1 Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity - (continued)

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

Asset Class	Estimated Useful Lives
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

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

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General 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 Assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

NOTE 1 Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity - (continued)

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted and the District did not exceed its General Fund unspent authorized budget.

NOTE 2 Cash and Pooled Investments

The District's deposits in banks at June 30, 2004 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.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of $300,821 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The District's investments are all Category 1, which means the investments are insured or registered or the securities are held by the District or its agent in the District's name.

The District's investments at June 30, 2004 are as follows:

Type	Carrying Amount	Fair Value
U.S. governments securities	$ 210,000	$ 203,698

NOTE 3 Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	$ 586,629
	Special Revenue:	
	Physical Plant and Equipment Levy Activity	28,396
		$ 615,025

NOTE 4 Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities				
Capital assets not being depreciated:				
Land	$ 25,700	0	0	25,700
Construction in progress	138,449	1,695	138,449	1,695
Total capital assets not being depreciated	164,149	1,695	138,449	27,395
Capital assets being depreciated:				
Buildings	8,758,600	290,267	0	9,048,867
Improvements other than buildings	429,599	38,843	0	468,442
Furniture and equipment	1,956,992	323,899	0	2,280,891
Total capital assets being depreciated	11,145,191	653,009	0	11,798,200
Less accumulated depreciation for:				
Buildings	2,630,870	181,673	0	2,812,543
Improvements other than buildings	243,459	17,136	0	260,595
Furniture and equipment	1,543,507	167,299	0	1,710,806
Total accumulated depreciation	4,417,836	366,108	0	4,783,944
Total capital assets being depreciated, net	6,727,355	286,901	0	7,014,256
Governmental activities capital assets, net	$ 6,891,504	288,596	138,449	7,041,651

	Balance Beginning of Year (Restated)	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	$ 125,657	21,112	0	146,769
Less accumulated depreciation	75,042	7,375	0	82,417
Business-type activities capital assets, net	$ 50,615	13,737	0	64,352

NOTE 4 Capital Assets (continued)

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular	$	49,367
Other		23,801
Support Services:		
Student services		758
Instructional staff		727
Administration		1,545
Operation and maintenance of plant		30,674
Transportation		77,563
		184,435
Unallocated depreciation		181,673
Total governmental activities depreciation expense	$	366,108
Business-type activities:		
Food services	$	7,375

NOTE 5 Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

		Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	$	3,410,000	0	595,000	2,815,000	625,000
Revenue bonds		100,000	0	0	100,000	0
Quality Zone Academy bonds		1,000,000	0	0	1,000,000	0
Bus Barn loan		56,791	0	28,395	28,396	28,396
Early retirement		77,099	0	16,961	60,138	19,444
Compensated absences		53,405	11,165	0	64,570	64,570
Total	$	4,697,295	11,165	640,356	4,068,104	737,410

NOTE 5 Long-Term Liabilities (continued)

Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of March 31, 1999			
	Interest Rates	Principal	Interest	Total
2005	4.00 %	$ 625,000	$ 108,465	$ 733,465
2006	4.30 %	645,000	83,265	728,265
2007	4.05 %	675,000	56,919	731,919
2008	4.10 %	700,000	29,123	729,123
2009	4.20 %	170,000	3,570	173,570
		$ 2,815,000	$ 281,342	$ 3,096,342

Revenue Bonds Payable

Details of the District's June 30, 2004 local option sales and services tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of March 31, 1999			
	Interest Rates	Principal	Interest	Total
2005	4.50 %	$ 0	$ 4,500	$ 4,500
2006	4.50 %	0	4,500	4,500
2007	4.50 %	0	4,500	4,500
2008	4.50 %	0	4,500	4,500
2009	4.50 %	100,000	2,250	102,250
		$ 100,000	$ 20,250	$ 120,250

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

Qualified Zone Academy Bond

During the year ended June 30, 2002, the District issued zero interest Qualified Zone Academy Bonds (QZAB). Annual transfers of $58,455 are made to an escrow agent to pay the indebtedness due November 11, 2015, of $1,000,000. Bond proceeds are to be used only for the equipping, rehabilitation and repairs of the school designated as the "Qualified Zone Academy." The school is in compliance with the above provisions.

NOTE 5 Long-Term Liabilities (continued)

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee qualifying for full IPERS benefits is equal to 80% of the difference between the salary for the position he or she is qualified for on the current teachers' salary schedule, minus the base salary of the current year's teacher salary schedule, minus $500. The District also funds the retired employee's health insurance for $83 per month, up to $1,000 per year, until the retired employee is eligible for Medicare. Early retirement benefits paid during the year ended June 30, 2004 totaled $19,507. A liability has been recorded in the District-wide financial statements representing the District's commitment to fund early retirement benefits.

