

HARLAN COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

TABLE OF CONTENTS

| | | <u>Page</u> |
|---|-----------------|-------------|
| Officials | | 3 |
| Independent Auditors' Report | | 5-6 |
| Management's Discussion and Analysis | | 8-17 |
| Basic Financial Statements: | <u>Exhibit</u> | |
| Government-Wide Financial Statements: | | |
| Statement of Net Assets | A | 19 |
| Statement of Activities | B | 20-21 |
| Governmental Fund Financial Statements: | | |
| Balance Sheet | C | 22 |
| Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets | D | 23 |
| Statement of Revenues, Expenditures and Changes in Fund Balances | E | 24 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities | F | 25 |
| Proprietary Fund Financial Statements: | | |
| Statement of Net Assets | G | 26 |
| Statement of Revenues, Expenses and Changes in Net Assets | H | 27 |
| Statement of Cash Flows | I | 28 |
| Fiduciary Fund Financial Statements: | | |
| Statement of Fiduciary Net Assets | J | 29 |
| Statement of Changes in Fiduciary Net Assets | K | 30 |
| Notes to Financial Statements | | 31-43 |
| Required Supplementary Information: | | |
| Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Fund | | 45-46 |
| Budget to GAAP Reconciliation | | 47 |
| Notes to Required Supplementary Information – Budgetary Reporting | | 48 |
| Other Supplementary Information: | <u>Schedule</u> | |
| Nonmajor Special Revenue Funds: | | |
| Combining Balance Sheet | 1 | 50-51 |
| Combining Schedule of Revenues, Expenditures and Changes in Fund Balances | 2 | 52-53 |
| Schedule of Changes in Special Revenue Fund, Student Activity Accounts | 3 | 54 |
| Schedule of Changes in Fiduciary Assets and Liabilities – Agency Fund | 4 | 55 |
| Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds | 5 | 56 |
| Schedule of Expenditure of Federal Awards | 6 | 57 |
| Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters | | 59-60 |
| Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance | | 62-63 |
| Schedule of Findings and Questioned Costs | | 64-68 |

HARLAN COMMUNITY SCHOOL DISTRICT

September 9, 2005

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, 2005, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, 2005, 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 9, 2005, 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 considered in assessing the results of our audit.

Continued . . .

September 9, 2005
Harlan Community School District
Independent Auditors' Report

The Management's Discussion and Analysis and budgetary comparison information on pages 8 through 17 and 45 through 48 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 two years ended June 30, 2004, (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The financial statements for the year 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, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 Financial Highlights

- General Fund revenues increased \$150,426 from \$11,823,404 in fiscal 2004 to \$11,973,830 in fiscal 2005, while General Fund expenditures increased \$768,566 from \$10,862,025 in fiscal 2004 to \$11,630,591 in fiscal 2005. The net increase in revenues and expenditures resulted in an increase in the District's General Fund balance from \$2,689,057 in fiscal 2004 to \$3,041,803 in fiscal 2005, a 13 percent increase from the prior year.
- The increase in General Fund revenues was attributable to open enrollment, and federal grant revenue in fiscal 2005. The increase in expenditures was due primarily to wages, employee benefits, fuel, supplies, and utilities.
- An increase in the District's General Fund balance resulted in the District's solvency ratio increasing from 22.7 percent in fiscal 2004 to 25.3 percent in fiscal 2005. 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 2005. Projects included replacement of exterior doors at the high school building, new phone systems at the high school and middle school buildings, storage cabinets at the high school building, and many other building repairs and improvements. As part of the District's three year Physical Plant and Equipment Levy plan the District purchased a vehicle.
- In Fiscal 2005 the District spent Quality Zone Academy Bond (QZAB) proceeds of \$84,432 on various projects. The District has a remaining balance of \$638,351 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 in excess of \$110,000 as of June 30, 2005.

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.

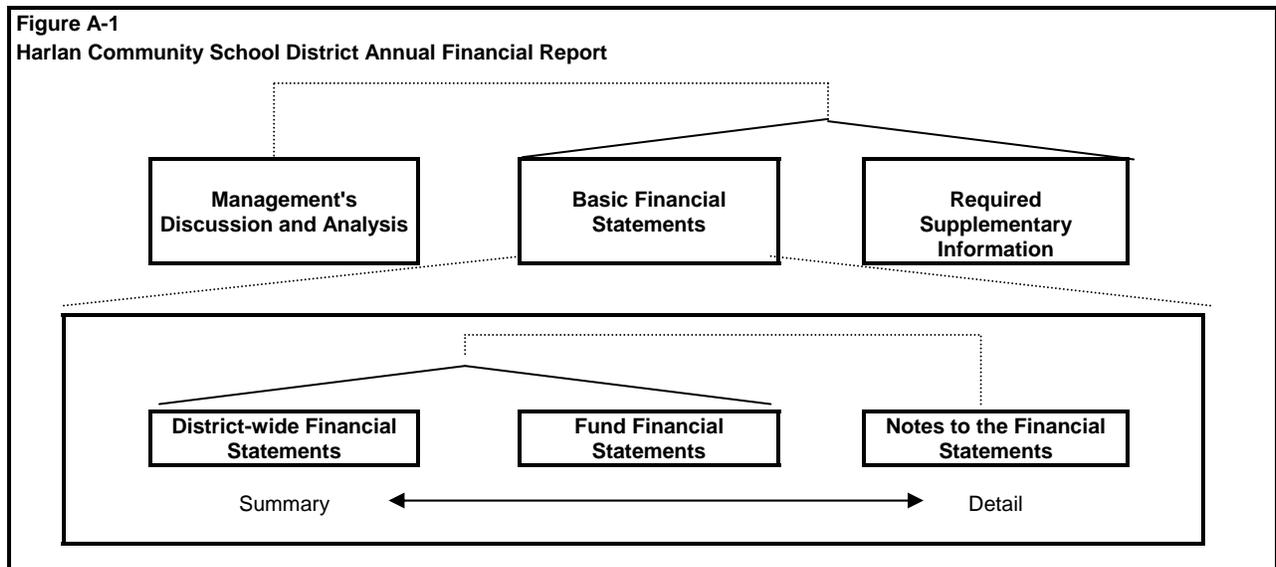


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

| Figure A-2 Major Features of the Government-Wide and Fund Financial Statements | | | | |
|---|--|--|---|---|
| | Government-wide Statements | Fund Statements | | |
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire district (except fiduciary funds) | The activities of the District that are not proprietary or fiduciary , such as special education and building maintenance | Activities the District operates similar to private businesses: food services | Instances in which the District administers resources on behalf of someone else, such as scholarship programs |
| Required financial statements | <ul style="list-style-type: none"> • Statement of net assets • Statement of activities | <ul style="list-style-type: none"> • Balance Sheet • Statement of revenues, expenditures, and changes in fund balances | <ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows | <ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/ liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both financial and capital, 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 additions and reductions 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 from the Government-wide financial statements because it cannot use these assets to finance its 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, 2004 and 2005.

