

HARLAN COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2007

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HARLAN COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2006 Election)		
Steve Kenkel	President	2008
Susan Larson, Christensen	Vice President	2007
Steve Finn	Board Member	2006
Tammy Schwartz	Board Member	2006
Al Hazelton	Board Member	2007
Bruce Goeser	Board Member	2008
Tony Hough	Board Member	2008
<u>Board of Education</u>		
(After September 2006 Election)		
Steve Kenkel	President	2008
Susan Larson, Christensen	Vice President	2007
Al Hazelton	Board Member	2007
Bruce Goeser	Board Member	2008
Tony Hough	Board Member	2008
Steve Finn	Board Member	2009
Tammy Schwartz	Board Member	2009
<u>School Officials</u>		
Bill Decker	Superintendent	2007
Terri Cox	Director of Personnel/Board Secretary	2007
John Helling	District Treasurer	2007
Kristy Hansen	Director of Finance	2007
Richard Schenck	Attorney	2007

HARLAN COMMUNITY SCHOOL DISTRICT

November 28, 2007

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, 2007, 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, 2007, 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 November 28, 2007, 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 . . .

November 28, 2007
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 47 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harlan Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006, (none of which are presented herein) and expressed an unqualified opinion 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, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 Financial Highlights

- General Fund revenues increased \$991,977 from \$12,536,382 in fiscal 2006 to \$13,528,359 in fiscal 2007, while General Fund expenditures increased \$775,108 from \$12,406,776 in fiscal 2006 to \$13,181,884 in fiscal 2007. The net increase in revenues and expenditures resulted in an increase in the District's General Fund balance from \$3,074,632 in fiscal 2006 to \$3,419,834 in fiscal 2007 a 11.2 percent increase from the prior year.
- The increase in General Fund revenues was attributable to open enrollment, Special Education tuition, State Teacher Compensation, and State Foundation Aid in fiscal 2007. The increase in expenditures was due primarily to wages, employee benefits, and purchased services.
- The District's General Fund financial transactions resulted in the District's solvency ratio to increase from 24.5% for 2006 to 25.3% for 2007. 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 2007. Projects included Merrill Field parking lot surfacing, heating and cooling system repairs, 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 van and three buses. Two of the buses were purchased a year early due to projected increases in pricing.
- In Fiscal 2007 the District spent Quality Zone Academy Bond (QZAB) proceeds of \$12,412 on various projects. The District has a remaining balance of \$577,759 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 \$163,000 as of June 30, 2007.

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.

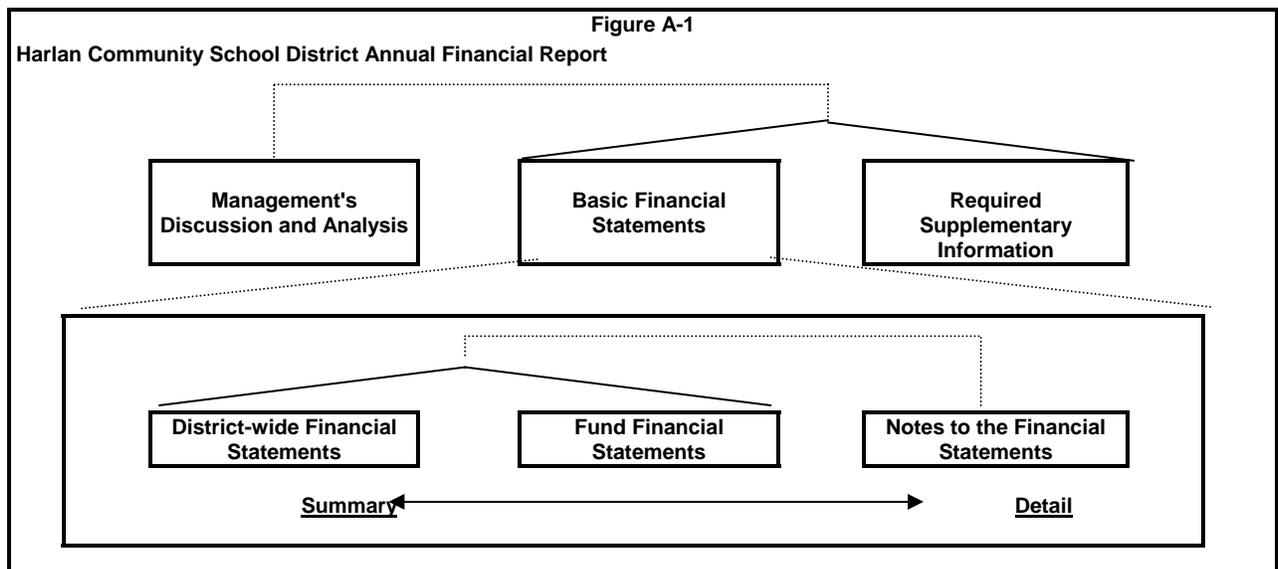


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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, 2006 and 2007.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change June 30, 2006-2007
	June 30,		June 30,		June 30,		
	2007	2006	2007	2006	2007	2006	
Current and other assets	\$ 11,600,377	\$ 10,714,001	\$ 243,106	\$ 188,412	\$ 11,843,483	\$ 10,902,413	8.6%
Capital assets	<u>7,221,557</u>	<u>7,101,598</u>	<u>114,765</u>	<u>98,602</u>	<u>7,336,322</u>	<u>7,200,200</u>	1.9%
Total assets	18,821,934	17,815,599	357,871	287,014	19,179,805	18,102,613	6.0%
Long-term obligations	2,128,990	2,812,472	-0-	-0-	2,128,990	2,812,472	(24.3%)
Other liabilities	<u>5,684,042</u>	<u>5,211,388</u>	<u>70,002</u>	<u>43,276</u>	<u>5,754,044</u>	<u>5,254,664</u>	9.5%
Total liabilities	7,813,032	8,023,860	70,002	43,276	7,883,034	8,067,136	(2.3%)
Net assets:							
Invested in capital assets							
Net of related debt	5,839,417	5,031,961	114,765	98,602	5,954,182	5,130,563	16.1%
Restricted	1,816,977	1,731,055	-0-	-0-	1,816,977	1,731,055	5.0%
Unrestricted	<u>3,352,508</u>	<u>3,028,723</u>	<u>173,104</u>	<u>145,136</u>	<u>3,525,612</u>	<u>3,173,859</u>	11.0%
Total net assets	\$ <u>11,008,902</u>	\$ <u>9,791,739</u>	\$ <u>287,869</u>	\$ <u>243,738</u>	\$ <u>11,296,771</u>	\$ <u>10,035,477</u>	12.6%