Bus Barn Loan

Details of the District's June 30, 2004 Bus Barn Loan are as follows:

Year Ending June 30,	Bus Barn Loan			
	Interest Rate	Principal	Interest	Total
2005	0 %	$ 28,396	$ 0	$ 28,396

NOTE 6 Advance Refunding

On May 1, 1999, the District issued refunding bonds in the amount of $5,575,000 to advance refund $5,680,000 of outstanding general obligation bonds. The proceeds of the refunding issues have been placed in an irrevocable escrow account and have been invested in U.S. Government obligations which have been certified to be sufficient to pay all principal and interest on the new advance refunding bonds added to the appropriate financial statements and schedules. The District remains contingently liable in the remote possibility the account is unable to pay the refunded bonds. At June 30, 2004, $4,295,000 of such bonds is outstanding. Repayment of principal and interest for the year was $240,000 and $246,918.

NOTE 7 Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002, were $400,394, $384,619 and $407,777, respectively, equal to the required contributions for each year.

NOTE 8 Risk Management

The District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (the Association) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July, 1999, for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

Each member's contributions to the Association funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were $710,273.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by the Association to protect against large claims, but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonable estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

NOTE 8 Risk Management (continued)

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. The Association will pay claims incurred before the termination date.

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

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 $457,745 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

NOTE 10 28E Agreement

The Harlan Community School District received tax increment financing revenues of $118,964 during the year under the terms of a 28E Agreement with the City of Harlan and Shelby County. Under the terms of the agreement, the District receives a portion of the tax increment financing revenues realized by the City. The funds are to be spent for the purchase, rent, construction or repair of equipment, facilities or grounds. The School District is in compliance with the provisions of the 28E Agreement. The terms of this agreement, however, may not be consistent with the City's TIF plan, as required by Chapter 403B of the Code of Iowa.

NOTE 11 Restatement

The beginning net assets of the proprietary fund have been restated to reflect capitalization of an asset previously expensed.

		School Nutrition
Net assets June 30, 2003, as previously reported	$	102,694
Prior period adjustment		27,990
Net assets, as restated July 1, 2003	$	130,684

The effect of the restatement increases the net change in net assets by $27,990 for the year ended June 30, 2003, and increases capital assets at June 30, 2003 by that same amount.

REQUIRED SUPPLEMENTARY INFORMATION

HARLAN COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES – BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Types Actual	Total Actual
Receipts:			
Local sources	$ 6,587,952	345,052	6,933,004
State sources	6,428,244	8,714	6,436,958
Federal sources	639,489	187,671	827,160
Total receipts	13,655,685	541,437	14,197,122
Disbursements:			
Instruction	7,969,562	0	7,969,562
Support services	3,293,617	0	3,293,617
Non-instructional programs	0	536,465	536,465
Other expenditures	1,263,439	0	1,263,439
Total disbursements	12,526,618	536,465	13,063,083
Excess of receipts over disbursements	1,129,067	4,972	1,134,039
Other financing uses, net	905	0	905
Excess of receipts and other financing sources over disbursements and other financing uses	1,129,972	4,972	1,134,944
Balances beginning of year	4,863,768	127,199	4,990,967
Balances end of year	$ 5,993,740	132,171	6,125,911

See Accompanying Independent Auditors' Report

Budgeted Amounts Original	Final	Final to Actual Variance Positive (Negative)
6,845,949	6,845,949	87,055
6,638,006	6,638,006	(201,048)
595,600	595,600	231,560
14,079,555	14,079,555	117,567
8,550,000	8,550,000	580,438
3,679,500	3,679,500	385,883
570,000	570,000	33,535
1,222,926	1,297,522	34,083
14,022,426	14,097,022	1,033,939
57,129	(17,467)	1,151,506
0	0	905
57,129	(17,467)	1,152,411
4,255,145	4,255,145	735,822
4,312,274	4,237,678	1,888,233

HARLAN COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE – BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2004

		Governmental Fund Types		
		Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	$	13,655,685	(11,233)	13,644,452
Expenditures		12,526,618	153,163	12,679,781
Net		1,129,067	(164,396)	964,671
Other financing sources		905	0	905
Beginning fund balances		4,863,768	(773,487)	4,090,281
Ending fund balances	$	5,993,740	(937,883)	5,055,857

		Proprietary Fund Types		
		Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	$	541,437	37,020	578,457
Expenditures		536,465	(1,307)	535,158
Net		4,972	38,327	43,299
Beginning fund balances		127,199	(24,505)	102,694
Prior period adjustment		0	27,990	27,990
Ending fund balances	$	132,171	41,812	173,983

See Accompanying Independent Auditors' Report

HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2004

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 cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expense by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. 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, the District adopted one budget amendment increasing budgeted disbursements by $74,596.