| | Figure A-3 Condensed Statement of Net Assets | | | | | | | |
|----------------------------|---|--------------|--------------------------|------------|-----------------------|---------------|-----------------------------|--|
| | Governmental Activities | | Business-type Activities | | Total School District | | Total Change June 30, | |
| | June 30, | | June 30, | | June 30, | | | |
| 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2004-2005 | | |
| Current and other assets | \$ 10,275,634 | \$ 9,960,811 | \$ 142,614 | \$ 151,708 | \$ 10,418,248 | \$ 10,112,519 | 3.0% | |
| Capital assets | 7,047,900 | 7,041,651 | 94,920 | 64,352 | 7,142,820 | 7,106,003 | .5% | |
| Total assets | 17,323,534 | 17,002,462 | 237,534 | 216,060 | 17,561,068 | 17,218,522 | 2.0% | |
| Long-term obligations | 3,450,782 | 4,068,104 | -0- | -0- | 3,450,782 | 4,068,104 | (15.2%) | |
| Other liabilities | 5,004,799 | 4,894,954 | 46,464 | 42,077 | 5,051,263 | 4,937,031 | 2.3% | |
| Total liabilities | 8,455,581 | 8,963,058 | 46,464 | 42,077 | 8,502,045 | 9,005,135 | (5.6%) | |
| Net assets: | | | | | | | | |
| Invested in capital assets | | | | | | | | |
| Net of related debt | 4,357,601 | 3,821,039 | 94,920 | 64,352 | 4,452,521 | 3,885,391 | 14.6% | |
| Restricted | 1,508,022 | 1,577,366 | -0- | -0- | 1,508,022 | 1,577,366 | (4.4%) | |
| Unrestricted | 3,002,330 | 2,640,999 | 96,150 | 109,631 | 3,098,480 | 2,750,630 | 12.7% | |
| Total net assets | \$ 8,867,953 | \$ 8,039,404 | \$ 191,070 | \$ 173,983 | \$ 9,059,023 | \$ 8,213,387 | 10.3% | |

The Districts combined net assets increased by more than 10 percent, or \$845,636, 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 decreased approximately \$51,000 or 4.4 percent from the prior year. The decrease was primarily a result of using restricted QZAB proceeds in the Physical Plant and Equipment Levy Fund for building projects.

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 \$347,850 or nearly 12.7 percent. The increase is the result maintaining revenues in excess of expenditures.

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2005.

Figure A-4
Changes in Net Assets

| | Governmental Activities | | Business-type Activities | | Total School District | |
|---|-------------------------|---------------------|--------------------------|------------------|-----------------------|---------------------|
| | June 30, | | June 30, | | June 30, | |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services and sales | \$ 1,475,789 | \$ 1,294,949 | \$ 379,937 | \$ 343,479 | \$ 1,855,726 | \$ 1,638,428 |
| Operating grants, contributions and restricted interest | 1,578,071 | 1,579,392 | 253,972 | 234,479 | 1,832,043 | 1,813,871 |
| General revenue: | | | | | | |
| Property tax | 4,166,664 | 3,960,323 | -0- | -0- | 4,166,664 | 3,960,323 |
| Local option sales tax | 593,656 | 575,473 | -0- | -0- | 593,656 | 575,473 |
| Unrestricted state grants | 5,732,387 | 6,152,430 | -0- | -0- | 5,732,387 | 6,152,430 |
| Unrestricted investment earnings | 84,716 | 35,261 | 1,056 | 499 | 85,772 | 35,760 |
| Other | 32,122 | 61,824 | -0- | -0- | 32,122 | 61,824 |
| Total revenues | <u>13,663,405</u> | <u>13,659,652</u> | <u>634,965</u> | <u>578,457</u> | <u>14,298,370</u> | <u>14,238,109</u> |
| Program expenses: | | | | | | |
| Governmental activities: | | | | | | |
| Instruction | 8,507,598 | 7,795,596 | -0- | -0- | 8,507,598 | 7,795,596 |
| Support services | 3,556,054 | 3,327,838 | -0- | -0- | 3,556,054 | 3,327,828 |
| Non-instructional programs | -0- | -0- | 617,878 | 535,158 | 617,878 | 535,158 |
| Other expenses | 771,204 | 775,039 | -0- | -0- | 771,204 | 775,039 |
| Total expenses | <u>12,834,856</u> | <u>11,898,473</u> | <u>617,878</u> | <u>535,158</u> | <u>13,452,734</u> | <u>12,443,631</u> |
| Change in net assets | \$ <u>828,549</u> | \$ <u>1,761,179</u> | \$ <u>17,087</u> | \$ <u>43,299</u> | \$ <u>845,636</u> | \$ <u>1,804,478</u> |

Property tax and unrestricted state grants account for 69.2 percent of total revenue. The District's expenses primarily relate to instruction and support services which account for 89.7 percent of the total expenses.

Governmental Activities

Revenues for governmental activities were \$13,663,405 for Fiscal 2005 and \$13,659,652 for Fiscal 2004. Expenses were \$12,834,856 for Fiscal 2005 and \$11,898,473 for Fiscal 2004. 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 | | Net Cost of Services | |
|----------------------------|------------------------|----------------------|----------------------|---------------------|
| | June 30, | | June 30, | |
| | 2005 | 2004 | 2005 | 2004 |
| Instruction | \$ 8,507,598 | \$ 7,795,596 | \$ 6,205,138 | \$ 5,718,238 |
| Support services | 3,556,054 | 3,327,838 | 3,322,364 | 3,030,909 |
| Non-instructional programs | -0- | -0- | -0- | -0- |
| Other expenses | 771,204 | 775,039 | 253,494 | 274,985 |
| Totals | <u>\$ 12,834,856</u> | <u>\$ 11,898,473</u> | <u>\$ 9,780,996</u> | <u>\$ 9,024,132</u> |

- The cost financed by users of the District's programs was \$1,475,789 for 2005 and \$1,294,949 for 2004.

- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,578,071 for 2005 and \$1,579,392 for 2004.
- The net cost of governmental activities was financed with:

| | <u>June 30, 2005</u> | <u>June 30, 2004</u> |
|------------------------|----------------------|----------------------|
| Property Taxes | \$ 4,166,664 | \$ 3,960,323 |
| Local Option Sales Tax | \$ 593,656 | \$ 575,473 |
| State Foundation Aid | \$ 5,732,387 | \$ 6,152,430 |
| Interest Income | \$ 84,716 | \$ 35,261 |
| Other Revenue | \$ 32,122 | \$ 61,824 |

Business-Type Activities

Revenues of the District's business-type activities were \$634,965 for 2005 and \$578,457 for 2004 and expenses were \$617,878 for 2005 and \$535,158 for 2004. 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, 2005, the District experienced an increase in the sale of meals, ala cart items and other food items. The additional revenues were used for the replacement of kitchen equipment.

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 \$5,277,203, well above last year's ending fund balances of \$5,055,857. The primary reasons for the increase in combined fund balances in fiscal 2005 is due to open enrollment in, federal programs, and maintaining excess revenues over expenditures. 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 open enrollment, and federal programs resulted in an increase in revenues. However, the primary reason for the increase in General Fund balance is maintaining a budget where revenues exceed expenditures.
- The General Fund balance increased from \$2,689,057 to \$3,041,803 due in part to open enrollment, and federal funding.
- The Physical, Plant and Equipment Levy (PEEL) Fund balance decreased from \$1,548,426 fiscal 2004 to \$1,406,225 fiscal 2005. The primary reason for the reduction was the use of fund balance for equipment, and building improvements and repairs.
- The Management Fund balance decreased due to a decreased property tax levy. The District used carryover fund balance to cover expenditures.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$173,983 at June 30, 2004 to \$191,070 at June 30, 2005, representing an increase of approximately 10%. As previously noted, the District experienced increased sales.

Budgetary Highlights

The District's total actual receipts were approximately \$118,000 more than the total budgeted receipts, a variance of .8%. The most significant variance resulted from District revenues from the direct bill Medicaid 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 exceeded its certified budget during the fiscal 2005 year. The School Nutrition fund exceeded its budget by \$12,930, the result of increases in food costs.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2005, 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 .5% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year exceeded \$411,000.

The original cost of the District's capital assets was \$12.3 million. Governmental funds account for \$12.2 million with the remainder of \$.1 million in the Proprietary, School Nutrition Fund.