The District's combined net assets increased by more than 12.6 percent or \$1,261,294 over the prior year. The largest portion of the District's net assets is the invested in capital assets

(e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$85,922 or 5.0 percent from the prior year. The increase was primarily a result of increased receipts of Local Option Sales Tax restricted for payment of debt.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased \$351,753 or 11.0 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, 2007.

Figure A-4
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total School District	
	June 30,		June 30,		June 30,	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services and sales	\$ 1,785,037	\$ 1,771,408	\$ 413,279	\$ 406,264	\$ 2,198,316	\$ 2,177,672
Operating grants, contributions and restricted interest	1,824,162	1,727,396	263,784	275,025	2,087,946	2,002,421
General revenue:						
Property tax	4,482,594	4,264,443	-0-	-0-	4,482,594	4,264,443
Local option sales tax	922,286	882,876	-0-	-0-	922,286	882,876
Unrestricted state grants	6,491,099	6,097,204	-0-	-0-	6,491,099	6,097,204
Unrestricted investment earnings	207,359	144,937	8,119	4,128	215,478	149,065
Other	27,978	16,742	(545)	(7,157)	27,433	9,585
Total revenues	<u>15,740,515</u>	<u>14,905,006</u>	<u>684,637</u>	<u>678,260</u>	<u>16,425,152</u>	<u>15,583,266</u>
Program expenses:						
Governmental activities:						
Instruction	9,851,319	9,230,534	-0-	-0-	9,851,319	9,230,534
Support services	3,897,995	3,869,536	-0-	-0-	3,897,995	3,869,536
Non-instructional programs	-0-	-0-	640,506	625,592	640,506	625,592
Other expenses	774,038	761,981	-0-	-0-	774,038	761,981
Total expenses	<u>14,523,352</u>	<u>13,862,051</u>	<u>640,506</u>	<u>625,592</u>	<u>15,163,858</u>	<u>14,487,643</u>
Change in net assets	\$ <u>1,217,163</u>	\$ <u>1,042,955</u>	\$ <u>44,131</u>	\$ <u>52,668</u>	\$ <u>1,261,294</u>	\$ <u>1,095,623</u>

Property tax and unrestricted state grants account for 66.8 percent of total revenue. The District's expenses primarily relate to instruction and support services which account for 90.7 percent of the total expenses.

Governmental Activities

Revenues for governmental activities were \$15,740,515 for fiscal 2007 and \$14,905,006 for fiscal 2006. Expenses were \$14,523,352 for fiscal 2007 and \$13,862,051 for fiscal 2006. 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,	
	2007	2006	2007	2006
Instruction	\$ 9,851,319	\$ 9,230,534	\$ 7,104,676	\$ 6,657,700
Support services	3,897,995	3,869,536	3,762,476	3,614,083
Other expenses	774,038	761,981	47,001	91,464
Totals	<u>\$ 13,862,051</u>	<u>\$ 13,862,051</u>	<u>\$ 10,914,153</u>	<u>\$ 10,363,247</u>

- The cost financed by users of the District's programs was \$1,785,037 for 2007 and \$1,771,408 for 2006.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,824,162 for 2007 and \$1,727,396 for 2006.
- The net cost of governmental activities was financed with the following:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Property Taxes	\$ 4,482,594	\$ 4,264,443
Local Option Sales Tax	\$ 922,286	\$ 882,876
State Unrestricted	\$ 6,491,099	\$ 6,097,204
Interest Income	\$ 207,359	\$ 144,937
Other Revenue	\$ 27,978	\$ 16,742

Business-Type Activities

Revenues of the District's business-type activities were \$684,637 for 2007 and \$678,260 for 2006, and expenses were \$640,506 for 2007 and \$625,592 for 2006. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements, and investment income.

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 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 \$5,907,425 for 2007 and \$5,501,952 for 2006. The primary reasons for the increase in combined fund balances in fiscal 2007 are due to open enrollment in, special education tuition in, State Foundation Aid, and maintaining excess revenues over expenditures. The District's current enrollment has remained essentially unchanged. The District will have to rely on State Foundation Aid allowable growth increases, new revenue sources, or use fund balance to cover increases in costs.

Governmental Fund Highlights

- The District's maintained General Fund financial position is the product of many factors. Growth during the year in open enrollment, special education tuition, and State Foundation Aid resulted in an increase in revenues. However, the primary reason is maintaining revenues exceeding expenditures.
- The General Fund balance increased from \$3,074,632 to \$3,419,834 due in part to open enrollment, special education tuition, and State Foundation Aid Formula funding.
- The Physical Plant and Equipment Levy (PEEL) Fund balance increased from \$1,251,731 fiscal 2006 to \$1,280,183 fiscal 2007. The primary reason for the increase was the result of property tax receipts and interest earnings.
- The Management Fund balance increased due to an increase in revenues. The District will use the carryover fund balance to cover increases in expenditures.

- The Debt Service Fund balance decreased due to the District's using carryover fund balance for the payment of debt.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$243,748 at June 30, 2006 to \$287,869 at June 30, 2007, representing an increase of approximately 18.1%. As previously noted, the District experienced increased sales and federal funding.

Budgetary Highlights

The District's total actual receipts were approximately \$841,649 more than the total budgeted receipts, a variance of 5.4%. The most significant variance resulted from District revenues from Local Option Sales Tax, Special Education, State Teachers Compensation funding, and earnings on investments..