During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted and the District did not exceed its General Fund unspent authorized budget.

OTHER SUPPLEMENTARY INFORMATION

HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR FUNDS
YEAR ENDED JUNE 30, 2004

		Special Revenue		
		Management Levy	Student Activity	Debt Service
Assets				
Assets:				
Cash and pooled investments	$	402,303	105,726	245,404
Receivables:				
Property Tax:				
Current year		5,577	0	5,385
Succeeding year		120,585	0	249,721
Accounts		0	0	0
Accrued interest		0	228	351
Total assets	$	528,465	105,954	500,861
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	$	0	17,727	0
Deferred revenue:				
Succeeding year property tax		120,585	0	249,721
Other		1,313	0	1,067
Total liabilities		121,898	17,727	250,788
Fund balances:				
Reserved for:				
Debt Service		0	0	250,073
Unreserved		406,567	88,227	0
Total fund balances		406,567	88,227	250,073
Total liabilities and fund equity	$	528,465	105,954	500,861

See Accompanying Independent Auditors' Report

Capital Projects Local Option Sales and Service Tax	Total
51	753,484
0	10,962
0	370,306
73,456	73,456
0	579
73,507	1,208,787
0	17,727
0	370,306
0	2,380
0	390,413
0	250,073
73,507	568,301
73,507	818,374
73,507	1,208,787

Schedule 2

HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES – NONMAJOR FUNDS
YEAR ENDED JUNE 30, 2004

	Special Revenue		
	Management Levy	Student Activity	Debt Service
Revenues:			
Local sources:			
Local Tax	$ 250,028	0	252,316
Other	3,100	452,056	2,890
Total revenues	253,128	452,056	255,206
Expenditures:			
Current:			
Instruction:			
Regular instruction	22,633	0	0
Other instruction	0	465,303	0
	22,633	465,303	0
Support services:			
Administration services	79,415	0	0
Operation and maintenance of plant services	21,351	0	0
Transportation services	16,399	0	0
	117,165	0	0
Other expenditures:			
Long-term debt:			
Principal	0	0	623,396
Interest and fiscal charges	0	0	137,591
	0	0	760,987
Total expenditures	139,798	465,303	760,987
Excess (deficiency) of revenues over (under) expenditures	113,330	(13,247)	(505,781)
Other financing sources (uses):			
Operating transfers in	0	0	615,025
Operating transfers out	0	0	0
	0	0	615,025
Net changes in fund balances	113,330	(13,247)	109,244
Fund balances beginning of year, as restated	293,237	101,474	140,829
Fund balances end of year	$ 406,567	88,227	250,073

See Accompanying Independent Auditors' Report

Capital Projects Local Option Sales and Service Tax	Total
575,473	1,077,817
0	458,046
575,473	1,535,863
0	22,633
0	465,303
0	487,936
0	79,415
0	21,351
0	16,399
0	117,165
0	623,396
0	137,591
0	760,987
0	1,366,088
575,473	169,775
0	615,025
(586,629)	(586,629)
(586,629)	28,396
(11,156)	198,171
84,663	620,203
73,507	818,374

HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGE IN SPECIAL REVENUE - STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2004