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

| | Governmental Activities | | Business-type Activities | | Total School District | |
|--------------------------|-------------------------|--------------|--------------------------|-----------|-----------------------|--------------|
| | June 30, | | June 30, | | June 30, | |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Land | \$ 25,700 | \$ 25,700 | \$ -0- | \$ -0- | \$ 25,700 | \$ 25,700 |
| Land Improvements | \$ 193,625 | \$ 207,847 | \$ -0- | \$ -0- | \$ 193,625 | \$ 207,847 |
| Construction in Progress | \$ 3,565 | \$ 1,695 | \$ -0- | \$ -0- | \$ 3,565 | \$ 1,695 |
| Buildings | \$ 6,251,946 | \$ 6,236,324 | \$ -0- | \$ -0- | \$ 6,251,946 | \$ 6,236,324 |
| Furniture and equipment | \$ 573,064 | \$ 570,085 | \$ 94,920 | \$ 64,352 | \$ 667,984 | \$ 634,437 |
| Totals | \$ 7,047,900 | \$ 7,041,651 | \$ 94,920 | \$ 64,352 | \$ 7,142,820 | \$ 7,106,003 |

Long-Term Debt

At June 30, 2005, the District had \$3,449,973 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 15.2% 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.

| | Total School District | | Total Change |
|---------------------------|-----------------------|------------------|-----------------|
| | 2005 | 2004 | 2003-2004 |
| General obligation bonds | \$ 3,310,000 | 3,915,000 | (15.5) % |
| Notes payable | \$ 18,650 | 28,396 | (34.3) % |
| Early retirement benefits | \$ 82,659 | 60,138 | 37.5 % |
| Compensated absences | \$ 39,473 | 64,570 | (38.9) % |
| Totals | <u>\$ 3,450,782</u> | <u>4,068,104</u> | <u>(15.2) %</u> |

On March 15, 2005, the District issued general obligation bonds totaling \$2,210,000 with interest rates ranging from 2.25% to 2.85% to advance refund the District's 1999 general obligation refunding bonds totaling \$2,190,000 with interest rates ranging from 4.00% to 4.20%. As a result of the advance refunding, the District reduced its total debt service requirement by approximately \$29,272, which resulted in a net present value benefit of approximately \$26,677.

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 increase in revenues due to an increase in September 2004 enrollment used in calculating Fiscal 2006 funding. The increased revenues are not expected to cover increased costs. The District will use fund balance to cover expenses. The State of Iowa continues to see a decline in rural enrollment. The district anticipates enrollment will remain constant or decline.
- The District will negotiate a new agreement during fiscal 2006 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 and the City of Harlan, under the direction of the State Auditor's office, has terminated our 28E agreement that provided approximately \$145,000 to the District for economic development projects. The District will have to find other funding for those projects.
- The District has contracted with Heartland Family Services to setup Harlan Therapeutic School. The School is designed to meet the therapeutic needs of students that were previously transported to Council Bluffs and Omaha. The program will not be at full capacity until the 2006-2007 school year. The District anticipates the reduction in cost of transportation and tuition out plus additional revenues from other districts tuition in students will cover costs.
- The District's Superintendent has announced his retirement. The Board of Education is currently conducting the search for a replacement.

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

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005**

| | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|------------|
| Assets | | | |
| Cash and cash equivalents | \$ 6,179,366 | 127,512 | 6,306,878 |
| Receivables: | | | |
| Property tax: | | | |
| Current year | 62,477 | - | 62,477 |
| Succeeding year | 3,698,851 | - | 3,698,851 |
| Accounts | 109,849 | 2,324 | 112,173 |
| Accrued interest | 50,417 | - | 50,417 |
| Due from other governments | 174,674 | - | 174,674 |
| Inventories | - | 12,778 | 12,778 |
| Capital assets, net of accumulated depreciation | 7,047,900 | 94,920 | 7,142,820 |
| Total assets | 17,323,534 | 237,534 | 17,561,068 |
| Liabilities | | | |
| Accounts payable | 223,848 | 5,573 | 229,421 |
| Salaries and benefits payable | 1,068,139 | 33,578 | 1,101,717 |
| Accrued interest payable | 7,190 | - | 7,190 |
| Deferred revenue: | | | |
| Succeeding year property tax | 3,698,851 | - | 3,698,851 |
| Other | 6,771 | 7,313 | 14,084 |
| Long-term liabilities: | | | |
| Portion due within one year: | | | |
| Bonds payable | 660,000 | - | 660,000 |
| Notes payable | 4,170 | - | 4,170 |
| Early retirement benefits | 21,559 | - | 21,559 |
| Compensated absences | 39,473 | - | 39,473 |
| Portion due after one year: | | | |
| Bonds payable | 2,650,000 | - | 2,650,000 |
| Notes payable | 14,480 | - | 14,480 |
| Early retirement benefits | 61,100 | - | 61,100 |
| Total liabilities | 8,455,581 | 46,464 | 8,502,045 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 4,357,601 | 94,920 | 4,452,521 |
| Restricted for: | | | |
| Management levy | 198,057 | - | 198,057 |
| Physical plant and equipment levy | 768,042 | - | 768,042 |
| Other special revenue purposes | 541,923 | - | 541,923 |
| Unrestricted | 3,002,330 | 96,150 | 3,098,480 |
| Total net assets | \$ 8,867,953 | 191,070 | 9,059,023 |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005**

| | | Program Revenues | |
|---------------------------------|---------------|-------------------------|---|
| | Expenses | Charges for Service | Operating Grants, Contributions and Restricted Interest |
| Functions/Programs | | | |
| Governmental activities: | | | |
| Instruction: | | | |
| Regular instruction | \$ 5,436,202 | 855,717 | 408,961 |
| Special instruction | 1,490,215 | 170,997 | 298,046 |
| Other instruction | 1,581,181 | 431,003 | 137,736 |
| | 8,507,598 | 1,457,717 | 844,743 |
| Support services: | | | |
| Student services | 520,590 | - | 189,752 |
| Instructional staff services | 313,372 | - | - |
| Administration services | 1,025,960 | - | - |
| Operation and plant maintenance | 1,084,885 | 18,072 | 1 |
| Transportation services | 611,203 | - | 25,865 |
| Other support services | 44 | - | - |
| | 3,556,054 | 18,072 | 215,618 |
| Other expenditures: | | | |
| Long-term debt interest | 130,888 | - | 67,890 |
| AEA flowthrough | 449,820 | - | 449,820 |
| Depreciation (unallocated)* | 190,496 | - | - |
| | 771,204 | - | 517,710 |
| Total governmental activities | 12,834,856 | 1,475,789 | 1,578,071 |
| Business-type activities: | | | |
| Non-instructional programs: | | | |
| Nutrition services | 617,878 | 379,937 | 253,972 |
| Total | \$ 13,452,734 | 1,855,726 | 1,832,043 |

General Revenues:

Property tax levied for:
 General purposes
 Debt service
 Capital outlay
Local option sales tax
Unrestricted state grants
Unrestricted investment earnings
Other
Sale of assets
Transfers out
 Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