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. Some specific decreases were noted in reduction of expenditures for snow removal, transportation costs, purchased services, and Physical Plant and Equipment budgeted projects that were postponed, cancelled, or cost less than estimated.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2007, the District had invested \$7.2 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) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year exceeded \$452,000.

The original cost of the District's capital assets was \$13.3 million. Governmental funds account for \$13.1 million with the remainder of \$.2 million in the Proprietary, School Nutrition Fund.

The significant capital assets activities include the parking lot paving and purchase of vehicles.

Figure A-6

	Capital Assets, net of Depreciation					
	Governmental Activities		Business-type Activities		Total School District	
	June 30,		June 30,		June 30,	
	2007	2006	2007	2006	2007	2006
Land	\$ 25,700	\$ 25,700	\$ -0-	\$ -0-	\$ 25,700	\$ 25,700
Improvements other than buildings	\$ 304,660	\$ 176,336	\$ -0-	\$ -0-	\$ 304,660	\$ 176,336
Construction in Progress	\$ 0	\$ 462	\$ -0-	\$ -0-	\$ 0	\$ 462
Buildings	\$ 6,276,684	\$ 6,377,516	\$ -0-	\$ -0-	\$ 6,276,684	\$ 6,377,516
Furniture and equipment	\$ 614,513	\$ 521,584	\$ 114,765	\$ 98,602	\$ 729,278	\$ 620,186
Totals	<u>\$ 7,221,557</u>	<u>\$ 7,101,598</u>	<u>\$ 114,765</u>	<u>\$ 98,602</u>	<u>\$ 7,336,322</u>	<u>\$ 7,200,200</u>

Long-Term Debt

At June 30, 2007, the District had \$2,128,990 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 24.3% 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	
	2007	2006	2005-2006	
General obligation bonds	\$ 1,955,000	2,650,000	(26.2)	%
Notes payable	\$ 4,899	9,808	(50.1)	%
Early retirement benefits	\$ 103,832	103,666	.2	%
Compensated absences	\$ 65,259	48,998	33.0	%
Totals	<u>\$ 2,128,990</u>	<u>2,812,472</u>	<u>(24.3)</u>	<u>%</u>

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 an increase in unrestricted revenues due to allowable growth in the State Funding Formula, although there was a decrease in the September 2006 enrollment used in calculating Fiscal 2008 funding. The increased revenues are not expected to cover 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 slightly decline.
- The District will negotiate a new agreement during Fiscal 2008 with the Harlan Education Association. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance. Increased cost of employee insurance will be a significant cost factor of the new agreement.
- The District has experienced higher than expected revenue from the District's Local Option Sales Tax and State supplemental funding. As a result of additional receipts, the District will not assess any property tax levy for debt service repayment.
- The District is planning to hold a general obligation bond election for a \$7,950,000 during Fiscal 2008. The bond proceeds will be used for the construction of an addition to Westridge Elementary. The new elementary complex will include all of grades kindergarten through fifth.

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, 2007**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 6,649,170	230,703	6,879,873
Receivables:			
Property tax:			
Current year	118,612	-	118,612
Succeeding year	4,207,960	-	4,207,960
Accounts	56,231	1,340	57,571
Accrued interest	31,377	-	31,377
Due from other governments	537,027	-	537,027
Inventories	-	11,063	11,063
Capital assets, net of accumulated depreciation	7,221,557	114,765	7,336,322
Total assets	<u>18,821,934</u>	<u>357,871</u>	<u>19,179,805</u>
Liabilities			
Accounts payable	186,634	24,495	211,129
Salaries and benefits payable	1,283,929	35,746	1,319,675
Accrued interest payable	2,361	-	2,361
Deferred revenue:			
Succeeding year property tax	4,207,960	-	4,207,960
Other	3,158	9,761	12,919
Long-term liabilities:			
Portion due within one year:			
Bonds payable	710,000	-	710,000
Notes payable	4,899	-	4,899
Early retirement benefits	22,084	-	22,084
Compensated absences	65,259	-	65,259
Portion due after one year:			
Bonds payable	1,245,000	-	1,245,000
Early retirement benefits	81,748	-	81,748
Total liabilities	<u>7,813,032</u>	<u>70,002</u>	<u>7,883,034</u>
Net Assets			
Invested in capital assets, net of related debt	5,839,417	114,765	5,954,182
Restricted for:			
Management levy	177,808	-	177,808
Physical plant and equipment levy	703,191	-	703,191
Other special revenue purposes	935,978	-	935,978
Unrestricted	3,352,508	173,104	3,525,612
Total net assets	<u>\$ 11,008,902</u>	<u>287,869</u>	<u>11,296,771</u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

		Program Revenues	
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 6,107,221	831,761	628,850
Special instruction	2,298,476	469,766	311,047
Other instruction	1,445,622	477,523	27,696
	9,851,319	1,779,050	967,593
Support services:			
Student services	405,068	-	76,950
Instructional staff services	433,919	-	-
Administration services	1,257,410	-	-
Operation and plant maintenance	1,093,355	5,987	52,582
Transportation services	708,243	-	-
	3,897,995	5,987	129,532
Other expenditures:			
Facilities acquisition	14,112	-	140,992
Long-term debt interest	41,806	-	87,757
AEA flowthrough	498,288	-	498,288
Depreciation (unallocated)*	219,832	-	-
	774,038	-	727,037
Total governmental activities	14,523,352	1,785,037	1,824,162
Business-type activities:			
Non-instructional programs:			
Nutrition services	640,506	413,279	263,784
	640,506	413,279	263,784
Total	\$ 15,163,858	2,198,316	2,087,946

General Revenues:

Property tax levied for:
General purposes
Capital outlay
Local option sales tax
Unrestricted state grants
Unrestricted investment earnings
Other
Gain (loss) on sale of assets
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>
(4,646,610)	-	(4,646,610)
(1,517,663)	-	(1,517,663)
(940,403)	-	(940,403)
<u>(7,104,676)</u>	<u>-</u>	<u>(7,104,676)</u>
(328,118)	-	(328,118)
(433,919)	-	(433,919)
(1,257,410)	-	(1,257,410)
(1,034,786)	-	(1,034,786)
(708,243)	-	(708,243)
<u>(3,762,476)</u>	<u>-</u>	<u>(3,762,476)</u>
126,880	-	126,880
45,951	-	45,951
-	-	-
(219,832)	-	(219,832)
(47,001)	-	(47,001)
<u>(10,914,153)</u>	<u>-</u>	<u>(10,914,153)</u>
<u>-</u>	<u>36,557</u>	<u>36,557</u>
(10,914,153)	36,557	(10,877,596)
\$ 4,265,922	-	4,265,922
216,672	-	216,672
922,286	-	922,286
6,491,099	-	6,491,099
207,359	8,119	215,478
23,649	(545)	23,104
4,329	-	4,329
<u>12,131,316</u>	<u>7,574</u>	<u>12,138,890</u>
1,217,163	44,131	1,261,294
<u>9,791,739</u>	<u>243,738</u>	<u>10,035,477</u>
<u>\$ 11,008,902</u>	<u>287,869</u>	<u>11,296,771</u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
GOVERNMENTAL FUND BALANCE SHEET
YEAR ENDED JUNE 30, 2007**

	General	Special Revenue Physical Plant and Equipment Levy	Nonmajor Funds	Total
ASSETS				
Assets:				
Cash and pooled investments	\$ 4,475,568	1,269,623	903,979	6,649,170
Receivables:				
Property tax:				
Delinquent	102,324	6,827	9,461	118,612
Succeeding year	3,573,002	310,484	324,474	4,207,960
Accounts	44,004	-	12,227	56,231
Accrued interest	25,496	5,881	-	31,377
Due from other governments	246,640	-	290,387	537,027
Total assets	\$ 8,467,034	1,592,815	1,540,528	11,600,377
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 177,481	1,381	7,772	186,634
Salaries and benefits payable	1,283,929	-	-	1,283,929
Deferred revenue:				
Succeeding year property tax	3,573,002	310,484	324,474	4,207,960
Other	12,788	767	874	14,429
Total liabilities	5,047,200	312,632	333,120	5,692,952
Fund balances:				
Reserved for debt service	-	315,105	536,832	851,937
Unreserved	3,419,834	965,078	670,576	5,055,488
Total fund balances	3,419,834	1,280,183	1,207,408	5,907,425
Total liabilities and fund balances	\$ 8,467,034	1,592,815	1,540,528	11,600,377

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, 2007**

Total fund balances of governmental funds	\$	5,907,425
<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.		7,221,557
Other long-term assets are not available to pay for current period expenditures, and therefore, are deferred in the governmental funds.		11,271
Accrued interest payable on long-term liabilities is not due and payable in the current period, and therefore, is not reported as a liability in the governmental funds.		(2,361)
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>(2,128,990)</u>
Net assets of governmental activities	\$	<u>11,008,902</u>

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007**

	General	Special Revenue		Total
		Physical Plant and Equipment Levy	Nonmajor Funds	
Revenues:				
Local sources:				
Local tax	\$ 3,931,268	216,600	327,995	4,475,863
Tuition	1,163,555	-	-	1,163,555
Other	347,123	192,840	1,463,661	2,003,624
State sources	7,621,498	-	-	7,621,498
Federal sources	464,915	-	-	464,915
Total revenues	13,528,359	409,440	1,791,656	15,729,455
Expenditures:				
Current:				
Instruction:				
Regular instruction	5,909,293	78,831	106,809	6,094,933
Special instruction	2,305,201	-	-	2,305,201
Other instruction	943,623	-	486,177	1,429,800
	9,158,117	78,831	592,986	9,829,934
Support services:				
Student services	432,183	-	-	432,183
Instructional staff services	420,718	-	-	420,718
Administration services	1,088,653	805	164,024	1,253,482
Operation and maintenance of plant services	1,017,395	23,102	39,661	1,080,158
Transportation services	566,530	214,398	19,891	800,819
	3,525,479	238,305	223,576	3,987,360
Other expenditures:				
Facilities acquisition	-	265,246	4,250	269,496
Long-term debt:				
Principal	-	-	699,909	699,909
Interest and fiscal charges	-	-	43,324	43,324
AEA flowthrough	498,288	-	-	498,288
Total	498,288	265,246	747,483	1,511,017
	13,181,884	582,382	1,564,045	15,328,311
Excess (deficiency) of revenues over (under) expenditures	346,475	(172,942)	227,611	401,144
Other financing sources (uses):				
Sale of fixed assets	4,329	-	-	4,329
Operating transfers in	-	204,503	690,253	894,756
Operating transfers out	(5,602)	(3,109)	(886,045)	(894,756)
Total other financing sources (uses)	(1,273)	201,394	(195,792)	4,329
Net change in fund balances	345,202	28,452	31,819	405,473
Fund balances beginning of year	3,074,632	1,251,731	1,175,589	5,501,952
Fund balances end of year	\$ 3,419,834	1,280,183	1,207,408	5,907,425

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, 2007

Net change in fund balances – total governmental funds \$ 405,473

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	\$ 572,591	
Depreciation expense	<u>(452,632)</u>	119,959

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. 6,731

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. 699,909

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 1,518

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	(166)	
Compensated absences	<u>(16,261)</u>	<u>(16,427)</u>

Change in net assets of governmental activities **\$ 1,217,163**

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007**

		School Nutrition
Assets		
Cash and cash equivalents	\$	230,703
Accounts receivable		1,340
Inventories		11,063
Capital assets, net of accumulated depreciation		114,765
Total assets		357,871
 Liabilities		
Accounts payable		24,495
Salaries and benefits payable		35,746
Deferred revenue		9,761
Total liabilities		70,002
 Net Assets		
Invested in capital assets, net of related debt		114,765
Unrestricted		173,104
Total net assets	\$	287,869

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007**

	School Nutrition
Operating revenue:	
Local sources:	
Charges for service	\$ 413,279
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	253,588
Benefits	32,810
Purchased services	4,739
Supplies	337,207
Miscellaneous	1,025
Depreciation	11,137
Total operating expenses	640,506
Operating loss	(227,227)
Non-operating revenue:	
State sources	8,902
Federal sources	254,882
Interest on investments	8,119
Loss on disposal of assets	(545)
Total non-operating revenue	271,358
Change in net assets	44,131
Net assets beginning of year	243,738
Net assets end of year	\$ 287,869