	Balance Beginning of Year	Revenues and Interfund Transfers	Expenditures	Balance End of Year
Drama	$ 4,172	3,997	5,174	2,995
Thespians	454	5	0	459
HS vocal music	2,914	3,190	3,201	2,903
MS vocal music	700	225	485	440
HS instrumental music	3,022	2,224	2,654	2,592
HS jazz	4,044	2,956	3,132	3,868
MS flag corp	232	77	44	265
Honor choir	638	1,186	1,110	714
HS flag corp	1,201	356	1,514	43
Baton	1,452	1,342	1,446	1,348
Athletics	11,392	196,976	211,841	(3,473)
Soccer	3,779	16,985	14,653	6,111
Activity tickets	0	126	0	126
Towel rental	895	7	603	299
AFS	0	5,583	5,583	0
Cheerleaders	850	7,574	4,303	4,121
Cyclone publications	2,002	0	2,394	(392)
FFA	8,848	64,441	59,523	13,766
Harpoon	11,255	7,824	6,913	12,166
National honor society	1,891	258	1,511	638
OE	846	20,927	20,136	1,637
Science club	472	5	0	477
Spanish club	1,967	21	16	1,972
Student council	3,874	11,691	11,584	3,981
Pom pom	2,032	5,718	5,348	2,402
Odyssey of the mind	3,604	8,751	7,753	4,602
Key Club	224	2	0	226
For the birds	766	555	301	1,020
Speech	1,164	1,058	858	1,364
FEA Club	1,433	15	0	1,448
Class of 2004	0	72	72	0
Class of 2005	731	1,224	1,404	551
Class of 2006	708	338	0	1,046
Class of 2007	300	1,167	15	1,452
NP Student fund	612	864	560	916
Prom	3,195	11,656	14,038	813
Elementary math club	465	0	465	0
WR student store	0	2,129	1,231	898
WR student fund	483	6,007	6,459	31
HS miscellaneous	(13)	7,802	7,789	0
HS activity	321	8	329	0
Concessions	9,223	14,840	21,340	2,723
Vending	5,319	20,179	15,366	10,132
MS industrial tech club	373	5	378	0
MS cheerleading	1,200	1,377	2,265	312
MS vending	273	5,072	4,774	571
MS student council	1,372	10,226	11,521	77
MS drama	237	1,931	1,975	193
JR NHS	261	301	372	190
MS student fund	0	2,783	2,807	(24)
Interest	291	0	63	228
Total	$ 101,474	452,056	465,303	88,227

See Accompanying Independent Auditors' Report

Schedule 4

HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
YEAR ENDED JUNE 30, 2004

		Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets					
Cash	$	3,678	7,331	7,127	3,882
Total assets		3,678	7,331	7,127	3,882
Liabilities					
Accounts payable		66	0	66	0
Due to other governments		3,612	7,331	7,061	3,882
Total liabilities	$	3,678	7,331	7,127	3,882

Schedule 5

See Accompanying Independent Auditors' Report

HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURE BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local Tax	$ 5,101,138	4,136,613	3,912,529	3,680,842
Tuition	602,786	502,283	475,736	572,051
Other	883,294	1,489,460	1,360,079	1,493,709
Intermediate sources	0	0	3,262	1,000
State sources	6,448,278	6,487,078	6,519,323	6,521,344
Federal sources	608,956	402,029	312,404	238,662
Total	$ 13,644,452	13,017,463	12,583,333	12,507,608
Expenditures:				
Instruction:				
Regular instruction	$ 4,939,245	4,528,582	4,653,768	4,483,997
Special instruction	2,266,553	1,617,296	1,482,343	1,495,950
Other instruction	687,968	1,173,712	1,344,483	1,230,805
Support services:				
Student services	407,190	372,737	373,175	364,871
Instructional staff services	321,182	318,000	371,679	341,952
Administration services	992,831	985,072	1,004,078	987,512
Operation and maintenance of plant services	1,180,069	1,079,956	1,060,083	1,066,441
Transportation services	620,668	505,287	506,234	536,966
Other support services	636	0	0	0
Non-instructional programs	0	47	0	2,373
Other expenditures:				
Facilities acquisition	44,707	132,140	35,015	211,820
Long-term debt:				
Principal	623,396	609,391	555,000	535,000
Interest and fiscal charges	137,591	160,655	182,200	202,452
AEA flowthrough	457,745	488,937	494,264	496,922
Total	$ 12,679,781	11,971,812	12,062,322	11,957,061

Schedule 5

See Accompanying Independent Auditors' Report

HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

Grantor/Program	CFDA Number	Grant Number	Expenditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
Food Donation (non-cash)	10.550	FY04	$ 38,094
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY04	23,487
National School Lunch Program	10.555	FY04	164,187
			187,674
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY04	192,598
Vocational Education – Basic Grants to States	84.048	FY04	18,561
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY04	8,170
Innovative Education Program Strategies (Title V Program)	84.298	FY04	13,325
Title IIA – Teacher Quality Program	84.367	FY04	72,215
Loess Hills Area Education Agency:			
Individuals with Disabilities Education Act (IDEA) Special Education – Grants to State	84.027	FY04	66,047
Eisenhower Professional Development State Grants	84.281	FY04	2,212
U.S. Department of Health and Human Services:			
Shelby County:			
Promoting Safe and Stable Families	93.556	FY04	34,927
Crawford County:			
Medical Assistance Program	93.778	FY04	1,181
Total			$ 635,004

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Harlan Community School District. The financial statements of the School District are presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See Accompanying Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE

September 10, 2004

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance

The Board of Education of
Harlan Community School District
Harlan, IA 51537

We have audited the financial statements of the Harlan Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 10, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harlan Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. There were no prior year reportable conditions.