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

Net (Expense) Revenue and Changes in Net Assets

| <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|------------------------------------|-------------------------------------|--------------------|
| (4,171,524) | - | (4,171,524) |
| (1,021,172) | - | (1,021,172) |
| (1,012,442) | - | (1,012,442) |
| <u>(6,205,138)</u> | <u>-</u> | <u>(6,205,138)</u> |
| (330,838) | - | (330,838) |
| (313,372) | - | (313,372) |
| (1,025,960) | - | (1,025,960) |
| (1,066,812) | - | (1,066,812) |
| (585,338) | - | (585,338) |
| (44) | - | (44) |
| <u>(3,322,364)</u> | <u>-</u> | <u>(3,322,364)</u> |
| (62,998) | - | (62,998) |
| - | - | - |
| <u>(190,496)</u> | <u>-</u> | <u>(190,496)</u> |
| <u>(253,494)</u> | <u>-</u> | <u>(253,494)</u> |
| (9,780,996) | - | (9,780,996) |
| <u>-</u> | <u>16,031</u> | <u>16,031</u> |
| (9,780,996) | 16,031 | (9,764,965) |
| \$ 3,709,227 | - | 3,709,227 |
| 257,761 | - | 257,761 |
| 199,676 | - | 199,676 |
| 593,656 | - | 593,656 |
| 5,732,387 | - | 5,732,387 |
| 84,716 | 1,056 | 85,772 |
| 22,915 | - | 22,915 |
| 9,507 | - | 9,507 |
| (300) | - | (300) |
| <u>10,609,545</u> | <u>1,056</u> | <u>10,610,601</u> |
| 828,549 | 17,087 | 845,636 |
| <u>8,039,404</u> | <u>173,983</u> | <u>8,213,387</u> |
| <u>\$ 8,867,953</u> | <u>191,070</u> | <u>9,059,023</u> |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
GOVERNMENTAL FUND BALANCE SHEET
YEAR ENDED JUNE 30, 2005**

| | General | Special Revenue Physical Plant and Equipment Levy | Nonmajor Funds | Total |
|--|--------------|--|-------------------|------------|
| ASSETS | | | | |
| Assets: | | | | |
| Cash and pooled investments | \$ 4,044,393 | 1,398,941 | 736,032 | 6,179,366 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 52,678 | 3,185 | 6,614 | 62,477 |
| Succeeding year | 3,097,320 | 193,518 | 408,013 | 3,698,851 |
| Accounts | 17,356 | - | 92,493 | 109,849 |
| Accrued interest | 32,133 | 18,173 | 111 | 50,417 |
| Due from other governments | 174,674 | - | - | 174,674 |
| Total assets | \$ 7,418,554 | 1,613,817 | 1,243,263 | 10,275,634 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 204,521 | 13,906 | 5,421 | 223,848 |
| Salaries and benefits payable | 1,068,139 | - | - | 1,068,139 |
| Deferred revenue: | | | | |
| Succeeding year property tax | 3,097,320 | 193,518 | 408,013 | 3,698,851 |
| Other | 6,771 | 168 | 654 | 7,593 |
| Total liabilities | 4,376,751 | 207,592 | 414,088 | 4,998,431 |
| Fund balances: | | | | |
| Reserved for: | | | | |
| Debt service | - | - | 360,332 | 360,332 |
| Unreserved | 3,041,803 | 1,406,225 | 468,843 | 4,916,871 |
| Total fund balances | 3,041,803 | 1,406,225 | 829,175 | 5,277,203 |
| Total liabilities and fund balances | \$ 7,418,554 | 1,613,817 | 1,243,263 | 10,275,634 |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
YEAR ENDED JUNE 30, 2005**

| | | |
|---|-----------|-------------------------|
| Total fund balances of governmental funds | \$ | 5,277,203 |
| <i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i> | | |
| Capital assets used in governmental activities are not financial resources, and therefore, are not reported as assets in the governmental funds. | | 7,047,900 |
| Other long-term assets are not available to pay for current period expenditures, and therefore, are deferred in the governmental funds. | | 822 |
| 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. | | (7,190) |
| 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. | | <u>(3,450,782)</u> |
| Net assets of governmental activities | \$ | <u>8,867,953</u> |

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005**

| | General | Special Revenue Physical Plant and Equipment Levy | Nonmajor Funds | Total |
|--|---------------------|---|-------------------|-------------------|
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | \$ 3,600,826 | 200,547 | 978,056 | 4,779,429 |
| Tuition | 749,905 | - | - | 749,905 |
| Other | 380,532 | 62,448 | 458,426 | 901,406 |
| State sources | 6,597,218 | - | - | 6,597,218 |
| Federal sources | 645,349 | - | - | 645,349 |
| Total revenues | <u>11,973,830</u> | <u>262,995</u> | <u>1,436,482</u> | <u>13,673,307</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular instruction | 5,271,038 | 59,281 | 137,076 | 5,467,395 |
| Special instruction | 1,490,215 | - | - | 1,490,215 |
| Other instruction | 1,118,475 | - | 442,838 | 1,561,313 |
| | <u>7,879,728</u> | <u>59,281</u> | <u>579,914</u> | <u>8,518,923</u> |
| Support services: | | | | |
| Student services | 519,832 | - | - | 519,832 |
| Instructional staff services | 316,907 | - | - | 316,907 |
| Administration services | 963,597 | 4,993 | 84,447 | 1,053,037 |
| Operation and maintenance of plant services | 991,648 | 312,526 | 23,887 | 1,328,061 |
| Transportation services | 509,015 | - | 17,154 | 526,169 |
| Other support services | 44 | - | - | 44 |
| | <u>3,301,043</u> | <u>317,519</u> | <u>125,488</u> | <u>3,744,050</u> |
| Other expenditures: | | | | |
| Long-term debt: | | | | |
| Principal | - | - | 653,396 | 653,396 |
| Interest and fiscal charges | - | - | 119,264 | 119,264 |
| AEA flowthrough | 449,820 | - | - | 449,820 |
| Total | <u>449,820</u> | <u>-</u> | <u>772,660</u> | <u>1,222,480</u> |
| | <u>11,630,591</u> | <u>376,800</u> | <u>1,478,062</u> | <u>13,485,453</u> |
| Excess (deficiency) of revenues over (under) expenditures | 343,239 | (113,805) | (41,580) | 187,854 |
| Other financing sources (uses): | | | | |
| Sale of fixed assets | 9,507 | - | - | 9,507 |
| Loan proceeds | 18,650 | - | - | 18,650 |
| Sale of general obligation bonds, net of discount | - | - | 2,195,635 | 2,195,635 |
| Advance refunding of general obligation debt | - | - | (2,190,000) | (2,190,000) |
| Operating transfers in | - | - | 621,664 | 621,664 |
| Operating transfers out | (18,650) | (28,396) | (574,918) | (621,964) |
| Total other financing sources (uses) | <u>9,507</u> | <u>(28,396)</u> | <u>52,381</u> | <u>33,492</u> |
| Net change in fund balances | 352,746 | (14,201) | 10,801 | 221,346 |
| Fund balances beginning of year | <u>2,689,057</u> | <u>1,548,426</u> | <u>818,374</u> | <u>5,055,857</u> |
| Fund balances end of year | <u>\$ 3,041,803</u> | <u>1,406,225</u> | <u>829,175</u> | <u>5,277,203</u> |

See notes to financial statements

**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, 2005**

Net change in fund balances – total governmental funds \$ 221,346

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 | \$ 407,258 | |
| Depreciation expense | <u>(401,009)</u> | 6,249 |

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. (19,109)

Issuance of long-term debt principal is an other financing source in the governmental funds, but it increases long-term liabilities in the Statement of Net Assets. (2,228,650)

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. 2,843,396

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. 2,741

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 | (22,521) | |
| Compensated absences | <u>25,907</u> | <u>2,576</u> |

Change in net assets of governmental activities **\$ 828,549**

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005**

| | | School Nutrition |
|---|----|---------------------|
| Assets | | |
| Cash and cash equivalents | \$ | 127,512 |
| Accounts receivable | | 2,324 |
| Inventories | | 12,778 |
| Capital assets, net of accumulated depreciation | | 94,920 |
| Total assets | | 237,534 |
| Liabilities | | |
| Accounts payable | | 5,573 |
| Salaries and benefits payable | | 33,578 |
| Deferred revenue | | 7,313 |
| Total liabilities | | 46,464 |
| Net Assets | | |
| Invested in capital assets, net of related debt | | 94,920 |
| Unrestricted | | 96,150 |
| Total net assets | \$ | 191,070 |