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007**

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 413,602
Cash payments to employees for services	(284,766)
Cash payments to suppliers for goods or services	(273,788)
Net cash used in operating activities	<u>(144,952)</u>
Cash flows from non-capital financing activities:	
State grants received	8,902
Federal grants received	217,513
Net cash provided by non-capital financing sources	<u>226,415</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(27,845)
Cash flows from investing activities:	
Interest on investments	<u>8,119</u>
Net increase in cash and cash equivalents	61,737
Cash and cash equivalents, beginning of year	<u>168,966</u>
Cash and cash equivalents, end of year	<u>\$ 230,703</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (227,227)
Commodities used	37,369
Depreciation	11,137
Increase in receivables	(454)
Decrease in inventories	7,497
Increase in accounts payable	24,317
Increase in salaries and benefits payable	1,632
Increase in deferred revenue	777
Net cash used in operating activities	<u>\$ (144,952)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received \$37,369 of federal commodities.

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS – FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2007**

	Private Purpose Trust <u>Scholarshi p</u>	Agency <u> </u>
Assets		
Cash and pooled investments	\$ 35,129	\$ 2,367
Liabilities		
Due to other governments	<u> -</u>	<u> 2,367</u>
Net Assets		
Reserved for scholarships	\$ <u> 35,129</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, 2007**

		Private Purpose Trust <hr/> Scholarshi p <hr/>
Additions:		
Local sources:		
Gifts and contributions	\$	7,195
Interest		<u>1,255</u>
Total additions		8,450
 Deductions:		
Support services:		
Scholarship awarded		<u>2,092</u>
 Change in net assets		6,358
 Net assets beginning of year		<u>28,771</u>
 Net assets end of year	\$	<u><u>35,129</u></u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

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, 2007**

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, 2007**

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, 2007**

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, 2007**

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 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

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, 2007	

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, 2007. 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 Equity – 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, 2007**

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, 2007, disbursements did not exceed the amounts 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, 2007 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, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

<u>Type</u>	<u>Amortized Cost</u>
Diversified Portfolio	\$ <u>229,365</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, 2007 are as follows:

<u>Carrying</u>	<u>Fair</u>
-----------------	-------------

<u>Type</u>	<u>Amount</u>	<u>Value</u>
U.S. Government Securities	\$ <u>210,000</u>	\$ <u>208,093</u>

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

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, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue: Student Activity	Special Revenue: Physical Plant and Equipment Levy	\$ 3,109
Special Revenue: Physical Plant and Equipment Levy	Capital Projects	204,503
Debt Service	General	5,602
	Capital Projects	<u>681,542</u>
		<u>687,144</u>
		\$ <u>894,756</u>

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE 4 Capital Assets

Capital assets activity for the year ended June 30, 2007 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	462	-	462	-
Total capital assets not being depreciated	<u>26,162</u>	-	<u>462</u>	<u>25,700</u>
Capital assets being depreciated:				
Buildings	9,583,998	105,153	-	9,689,151
Improvements other than buildings	471,509	148,585	-	620,094
Furniture and equipment	2,474,197	319,315	65,157	2,728,355
Total capital assets being depreciated	<u>12,529,704</u>	<u>573,053</u>	<u>65,157</u>	<u>13,037,600</u>
Less accumulated depreciation for:				
Buildings	3,206,482	205,985	-	3,412,467
Improvements other than buildings	295,173	20,261	-	315,434
Furniture and equipment	1,952,613	226,386	65,157	2,113,842
Total accumulated depreciation	<u>5,454,268</u>	<u>452,632</u>	<u>65,157</u>	<u>5,841,743</u>
Total capital assets being depreciated, net	<u>7,075,436</u>	<u>120,421</u>	-	<u>7,195,857</u>
Governmental activities capital assets, net	<u>\$ 7,101,598</u>	<u>120,421</u>	<u>462</u>	<u>7,221,557</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 184,050	27,845	2,180	209,715
Less accumulated depreciation	85,448	11,137	1,635	94,950
Business-type activities capital assets, net	<u>\$ 98,602</u>	<u>16,708</u>	<u>545</u>	<u>114,765</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 61,078
Other	24,997
Support Services:	
Student services	758
Instructional staff	370
Administration	2,002
Operation and maintenance of plant	22,243
Transportation	121,352
	<u>232,800</u>

Unallocated depreciation	<u>219,832</u>
Total governmental activities depreciation expense	\$ <u>452,632</u>
Business-type activities:	
Food services	\$ <u>11,137</u>

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE 5 Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 1,550,000	-	695,000	855,000	710,000
Sales tax bonds	100,000	-	-	100,000	-
Quality Zone Academy bonds	1,000,000	-	-	1,000,000	-
Truck loan	9,808	-	4,909	4,899	4,899
Early retirement	103,666	166	-	103,832	22,084
Compensated absences	48,998	16,261	-	65,259	65,259
Total	\$ 2,812,472	16,427	699,909	2,128,990	802,242

Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of March 15, 2005			
	Interest Rates	Principal	Interest	Total
2008	2.70-2.80%	\$ 710,000	18,865	728,865
2009	2.85%	145,000	2,066	147,066
		\$ 855,000	20,931	875,931

Revenue Bonds Payable

Details of the District's June 30, 2007 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
2008	4.50 %	\$ -	4,500	4,500
2009	4.50 %	100,000	2,250	102,250
		\$ 100,000	6,750	106,750

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

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. If the retired employee elects to carry their own insurance, the District reimburses \$116 per month, up to \$2,000 per year. Early retirement benefits expensed during the year ended June 30, 2007 totaled \$19,833. 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, 2007 Truck Loan are as follows:

Year Ending June 30,	Truck Loan			
	Interest Rate	Principal	Interest	Total
2008	7.50%	\$ 4,909	439	5,348