Compliance

As part of obtaining reasonable assurance about whether Harlan 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 grants, 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 noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Continued. . .

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 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. There were no prior year statutory comments.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Harlan Community School District, and other parties to whom the Harlan Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Harlan 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.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE

September 10, 2004

Independent Auditors' Report on Compliance
With Requirements Applicable to Each Major Program
and Internal Control Over Compliance

To Board of Education of
Harlan Community School District
Harlan, IA 51537

Compliance

We have audited the compliance of Harlan Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Harlan Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Harlan Community School District's management. Our responsibility is to express an opinion on Harlan Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harlan Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Harlan Community School District's compliance with those requirements.

In our opinion, Harlan Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Continued. . .

September 10, 2004
Harlan Community School District
Major Program Compliance Report

Internal Control Over Compliance

The management of Harlan Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Harlan Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Harlan Community School District and other parties to whom Harlan Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditors' Results:

(a) An unqualified opinion was issued on the financial statements.

(b) The audit did not disclose any reportable conditions in internal control over financial reporting.

(c) The audit did not disclose any non-compliance which is material to the financial statements.

(d) The audit did not disclose any reportable conditions in internal control over major programs.

(e) An unqualified opinion was issued on compliance with requirements applicable to each major program.

(f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).

(g) Major programs were as follows:

- CFDA Number 84.010 – Title I Grants to Local Educational Agencies
- Clustered programs:
  - CFDA Number 10.553 – School Breakfast Program
  - CFDA Number 10.555 – National School Lunch Program

(h) The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

(i) Harlan Community School District did not qualify as a low-risk auditee.

HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No comments or recommendations.

HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No comments or recommendations.

HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Statutory Reporting:

IV-A-04 Official Depositories – Officials depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

IV-B-04 Certified Budget - Disbursements for the year ended June 30, 2004 did not exceed the certified budget amounts.

IV-C-04 Questionable Expenditures – No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-D-04 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 were noted.

IV-E-04 Business Transactions – Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Kathy and Joan Chamberlain, employees, own shares in Chamberlain Brothers Lumber	Building repairs and maintenance supplies	$ 17,249

In accordance with Iowa State Code 279.7A, the above transactions are not with a board member and do not appear to represent a conflict of interest.

IV-F-04 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.

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

IV-G-04 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not. However, minutes of meetings were not always published within 15 days as required by Chapter 279.35 of the Code of Iowa.

In addition, the District did not always document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Recommendation – Board proceedings should be published timely and the District should comply with Chapter 21 of the Code of Iowa.

Response – Copies of Board proceedings were provided to the paper timely. We are considering additional publishing sources. We will comply with the Code requirements for closed sessions.

Conclusion – Response accepted.

IV-H-04 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.

IV-I-04 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the District's investment policy were noted.

IV-J-04 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.

IV-K-04 Deficit Balances – Some student activity accounts had deficit balances at June 30, 2004.

Recommendation – The District should continue to investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial condition.

Response – The District is continuing to investigate alternatives to eliminate deficits in the student activity accounts at the end of the fiscal year.

Conclusion – Response accepted.

NEWS RELEASE

HARLAN COMMUNITY SCHOOL DISTRICT
HARLAN, IOWA 51555

Schroer & Associates, P.C. today released an audit report on the Harlan Community School District in Harlan, Iowa.

The financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Also included is Management's Discussion and Analysis of the District's financial statements.

The District's revenues totaled $14,238,109 for the year ended June 30, 2004, a 6.5 percent increase from the prior year. Revenues included $3,960,323, in local tax, charges for service of 1,638,428, operating grants, contributions and restricted interest of 1,813,871, unrestricted interest of 35,760, and other general revenues of 6,789,727.

Expenses for District operation totaled 12,433,631, a 5.9 percent increase from the prior year. Expenses included 4,837,114 for regular instruction, 2,266,553 for special instruction, and 1,038,884 for operation and plant maintenance.

A copy of the audit report is available for review in the office of the Auditor of State and in the District Secretary's office.

November 19, 2004

Harlan Community School District
2102 Durant Street
Harlan, IA 51537

Dear Kristy;

Enclosed you will find a "draft" copy of Harlan Community School District's audit report for the year ended June 30, 2004. Please review it and let me know if you have any changes.

Please have Mr. Broomfield sign the enclosed data collection form and return in the enclosed envelope.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain

DM/jb