See notes to financial statements
HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

| | <u>School Nutrition</u> |
|------------------------------|-----------------------------|
| Operating revenue: | |
| Local sources: | |
| Charges for service | \$ 379,937 |
| Operating expenses: | |
| Non-instructional programs: | |
| Food service operations: | |
| Salaries | 242,288 |
| Benefits | 35,053 |
| Purchased services | 8,552 |
| Supplies | 321,598 |
| Depreciation | 10,387 |
| Total operating expenses | <u>617,878</u> |
| Operating loss | (237,941) |
| Non-operating revenue: | |
| State sources | 8,253 |
| Federal sources | 245,719 |
| Interest on investments | 1,056 |
| Total non-operating revenue | <u>255,028</u> |
| Change in net assets | 17,087 |
| Net assets beginning of year | <u>173,983</u> |
| Net assets end of year | <u>\$ 191,070</u> |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005**

| | School Nutrition |
|--|---------------------|
| Cash flows from operating activities: | |
| Cash received from sale of lunches and breakfasts | \$ 377,937 |
| Cash payments to employees for services | (276,820) |
| Cash payments to suppliers for goods or services | (280,155) |
| Net cash used in operating activities | (179,038) |
| Cash flows from non-capital financing activities: | |
| State grants received | 8,253 |
| Federal grants received | 206,025 |
| Net cash provided by non-capital financing sources | 214,278 |
| Cash flows from capital and related financing activities: | |
| Acquisition of capital assets | (40,955) |
| Cash flows from investing activities: | |
| Interest on investments | 1,056 |
| Net decrease in cash and cash equivalents | (4,659) |
| Cash and cash equivalents, beginning of year | 132,171 |
| Cash and cash equivalents, end of year | \$ 127,512 |
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss | \$ (237,941) |
| Commodities used | 39,694 |
| Depreciation | 10,387 |
| Increase in receivables | (2,324) |
| Decrease in inventories | 6,759 |
| Increase in accounts payable | 3,542 |
| Increase in salaries and benefits payable | 521 |
| Increase in deferred revenue | 324 |
| Net cash used in operating activities | \$ (179,038) |

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$39,694 of federal commodities.

See notes to financial statements
HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS – FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2005

| | Private Purpose Trust <u>Scholarshi p</u> | Agency <u></u> |
|------------------------------|--|-------------------|
| Assets | | |
| Cash and pooled investments | \$ 28,405 | \$ 5,202 |
| Accrued interest receivables | 5 | - |
| Total assets | <u>28,410</u> | <u>5,202</u> |
| Liabilities | | |
| Accounts payable | - | 32 |
| Due to other governments | - | 5,170 |
| Total liabilities | <u>-</u> | <u>5,202</u> |
| Net Assets | | |
| Reserved for scholarships | \$ <u>28,410</u> | \$ <u>-</u> |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS – FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2005**

| | | Private Purpose Trust <hr/> Scholarshi p <hr/> |
|------------------------------|----|---|
| Additions: | | |
| Local sources: | | |
| Gifts and contributions | \$ | 3,250 |
| Interest | | 405 |
| Transfers from other funds | | <u>300</u> |
| Total additions | | 3,955 |
| Deductions: | | |
| Support services: | | |
| Scholarship awarded | | <u>3,595</u> |
| Change in net assets | | 360 |
| Net assets beginning of year | | <u>28,050</u> |
| Net assets end of year | \$ | <u><u>28,410</u></u> |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

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 pre-kindergarten through twelve. 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:

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

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.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

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.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 1 Summary of Significant Accounting Policies (continued)

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

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

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net 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.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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.

| <u>Asset Class</u> | <u>Amount</u> |
|-----------------------------------|---------------|
| 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 |

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

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:

| <u>Asset Class</u> | <u>Estimated Useful Lives</u> |
|-----------------------------------|-------------------------------|
| 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, 2005. 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.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

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, 2005, disbursements in the non-instructional programs function exceeded the amount budgeted. 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, 2005 were entirely covered by federal depository insurance, or by the State Sinking Fund, in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

| Type | Amortized Cost |
|-----------------------|-------------------|
| Diversified Portfolio | \$ <u>255,538</u> |

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

The District's investments at June 30, 2005 are as follows:

| | Carrying | Fair |
|--|----------|------|
|--|----------|------|

| <u>Type</u> | <u>Amount</u> | <u>Value</u> |
|----------------------------|-------------------|-------------------|
| U.S. government securities | \$ <u>210,000</u> | \$ <u>209,072</u> |

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 2 Cash and Pooled Investments - Continued

Interest rate risk

The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk

The investments in the Iowa Schools Joint Investment Trust and U.S. government securities were both rated Aaa by Moody's Investors Service.

NOTE 3 Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|--------------------------------------|--|-------------------|
| Debt Service | Capital Projects | \$ 586,629 |
| | Special Revenue: | |
| | Physical Plant and Equipment Levy Activity | 28,396 |
| Private Purpose Trust Scholarship | Special Revenue: Student Activity | <u>300</u> |
| | | \$ <u>615,325</u> |

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 4 Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|----------------|--------------|---------------------------|
| Governmental activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 25,700 | - | - | 25,700 |
| Construction in progress | 1,695 | 3,565 | 1,695 | 3,565 |
| Total capital assets not being depreciated | <u>27,395</u> | <u>3,565</u> | <u>1,695</u> | <u>29,265</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 9,048,867 | 205,966 | - | 9,254,833 |
| Improvements other than buildings | 468,442 | 3,067 | - | 471,509 |
| Furniture and equipment | 2,280,891 | 196,355 | - | 2,477,246 |
| Total capital assets being depreciated | <u>11,798,200</u> | <u>405,388</u> | <u>-</u> | <u>12,203,588</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 2,812,543 | 190,344 | - | 3,002,887 |
| Improvements other than buildings | 260,595 | 17,289 | - | 277,884 |
| Furniture and equipment | 1,710,806 | 193,376 | - | 1,904,182 |
| Total accumulated depreciation | <u>4,783,944</u> | <u>401,009</u> | <u>-</u> | <u>5,184,953</u> |
| Total capital assets being depreciated, net | <u>7,014,256</u> | <u>4,379</u> | <u>-</u> | <u>7,018,635</u> |
| Governmental activities capital assets, net | <u>\$ 7,041,651</u> | <u>7,944</u> | <u>1,695</u> | <u>7,047,900</u> |
| | | | | |
| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
| Business-type activities: | | | | |
| Furniture and equipment | \$ 146,769 | 40,955 | - | 187,724 |
| Less accumulated depreciation | 82,417 | 10,387 | - | 92,804 |
| Business-type activities capital assets, net | <u>\$ 64,352</u> | <u>30,568</u> | <u>-</u> | <u>94,920</u> |

Depreciation expense was charged by the District as follows:

| | |
|------------------------------------|----------------|
| Governmental activities: | |
| Instruction: | |
| Regular | \$ 39,361 |
| Other | 23,168 |
| Support Services: | |
| Student services | 758 |
| Instructional staff | 727 |
| Administration | 2,811 |
| Operation and maintenance of plant | 60,130 |
| Transportation | 83,558 |
| | <u>210,513</u> |

| | |
|--|-------------------|
| Unallocated depreciation | <u>190,496</u> |
| Total governmental activities depreciation expense | \$ <u>401,009</u> |
| Business-type activities: | |
| Food services | \$ <u>10,387</u> |

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 5 Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005 are summarized as follows:

| | Balance Beginning of Year | Additions | Reductions | Balance End of Year | Due Within One Year |
|----------------------------|---------------------------------|------------------|------------------|---------------------------|---------------------------|
| General obligation bonds | \$ 2,815,000 | 2,210,000 | 2,815,000 | 2,210,000 | 660,000 |
| Revenue bonds | 100,000 | - | - | 100,000 | - |
| Quality Zone Academy bonds | 1,000,000 | - | - | 1,000,000 | - |
| Bus Barn loan | 28,396 | - | 28,396 | - | - |
| Truck loan | - | 18,650 | - | 18,650 | 4,170 |
| Early retirement | 60,138 | 40,535 | 18,014 | 82,659 | 21,559 |
| Compensated absences | 64,570 | - | 25,097 | 39,473 | 39,473 |
| Total | <u>\$ 4,068,104</u> | <u>2,269,185</u> | <u>2,886,507</u> | <u>3,450,782</u> | <u>725,202</u> |

Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

| Year Ending June 30, | Refunding Bond Issue of March 15, 2005 | | | |
|----------------------------|--|---------------------|----------------|------------------|
| | Interest Rates | Principal | Interest | Total |
| 2006 | 2.25-2.40% | \$ 660,000 | 65,477 | 725,477 |
| 2007 | 2.55-2.65% | 695,000 | 37,331 | 732,331 |
| 2008 | 2.70-2.80% | 710,000 | 18,865 | 728,865 |
| 2009 | 2.85% | 145,000 | 2,066 | 147,066 |
| | | <u>\$ 2,210,000</u> | <u>123,739</u> | <u>2,333,739</u> |

Revenue Bonds Payable

Details of the District's June 30, 2005 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 |
| 2006 | 4.50 % | \$ - | 4,500 | 4,500 |
| 2007 | 4.50 % | - | 4,500 | 4,500 |
| 2008 | 4.50 % | - | 4,500 | 4,500 |
| 2009 | 4.50 % | 100,000 | 2,250 | 102,250 |
| | | <u>\$ 100,000</u> | <u>15,750</u> | <u>115,750</u> |

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 5 Long-Term Liabilities (continued)

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.

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, 2005 totaled \$18,014. A liability has been recorded in the District-wide financial statements representing the District's commitment to fund early retirement benefits.

Truck Loan

Details of the District's June 30, 2005 Truck Loan are as follows:

| Year Ending June 30, | Truck Loan | | | |
|----------------------------|---------------|-----------|----------|----------|
| | Interest Rate | Principal | Interest | Total |
| 2006 | 7.50% | \$ 4,170 | \$ 1,399 | \$ 5,569 |
| 2007 | 7.50% | 4,483 | 1,086 | 5,569 |
| 2008 | 7.50% | 4,819 | 750 | 5,569 |
| 2009 | 7.50% | 5,178 | 391 | 5,569 |
| | | \$ 18,650 | 3,626 | 22,276 |

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 6 Advance Refunding Debt

On March 15, 2005, the District issued general obligation bonds totaling \$2,210,000 with interest rates ranging from 2.25% to 2.85% to advance refund the District's 1999 general obligation refunding bonds totaling \$2,190,000 with interest rates ranging from 4.00% to 4.20%. The original bonds mature between December 1, 2005 and December 1, 2008. The holders of these bonds were directed to present them for payment on or before June 1, 2005. As a result of the advance refunding, the District reduced its total debt service requirement by approximately \$29,272, which resulted in a net present value benefit of approximately \$26,677.

The proceeds of the 1999 refunding issue had been held in an escrow account to service the old debt. During the year, the escrow paid off the \$4,295,000 bonds outstanding and made interest payments of \$234,363.

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, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003, were \$436,227, \$400,394, and \$384,619, respectively, equal to the required contributions for each year.

NOTE 8 Risk Management

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

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 \$449,820 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 10 28E Agreement

The Harlan Community School District received tax increment financing revenues of \$129,307 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. A special committee has been formed to determine that funds spent are consistent with the City's TIF plan, as required by Chapter 403B of the Code of Iowa.

NOTE 11 Subsequent Events

In July 2005, the District entered into an agreement for one year with Heartland Family Service for a therapeutic education center. The District agreed to pay \$427,561 for purchase of services based on a proposed budget for ten students and 190 school days.

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, 2005**

| | <u>Governmental Fund Types Actual</u> | <u>Proprietary Fund Types Actual</u> | <u>Total Actual</u> |
|---|---|--|-------------------------|
| Receipts: | | | |
| Local sources | \$ 6,369,139 | 378,993 | 6,748,132 |
| State sources | 6,631,487 | 8,253 | 6,639,740 |
| Federal sources | 591,273 | 206,025 | 797,298 |
| Total receipts | <u>13,591,899</u> | <u>593,271</u> | <u>14,185,170</u> |
| Disbursements: | | | |
| Instruction | 8,414,517 | - | 8,414,517 |
| Support services | 3,805,591 | - | 3,805,591 |
| Non-instructional programs | - | 597,930 | 597,930 |
| Other expenditures | 1,219,657 | - | 1,219,657 |
| Total disbursements | <u>13,439,765</u> | <u>597,930</u> | <u>14,037,695</u> |
| Excess (deficiency) of receipts over (under) disbursements | 152,134 | (4,659) | 147,475 |
| Other financing sources, net | <u>33,492</u> | <u>-</u> | <u>33,492</u> |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | 185,626 | (4,659) | 180,967 |
| Balances beginning of year | <u>5,993,740</u> | <u>132,171</u> | <u>6,125,911</u> |
| Balances end of year | <u>\$ 6,179,366</u> | <u>127,512</u> | <u>6,306,878</u> |

See Accompanying Independent Auditors' Report

| <u>Budgeted Amounts</u> Original | <u>Final to Actual Variance Positive (Negative)</u> |
|---|---|
| 6,687,899 | 60,233 |
| 6,714,647 | (74,907) |
| <u>664,100</u> | <u>133,198</u> |
| 14,066,646 | 118,524 |
| | |
| 9,025,000 | 610,483 |
| 3,931,604 | 126,013 |
| 585,000 | (12,930) |
| <u>1,255,540</u> | <u>35,883</u> |
| 14,797,144 | 759,449 |
| | |
| (730,498) | 877,973 |
| <u>-</u> | <u>33,492</u> |
| | |
| (730,498) | 911,465 |
| <u>5,347,279</u> | <u>778,632</u> |
| <u>4,616,781</u> | <u>1,690,097</u> |

**HARLAN COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE – BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005**

| | Governmental Fund Types | | |
|-------------------------|--------------------------------|------------------------|---------------------------|
| | Cash Basis | Accrual Adjustments | Modified Accrual Basis |
| Revenues | \$ 13,591,899 | 81,408 | 13,673,307 |
| Expenditures | 13,439,765 | 45,688 | 13,485,453 |
| Net | 152,134 | 35,720 | 187,854 |
| Other financing sources | 33,492 | - | 33,492 |
| Beginning fund balances | 5,993,740 | (937,883) | 5,055,857 |
| Ending fund balances | \$ 6,179,366 | (902,163) | 5,277,203 |

| | Proprietary Fund Types | | |
|-------------------------|-------------------------------|------------------------|---------------------------|
| | Cash Basis | Accrual Adjustments | Modified Accrual Basis |
| Revenues | \$ 593,271 | 41,694 | 634,965 |
| Expenditures | 597,930 | 19,948 | 617,878 |
| Net | (4,659) | 21,746 | 17,087 |
| Beginning fund balances | 132,171 | 41,812 | 173,983 |
| Ending fund balances | \$ 127,512 | 63,558 | 191,070 |

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2005**

This budgetary comparison is presented as Required Supplementary Information in accordance with *Governmental Accounting Standards Board (GASB) Statement No. 41* for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the 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 ended June 30, 2005, disbursements in the non-instructional programs function exceeded the amount 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, 2005**

| | Special Revenue | | |
|------------------------------------|--------------------|---------------------|-----------------|
| | Management Levy | Student Activity | Debt Service |
| Assets | | | |
| Assets: | | | |
| Cash and pooled investments | \$ 277,995 | 101,545 | 356,439 |
| Receivables: | | | |
| Property Tax: | | | |
| Current year | 2,721 | - | 3,893 |
| Succeeding year | 222,380 | - | 185,633 |
| Accounts | - | - | - |
| Accrued interest | - | 111 | - |
| | \$ 503,096 | 101,656 | 545,965 |
| Liabilities and Fund Equity | | | |
| Liabilities: | | | |
| Accounts payable | \$ - | 5,421 | - |
| Deferred revenue: | | | |
| Succeeding year property tax | 222,380 | - | 185,633 |
| Other | 654 | - | - |
| Total liabilities | 223,034 | 5,421 | 185,633 |
| Fund balances: | | | |
| Reserved for: | | | |
| Debt Service | - | - | 360,332 |
| Unreserved | 280,062 | 96,235 | - |
| Total fund balances | 280,062 | 96,235 | 360,332 |
| Total liabilities and fund equity | \$ 503,096 | 101,656 | 545,965 |