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE 6 Lease Agreement

The Harlan Community School District signed a 40 year lease agreement to rent a building for an early childhood program. Lease expense for the year ended June 30, 2007 totaled \$26,400. Future required minimum lease payments are as follows:

Year Ended June 30,	Amount
2008	\$ 26,400
2009	26,400
2010	26,400
2011	26,400
2012	26,400
2013-2017	132,000
2018-2022	132,000
2023-2027	132,000
2028-2032	132,000
2033-2037	132,000
2038-2042	132,000
2043-2044	66,200
	<u>\$ 990,200</u>

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, 2007, 2006 and 2005. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005, were \$473,036, \$451,051, and \$436,227, 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.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

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 \$498,288 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**HARLAN COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN BALANCES – BUDGET AND ACTUAL –
 ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2007**

	Governmental Fund Types <u>Actual</u>	Proprietary Fund Types <u>Actual</u>	Total <u>Actual</u>
Receipts:			
Local sources	\$ 7,643,042	420,853	8,063,895
State sources	7,621,498	8,902	7,630,400
Federal sources	464,915	254,882	719,797
Total receipts	<u>15,729,455</u>	<u>684,637</u>	<u>16,414,092</u>
Disbursements:			
Instruction	9,829,934	-	9,829,934
Support services	3,987,360	-	3,987,360
Non-instructional programs	-	640,506	640,506
Other expenditures	1,511,017	-	1,511,017
Total disbursements	<u>15,328,311</u>	<u>640,506</u>	<u>15,968,817</u>
Excess (deficiency) of receipts over (under) disbursements	401,144	44,131	445,275
Other financing sources, net	<u>4,329</u>	<u>-</u>	<u>4,329</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	405,473	44,131	449,604
Balances beginning of year	<u>5,501,952</u>	<u>243,738</u>	<u>5,745,690</u>
Balances end of year	<u>\$ 5,907,425</u>	<u>287,869</u>	<u>6,195,294</u>

See Accompanying Independent Auditors' Report

<u>Budgeted Amounts</u>		<u>Final to Actual Variance Positive (Negative)</u>
<u>Original</u>	<u>Final</u>	
7,339,500	7,339,500	724,395
7,549,668	7,549,668	80,732
683,275	683,275	36,522
<u>15,572,443</u>	<u>15,572,443</u>	<u>841,649</u>
10,098,000	10,225,166	395,232
4,348,000	4,198,486	211,126
658,100	658,100	17,594
<u>1,269,786</u>	<u>1,616,146</u>	<u>105,129</u>
<u>16,373,886</u>	<u>16,697,898</u>	<u>729,081</u>
(801,443)	(1,125,455)	1,570,730
<u>-</u>	<u>-</u>	<u>4,329</u>
(801,443)	(1,125,455)	1,575,059
<u>4,959,426</u>	<u>4,959,426</u>	<u>786,264</u>
<u>4,157,983</u>	<u>3,833,971</u>	<u>2,361,323</u>

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007**

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 a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$324,012.

During the year ended June 30, 2007, disbursements did not exceed the amounts budgeted and the District did not exceed its General Fund unspent authorized budget.

OTHER SUPPLEMENTARY INFORMATION

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007**

	Special Revenue		
	Management Levy	Student Activity	Debt Service
Assets			
Assets:			
Cash and pooled investments	\$ 275,030	92,059	536,832
Receivables:			
Property Tax:			
Current year	9,461	-	-
Succeeding year	324,474	-	-
Accounts	-	12,227	-
Due from other governments	-	-	-
	<u>608,965</u>	<u>104,286</u>	<u>536,832</u>
Total assets	\$ <u>608,965</u>	<u>104,286</u>	<u>536,832</u>
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	\$ 1,977	5,795	-
Deferred revenue:			
Succeeding year property tax	324,474	-	-
Other	874	-	-
Total liabilities	<u>327,325</u>	<u>5,795</u>	<u>-</u>
Fund balances:			
Reserved for:			
Debt Service	-	-	536,832
Unreserved	281,640	98,491	-
Total fund balances	<u>281,640</u>	<u>98,491</u>	<u>536,832</u>
Total liabilities and fund equity	\$ <u>608,965</u>	<u>104,286</u>	<u>536,832</u>

See Accompanying Independent Auditors' Report

Schedule 1

<u>Capital Projects</u> Local Option Sales and Service Tax	<u>Total</u>
58	903,979
-	9,461
-	324,474
-	12,227
<u>290,387</u>	<u>290,387</u>
<u>290,445</u>	<u>1,540,528</u>
-	7,772
-	324,474
-	874
<u>-</u>	<u>333,120</u>
-	536,832
<u>290,445</u>	<u>670,576</u>
<u>290,445</u>	<u>1,207,408</u>
<u>290,445</u>	<u>1,540,528</u>

**HARLAN COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007**

	<u>Special Revenue</u>		
	<u>Management Levy</u>	<u>Student Activity</u>	<u>Debt Service</u>
Revenues:			
Local sources:			
Local Tax	\$ 327,995	-	-
Other	22,847	482,619	35,907
Total revenues	<u>350,842</u>	<u>482,619</u>	<u>35,907</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	106,809	-	-
Other instruction	-	486,177	-
	<u>106,809</u>	<u>486,177</u>	<u>-</u>
Support services:			
Administration services	164,024	-	-
Operation and maintenance of plant services	39,661	-	-
Transportation services	19,891	-	-
	<u>223,576</u>	<u>-</u>	<u>-</u>
Other expenditures:			
Facilities acquisition	-	-	-
Long-term debt:			
Principal	-	-	699,909
Interest and fiscal charges	-	-	43,324
	<u>-</u>	<u>-</u>	<u>743,233</u>
Total expenditures	<u>330,385</u>	<u>486,177</u>	<u>743,233</u>
Excess (deficiency) of revenues over (under) expenditures	20,457	(3,558)	(707,326)
Other financing sources (uses):			
Operating transfers in	-	3,109	687,144
Operating transfers out	-	-	-
	<u>-</u>	<u>3,109</u>	<u>687,144</u>
Net changes in fund balances	20,457	(449)	(20,182)
Fund balances beginning of year	<u>261,183</u>	<u>98,940</u>	<u>557,014</u>
Fund balances end of year	<u>\$ 281,640</u>	<u>98,491</u>	<u>536,832</u>

See Accompanying Independent Auditors' Report

<u>Capital Projects</u>	
Local Option Sales and Service Tax	<u>Total</u>
-	327,995
<u>922,288</u>	<u>1,463,661</u>
922,288	1,791,656
-	106,809
-	<u>486,177</u>
-	592,986
-	164,024
-	39,661
-	<u>19,891</u>
-	223,576
4,250	4,250
-	699,909
-	<u>43,324</u>
<u>4,250</u>	<u>747,483</u>
<u>4,250</u>	<u>1,564,045</u>
918,038	227,611
-	690,253
<u>(886,045)</u>	<u>(886,045)</u>
<u>(886,045)</u>	<u>(195,792)</u>
31,993	31,819
<u>258,452</u>	<u>1,175,589</u>
<u>290,445</u>	<u>1,207,408</u>

HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND - STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2007

	Balance Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance End of Year
Drama	\$ 4,169	2,720	3,522	-	3,367
Thespians	474	22	23	-	473
HS vocal music	1,637	2,379	4,869	909	56
MS vocal music	291	12	25	-	278
HS instrumental music	1,126	4,029	5,340	1,000	815
HS jazz	-	3,590	4,743	1,500	347
MS jazz	-	1,049	1,477	675	247
MS flag corp	76	4	-	-	80
Honor choir	399	11	443	43	10
HS flag corp	990	587	547	375	1,405
Baton	1,139	38	433	-	744
Athletics	11,280	176,758	179,539	7,130	15,629
Activity tickets	2,845	15,711	300	(18,204)	52
Towel rental	329	-	-	(329)	-
Cheerleaders	1,819	9,530	8,785	-	2,564
FFA	7,939	68,817	68,567	1,000	9,189
Harpoon	13,729	8,313	8,787	1,100	14,355
National honor society	715	24	1,247	1,450	942
BPA	1,809	28,280	32,254	2,363	198
Science club	493	23	-	-	516
Spanish club	1,969	935	828	-	2,076
Student council	3,735	10,698	10,586	(150)	3,697
Pom pom	1,935	4,394	4,711	-	1,618
Destination imagination	7,437	2,406	11,332	1,950	461
Key Club	112	680	206	155	741
For the birds	1,464	527	756	(50)	1,185
Speech	1,478	3,244	3,517	300	1,505
FCCLA Club	855	494	1,077	575	847
FEA Club	1,496	69	-	-	1,565
Class of 2005	278	-	-	(278)	-
Class of 2006	726	22	-	(748)	-
Class of 2007	1,036	1,187	40	-	2,183
Class of 2008	3,434	1,296	555	(3,000)	1,175
Class of 2009	1,360	1,522	10	-	2,872
Class of 2010	-	1,181	39	-	1,142
Prom	2,388	12,383	17,630	4,026	1,167
HS miscellaneous	20	8,402	7,923	(499)	-
HS activity	11	-	-	(11)	-
Concessions	2,754	34,468	26,960	(6,300)	3,962
Vending	6,387	9,940	12,318	5,149	9,158
MS cheerleading	862	3,294	2,331	-	1,825
MS vending	1,466	5,265	5,836	(574)	321
MS student council	1,269	43,724	44,170	-	823
MS yearbook	820	3,293	2,000	-	2,113
MS drama	28	911	1,022	83	-
MS builders fund	-	263	178	-	85
MS student fund	176	6,268	5,346	(4)	1,094
New Park student fund	1,461	1,500	1,516	200	1,645
West Ridge student fund	1,326	6,277	4,389	178	3,392
West Ridge student store	547	25	-	-	572
Interest	851	(837)	-	(14)	-
Total	\$ 98,940	485,728	486,177	-	98,491

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
YEAR ENDED JUNE 30, 2007**

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	\$ 1,846	5,149	4,628	2,367
Total assets	<u>1,846</u>	<u>5,149</u>	<u>4,628</u>	<u>2,367</u>
Liabilities				
Accounts payable	83	-	83	-
Due to other governments	1,763	5,149	4,545	2,367
Total liabilities	<u>\$ 1,846</u>	<u>5,149</u>	<u>4,628</u>	<u>2,367</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			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local Tax	\$ 4,475,863	5,143,601	4,779,429	5,101,138
Tuition	1,163,555	1,018,745	749,905	602,786
Other	2,003,624	1,125,999	901,406	883,294
State sources	7,621,498	7,045,015	6,597,218	6,448,278
Federal sources	464,915	567,328	645,349	608,956
Total	<u>\$ 15,729,455</u>	<u>14,900,688</u>	<u>13,673,307</u>	<u>13,644,452</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 6,094,933	5,697,085	5,467,395	4,939,245
Special instruction	2,305,201	2,055,594	1,490,215	2,266,553
Other instruction	1,429,800	1,404,287	1,561,313	687,968
Support services:				
Student services	432,183	490,975	519,832	407,190
Instructional staff services	420,718	353,555	316,907	321,182
Administration services	1,253,482	1,244,337	1,053,037	992,831
Operation and maintenance of plant services	1,080,158	1,048,294	1,328,061	1,180,069
Transportation services	800,819	689,655	526,169	620,668
Non-instructional programs	-	-	44	636
Other expenditures:				
Facilities acquisition	269,496	375,293	-	44,707
Long-term debt:				
Principal	699,909	669,659	653,396	623,396
Interest and fiscal charges	43,324	70,377	119,264	137,591
AEA flowthrough	498,288	458,259	449,820	457,745
Total	<u>\$ 15,328,311</u>	<u>14,557,370</u>	<u>13,485,453</u>	<u>12,679,781</u>

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007**

<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	FY07	\$ 37,369
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY07	27,374
National School Lunch Program	10.555	FY07	190,125
			<u>217,499</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY07	160,198
Vocational Education – Basic Grants to States	84.048	FY07	16,342
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY07	3,417
State Grants for Innovative Programs	84.298	FY07	24,846
Improving Teacher Quality State Grants	84.367	FY07	59,594
Our Kids II	84-215K	FY07	1,081
Loess Hills Area Education Agency:			
Individuals with Disabilities Education Act (IDEA)			
Special Education – Grants to State	84.027	FY07	<u>117,701</u>
Total			<u>\$ 638,047</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
BASED ON AN AUDIT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

November 28, 2007

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit Performed
in Accordance with Government Auditing Standards**

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, 2007, and have issued our report thereon dated November 28, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Harlan Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Harlan Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Harlan Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Harlan Community School District's financial statements that is more than inconsequential will not be prevented or detected by Harlan Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be a significant deficiencies in internal control over financial reporting.