See Accompanying Independent Auditors' Report

Schedule 1

| <u>Capital Projects</u> Local Option Sales and Service Tax | <u>Total</u> |
|---|------------------|
| 53 | 736,032 |
| - | 6,614 |
| - | 408,013 |
| 92,493 | 92,493 |
| - | 111 |
| <u>92,546</u> | <u>1,243,263</u> |
| - | 5,421 |
| - | 408,013 |
| - | 654 |
| <u>-</u> | <u>414,088</u> |
| - | 360,332 |
| <u>92,546</u> | <u>468,843</u> |
| <u>92,546</u> | <u>829,175</u> |
| <u>92,546</u> | <u>1,243,263</u> |

Schedule 2

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES – NONMAJOR FUNDS
YEAR ENDED JUNE 30, 2005**

| | Special Revenue | | |
|--|--------------------|---------------------|-----------------|
| | Management Levy | Student Activity | Debt Service |
| Revenues: | | | |
| Local sources: | | | |
| Local Tax | \$ 125,572 | - | 258,828 |
| Other | 10,487 | 432,496 | 15,442 |
| Total revenues | 136,059 | 432,496 | 274,270 |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular instruction | 137,076 | - | - |
| Other instruction | - | 442,838 | - |
| | 137,076 | 442,838 | - |
| Support services: | | | |
| Administration services | 84,447 | - | - |
| Operation and maintenance of plant services | 23,887 | - | - |
| Transportation services | 17,154 | - | - |
| | 125,488 | - | - |
| Other expenditures: | | | |
| Long-term debt: | | | |
| Principal | - | - | 2,843,396 |
| Interest and fiscal charges | - | - | 119,264 |
| | - | - | 2,962,660 |
| Total expenditures | 262,564 | 442,838 | 2,962,660 |
| Excess (deficiency) of revenues over (under) expenditures | (126,505) | (10,342) | (2,688,390) |
| Other financing sources (uses): | | | |
| Sale of general obligation bonds net of discount | - | - | 2,195,635 |
| Operating transfers in | - | 18,650 | 603,014 |
| Operating transfers out | - | (300) | - |
| | - | 18,350 | 2,798,649 |
| Net changes in fund balances | (126,505) | 8,008 | 110,259 |
| Fund balances beginning of year | 406,567 | 88,227 | 250,073 |
| Fund balances end of year | \$ 280,062 | 96,235 | 360,332 |

See Accompanying Independent Auditors' Report

Schedule 2

| <u>Capital Projects</u> | |
|--|------------------|
| Local Option Sales and Service Tax | <u>Total</u> |
| 593,656 | 978,056 |
| <u>1</u> | <u>458,426</u> |
| 593,657 | 1,436,482 |
| - | 137,076 |
| - | <u>442,838</u> |
| - | 579,914 |
| - | 84,447 |
| - | 23,887 |
| - | <u>17,154</u> |
| - | 125,488 |
| - | 2,843,396 |
| - | <u>119,264</u> |
| - | <u>2,962,660</u> |
| - | <u>3,668,062</u> |
| 593,657 | (2,231,580) |
| - | 2,195,635 |
| - | 621,664 |
| <u>(574,618)</u> | <u>(574,918)</u> |
| <u>(574,618)</u> | <u>2,242,381</u> |
| 19,039 | 10,801 |
| <u>73,507</u> | <u>818,374</u> |
| <u>92,546</u> | <u>829,175</u> |

HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGE IN SPECIAL REVENUE - STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2005

| | Balance Beginning of Year | Revenues | Expenditures | Intrafund Transfers | Interfund Transfers | Balance End of Year |
|------------------------|---------------------------------|----------------|----------------|------------------------|------------------------|---------------------------|
| Drama | \$ 2,995 | 1,139 | 563 | - | - | 3,571 |
| Thespians | 459 | 6 | - | - | - | 465 |
| HS vocal music | 2,903 | 1,887 | 2,771 | 575 | - | 2,594 |
| MS vocal music | 440 | 316 | 471 | - | - | 285 |
| HS instrumental music | 2,592 | 5,599 | 8,083 | 1,000 | - | 1,108 |
| HS jazz | 3,868 | 4,248 | 5,503 | - | - | 2,613 |
| MS flag corp | 265 | 3 | - | - | - | 268 |
| Honor choir | 714 | 1,171 | 1,215 | - | - | 670 |
| HS flag corp | 43 | 939 | 772 | - | - | 210 |
| Baton | 1,348 | 11 | 534 | - | - | 825 |
| Athletics | (3,473) | 188,070 | 185,262 | 13,713 | (300) | 12,748 |
| Soccer | 6,111 | 3,720 | 4,999 | (4,832) | - | - |
| Activity tickets | 126 | 16,377 | - | (16,348) | - | 155 |
| Towel rental | 299 | 24 | - | - | - | 323 |
| Cheerleaders | 4,121 | 10,576 | 14,293 | 1,326 | - | 1,730 |
| Cyclone publications | (392) | - | - | 392 | - | - |
| FFA | 13,766 | 45,798 | 45,513 | (392) | - | 13,659 |
| Harpoon | 12,166 | 8,228 | 9,285 | 1,000 | - | 12,109 |
| National honor society | 638 | 227 | 1,238 | 1,500 | - | 1,127 |
| OE | 1,637 | 21,062 | 24,313 | 3,100 | - | 1,486 |
| Science club | 477 | 6 | - | - | - | 483 |
| Spanish club | 1,972 | 25 | 67 | - | - | 1,930 |
| Student council | 3,981 | 7,835 | 11,967 | 1,795 | - | 1,644 |
| Pom pom | 2,402 | 2,401 | 1,135 | (204) | - | 3,464 |
| Odyssey of the mind | 4,602 | 1,854 | 8,659 | 3,975 | - | 1,772 |
| Key Club | 226 | 2 | 126 | - | - | 102 |
| For the birds | 1,020 | 1,392 | 578 | (300) | - | 1,534 |
| Speech | 1,364 | 526 | 1,599 | - | - | 291 |
| FEA Club | 1,448 | 19 | - | - | - | 1,467 |
| Class of 2005 | 551 | 926 | 204 | (1,000) | - | 273 |
| Class of 2006 | 1,046 | 1,224 | - | (2,000) | - | 270 |
| Class of 2007 | 1,452 | 3,221 | 1,818 | - | - | 2,855 |
| Class of 2008 | - | 1,123 | - | - | - | 1,123 |
| NP Student fund | 916 | 2,586 | 1,844 | 100 | - | 1,758 |
| Prom | 813 | 7,752 | 17,253 | 8,700 | - | 12 |
| WR student store | 898 | 2,060 | 880 | - | - | 2,078 |
| WR student fund | 31 | 5,933 | 4,337 | 100 | - | 1,727 |
| HS miscellaneous | - | 9,044 | 9,020 | - | - | 24 |
| HS activity | - | 11 | - | - | - | 11 |
| Concessions | 2,723 | 29,624 | 22,538 | (7,380) | - | 2,429 |
| Vending | 10,132 | 19,093 | 12,477 | (4,200) | - | 12,548 |
| MS cheerleading | 312 | 1,697 | 2,511 | 510 | - | 8 |
| MS vending | 571 | 13,428 | 13,348 | (510) | - | 141 |
| MS student council | 77 | 4,418 | 3,503 | (620) | - | 372 |
| MS yearbook | - | 3,158 | 1,818 | - | - | 1,340 |
| MS drama | 193 | 2,084 | 2,104 | - | - | 173 |
| JR NHS | 190 | 169 | 319 | - | - | 40 |
| MS student fund | (24) | 1,494 | 1,269 | - | - | 201 |
| Interest | 228 | - | 9 | - | - | 219 |
| Total | \$ 88,227 | 432,506 | 424,198 | - | (300) | 96,235 |