Continued. . .

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Harlan Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the significant deficiencies described above, are not material weaknesses.

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, 2007 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.

Harlan Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Harlan Community School District's responses and, accordingly, we express no opinion on them.

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**

November 28, 2007

**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, 2007. 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 OMB Circular A-133 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, 2007.

Continued. . .

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, but not for the purpose of expressing our opinion on the effectiveness of Harlan Community School District's internal control over compliance.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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, 2007**

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) The audit disclosed significant deficiencies in internal control over financial reporting, which were not considered to be material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No significant deficiencies or material weaknesses in internal control over the major programs were noted.
- (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, 2007**

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-07 Support Documentation

Comment – We noted one instance where there was no documentation obtained to support an invoice tested for a state tournament students' meal advance.

Recommendation – Documentation of meals advancements should be obtained to support meal costs and any remaining balance should be returned to the District.

Response – We will review our procedures to insure the support documentation is obtained.

Conclusion – Response accepted.

II-B-07 Purchase Approval

Comment – We noted no evidence of price quotes obtained on a purchase over \$1,000 made from a related party.

Recommendation – The District should review its procedures to comply with board policy requiring price quotes on all purchases over \$1,000.

Response – We will review our procedures.

Conclusion – Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

No material weaknesses in internal control over the major programs were noted.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

Part IV: Other Findings Related to Statutory Reporting:

IV-A-07 Certified Budget

Disbursements for the year ended June 30, 2007 did not exceed the amounts budgeted.

IV-B-07 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-C-07 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-D-07 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 Chamberlain and Joan Chamberlain, employees, own shares in Chamberlain Brothers Lumber	Building repairs and maintenance supplies	\$ 12,889
Mike Bierl, employee, owner of Same Printing	T-shirts	\$ 4,309

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

IV-E-07 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.

IV-F-07 Board Minutes

No transactions were found that we believe should have been approved in the Board minutes but were not.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007**

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

IV-G-07 Certified Enrollment

Comment - The number of basic resident students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification Form for October 2006 was overstated. The District's certified enrollment count included 1 additional open enrolled out resident student in line 2. This resulted in overstating the total actual enrollment at line 7 by 1 student.

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

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted.

IV-H-07 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.

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 \$16,425,152 for the year ended June 30, 2007, a 5.4 percent increase from the prior year. Revenues included \$4,482,594, in local tax, charges for service of \$2,198,316, operating grants, contributions and restricted interest of \$2,087,946, unrestricted interest of \$215,478, and other general revenues of \$7,440,818.

Expenses for District operation totaled \$15,163,858, a 4.7 percent increase from the prior year. Expenses included \$6,107,221 for regular instruction, \$1,445,622 for other instruction, and \$2,298,476 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 28, 2007

Department of Management
State Capitol Building
Des Moines, IA 50319

In connection with our audit of Harlan Community School District, we examined documentation maintained by the District to support the basic enrollment certified to the Iowa Department of Education for October 2006. The following variances were noted:

<u>Line No.</u>	<u>Certified Number</u>	<u>Audited Number</u>	<u>Remarks</u>
7	1583.4	1582.4	1 open enrolled student out on line 2 never attended the school

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain

DM/jb

cc: Iowa Department of Education

November 30, 2007

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, 2007. Please review it and let me know if you have any changes. I still need your updated MD & A.

Please have Mr. Decker sign the enclosed data collection form and return in the enclosed envelope. Please sign and have Mr. Decker sign the client representation letter and also return to me.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain

DM/jb

December 10, 2007

David Vaudt
Office of State Auditor
PO Box 333
Des Moines, IA 50302-0333

Dear Sir:

We have enclosed for your records the following information regarding the audit of the Harlan Community School District for the year ended June 30, 2007.

- 1 copy of the audit report
- 1 copy of the news release
- 1 copy of the number of hours worked
- 1 copy of the invoice

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh
Enc.

December 10, 2007

Kristy Hansen
Harlan Community School District
2102 Durant
Harlan, IA 51537

Dear Kristy:

We have filed the required copies of your audit report with the Office of Auditor of State. A filing fee is required to be paid on your final amended budget according to the following schedule:

<u>Budgeted Expenditures (In millions of dollars)</u>	<u>Fee Amount</u>
Under 1	\$100.00
At least 1, but less than 3	\$175.00
At least 3, but less than 5	\$250.00
At least 5, but less than 10	\$425.00
At least 10, but less than 25	\$625.00
25 and over	\$850.00

You are required to send the appropriate filing fee. The check should be made payable to "Auditor of State" and mailed to: Office of Auditor of State, State Capitol Building, Des Moines, IA 50319-0004.

If you have any questions, please do not hesitate to call me at 712-322-8734.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh

December 11, 2007

Federal Audit Clearinghouse
1201 E. 10th Street
Jeffersonville, IN 47132

Dear Sirs:

We have enclosed for your records one copy of the audit report and the data collection form for the Harlan Community School District for the year ended June 30, 2007.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh
Enc.

December 11, 2007

Iowa Department of Education
Budgeting and Finance Team
Grimes Building
400 East 14th Street
Des Moines, IA 50319-0146

Dear Sirs:

We have enclosed for your records one copy of the audit report for the Harlan Community School District for the year ended June 30, 2007.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh
Enc.

Harlan Community School District

Hours Worked: 95.50