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
YEAR ENDED JUNE 30, 2005**

| | Balance Beginning of Year | Additions | Deductions | Balance End of Year |
|--------------------------|---------------------------------|--------------|--------------|---------------------------|
| Assets | | | | |
| Cash | \$ 3,882 | 6,938 | 5,618 | 5,202 |
| Total assets | <u>3,882</u> | <u>6,938</u> | <u>5,618</u> | <u>5,202</u> |
| Liabilities | | | | |
| Accounts payable | - | 32 | - | 32 |
| Due to other governments | 3,882 | 6,906 | 5,618 | 5,170 |
| Total liabilities | <u>\$ 3,882</u> | <u>6,938</u> | <u>5,618</u> | <u>5,202</u> |

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 | | | |
|--|------------------------|-------------------|-------------------|-------------------|
| | 2005 | 2004 | 2003 | 2002 |
| Revenues: | | | | |
| Local sources: | | | | |
| Local Tax | \$ 4,779,429 | 5,101,138 | 4,136,613 | 3,912,529 |
| Tuition | 749,905 | 602,786 | 502,283 | 475,736 |
| Other | 901,406 | 883,294 | 1,489,460 | 1,360,079 |
| Intermediate sources | - | - | - | 3,262 |
| State sources | 6,597,218 | 6,448,278 | 6,487,078 | 6,519,323 |
| Federal sources | 645,349 | 608,956 | 402,029 | 312,404 |
| Total | <u>\$ 13,673,307</u> | <u>13,644,452</u> | <u>13,017,463</u> | <u>12,583,333</u> |
| Expenditures: | | | | |
| Instruction: | | | | |
| Regular instruction | \$ 5,467,395 | 4,939,245 | 4,528,582 | 4,653,768 |
| Special instruction | 1,490,215 | 2,266,553 | 1,617,296 | 1,482,343 |
| Other instruction | 1,561,313 | 687,968 | 1,173,712 | 1,344,483 |
| Support services: | | | | |
| Student services | 519,832 | 407,190 | 372,737 | 373,175 |
| Instructional staff services | 316,907 | 321,182 | 318,000 | 371,679 |
| Administration services | 1,053,037 | 992,831 | 985,072 | 1,004,078 |
| Operation and maintenance of plant services | 1,328,061 | 1,180,069 | 1,079,956 | 1,060,083 |
| Transportation services | 526,169 | 620,668 | 505,287 | 506,234 |
| Non-instructional programs | 44 | 636 | 47 | - |
| Other expenditures: | | | | |
| Facilities acquisition | - | 44,707 | 132,140 | 35,015 |
| Long-term debt: | | | | |
| Principal | 653,396 | 623,396 | 609,391 | 555,000 |
| Interest and fiscal charges | 119,264 | 137,591 | 160,655 | 182,200 |
| AEA flowthrough | 449,820 | 457,745 | 488,937 | 494,264 |
| Total | <u>\$ 13,485,453</u> | <u>12,679,781</u> | <u>11,971,812</u> | <u>12,062,322</u> |

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005**

| <u>Grantor/Program</u> | <u>CFDA Number</u> | <u>Grant Number</u> | <u>Expenditures</u> |
|--|------------------------|-------------------------|---------------------|
| Indirect: | | | |
| U.S. Department of Agriculture: | | | |
| Iowa Department of Education: | | | |
| Food Distribution (non-cash) | 10.550 | FY05 | \$ 39,694 |
| School Nutrition Cluster Programs: | | | |
| School Breakfast Program | 10.553 | FY05 | 27,232 |
| National School Lunch Program | 10.555 | FY05 | 177,876 |
| | | | <u>205,108</u> |
| U.S. Environmental Protection Agency- | | | |
| Office of Water | | | |
| Iowa Department of Natural Resources | | | |
| Nonpoint Source Implementation Grant | 66.460 | FY05 | 57,586 |
| U.S. Department of Education: | | | |
| Iowa Department of Education: | | | |
| Title I Grants to Local Educational Agencies | 84.010 | FY05 | 184,712 |
| Vocational Education – Basic Grants to States | 84.048 | FY05 | 18,975 |
| Safe and Drug-Free Schools and Communities - | | | |
| State Grants | 84.186 | FY05 | 7,179 |
| State Grants for Innovative Programs | 84.298 | FY05 | 23,682 |
| Improving Teacher Quality State Grants | 84.367 | FY05 | 63,854 |
| Loess Hills Area Education Agency: | | | |
| Individuals with Disabilities Education Act (IDEA) | | | |
| Special Education – Grants to State | 84.027 | FY05 | 82,472 |
| U.S. Department of Health and Human Services: | | | |
| Shelby County: | | | |
| Promoting Safe and Stable Families | 93.556 | FY05 | 17,137 |
| Crawford County: | | | |
| Medical Assistance Program | 93.778 | FY05 | 1,025 |
| | | | <u>1,025</u> |
| Total | | | \$ <u>701,424</u> |

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 ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

September 9, 2005

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

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

We have audited the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund balance information of the Harlan Community School District as of and for the year ended June 30, 2005, and have issued our report thereon dated September 9, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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.

Continued. . .

September 9, 2005
Harlan Community School District
Internal Control Report

Compliance and Other Matters

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 grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of 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.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 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.

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, 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.

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
IN ACCORDANCE WITH OMB CIRCULAR A-133**

September 9, 2005

**Independent Auditors' Report on Compliance
With Requirements Applicable to Each Major Program
and Internal Control Over Compliance
In Accordance With OMB Circular A-133**

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, 2005. 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 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, 2005.

Continued. . .

September 9, 2005
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 grant agreements 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 grant agreements caused by error or fraud 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, 2005**

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, 2005**

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, 2005**

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, 2005**

Part IV: Other Findings Related to Statutory Reporting:

IV-A-05 Official Depositories – Officials depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

IV-B-05 Certified Budget - Disbursements for the year ended June 30, 2005 exceeded the amounts budgeted in the non-instruction programs function.

Recommendation – The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will amend our budget before disbursements exceed the budget.

Conclusion – Response accepted.

IV-C-05 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-05 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-05 Business Transactions – Business transactions between the District and District officials or employees are detailed as follows:

| <u>Name, Title and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|--|--|---------------|
| Kathy and Joan Chamberlain, employees, own shares in Chamberlain Brothers Lumber | Building repairs and maintenance supplies | \$ 8,835 |

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-05 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.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

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

IV-G-05 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-H-05 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.

IV-I-05 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-05 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-05 Publications – The School District entered into a loan agreement for the purchase of equipment but did not properly publish notice.

Recommendation – In accordance with Chapter 279.48 of the Code of Iowa, before entering into such an agreement, the District must publish a notice, including a statement of the amount and purpose of the agreement at least once in the newspaper at least ten days before the agreement is to be approved.

Response – We will follow the proper procedures in the future.

Conclusion – Response acknowledged.

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 \$14,298,370 for the year ended June 30, 2005, a .4 percent increase from the prior year. Revenues included \$4,166,664, in local tax, charges for service of \$1,855,726, operating grants, contributions and restricted interest of \$1,832,043, unrestricted interest of \$85,772, and other general revenues of \$6,358,165.

Expenses for District operation totaled \$13,452,734, an 8.2 percent increase from the prior year. Expenses included \$5,436,202 for regular instruction, \$1,581,181 for other instruction, and \$1,490,215 for special instruction.

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 14, 2005

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, 2005. Please review it and let me know if you have any changes. I still need your updated MD & A.

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