

HARLAN COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008

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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 2007 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>Board of Education</u>		
(After September 2007 Election)		
Steve Kenkel	President	2008
Tony Hough	Vice President	2008
Bruce Goeser	Board Member	2008
Steve Finn	Board Member	2009
Tammy Schwartz	Board Member	2009
Al Hazelton	Board Member	2010
Dick Kluver	Board Member	2010
<u>School Officials</u>		
Bill Decker	Superintendent	2008
Terri Cox	Director of Personnel/Board Secretary	2008
John Helling	District Treasurer	2008
Kristy Hansen	Director of Finance	2008
Richard Schenck	Attorney	2008

HARLAN COMMUNITY SCHOOL DISTRICT

December 10, 2008

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, 2008, 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, 2008, 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 December 10, 2008, 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 . . .

December 10, 2008
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, 2007, (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, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2008 Financial Highlights

- General Fund revenues increased \$275,941 from \$13,528,359 in fiscal 2007 to \$13,804,300 in fiscal 2008, while General Fund expenditures increased \$720,119 from \$13,181,884 in fiscal 2007 to \$13,902,003 in fiscal 2008. The net increase in revenues and expenditures resulted in a decrease in the District's General Fund balance from \$3,419,834 in fiscal 2007 to \$3,318,298 in fiscal 2008 a 3.1 percent decrease from the prior year.
- The increase in General Fund revenues was attributable to State Teacher Compensation, and State Foundation Aid in fiscal 2007. The increase in expenditures was due primarily to wages, employee benefits, curriculum purchases, and purchase of transportation equipment.
- The District's General Fund financial transactions resulted in the District's solvency ratio to decrease from 25.3% for 2007 to 23.5% for 2008. The District's solvency level indicates the District is able to meet unforeseen financing requirements and presents a sound risk for the timely repayment of short-term obligations. Iowa Association of School Boards, and Iowa Association of School Business Officials recognize a solvency ratio between 8-12% as financially acceptable.
- The District completed several capital expenditure projects in fiscal 2008. The District began replacing the chiller in the High School building in an effort to improve the HVAC system. Additionally the District began replacing lighting fixtures with more efficient fixtures.
- In December 2007 the District passed a \$7,950,000 general obligation bond for the purpose of constructing an elementary building. The facility will be constructed as an addition to an existing elementary building and will serve the District's elementary students. The District approved a contract in August 2008 for construction of the building for \$9,213,700.
- In Fiscal 2008 the District did not spend any Quality Zone Academy Bond (QZAB) proceeds. The remaining balance of \$577,759 in proceeds will be used to fund a portion of the chiller project in fiscal year 2009. The proceeds are required to be expensed by November 2011.

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.

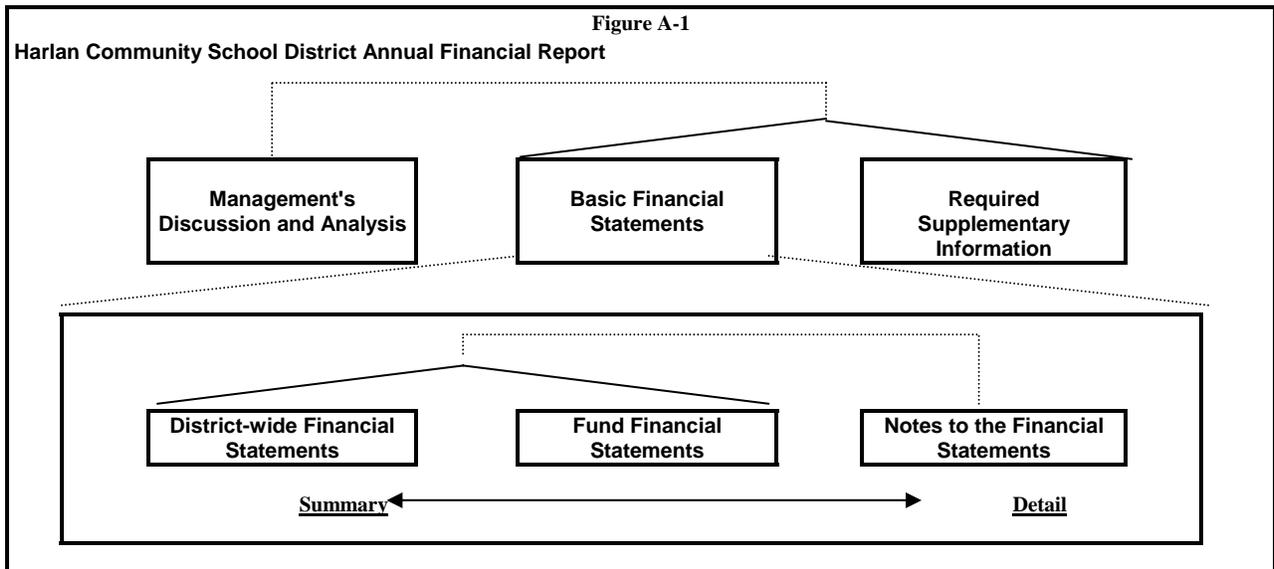


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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, 2007 and 2008.

	Figure A-3						
	Governmental Activities		Condensed Statement of Net Assets		Total School District		Total Change
	June 30,		Business-type Activities		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-2008
Current and other assets	\$ 19,758,578	\$ 11,600,377	\$ 254,162	\$ 243,106	\$ 20,012,740	\$ 11,843,483	69.0%
Capital assets	7,432,396	7,221,557	121,688	114,765	7,554,084	7,336,322	3.0%
Total assets	<u>27,190,974</u>	<u>18,821,934</u>	<u>375,850</u>	<u>357,871</u>	<u>27,566,824</u>	<u>19,179,805</u>	48.9%
Long-term obligations	9,317,086	2,128,990	-0-	-0-	9,317,086	2,128,990	337.6%
Other liabilities	6,429,644	5,684,042	51,275	70,002	6,180,919	5,754,044	7.4%
Total liabilities	<u>15,446,730</u>	<u>7,813,032</u>	<u>51,275</u>	<u>70,002</u>	<u>15,498,005</u>	<u>7,883,034</u>	96.6%
Net assets:							
Invested in capital assets							
Net of related debt	6,377,462	5,839,417	121,688	114,765	6,499,150	5,954,182	9.2%
Restricted	2,178,988	1,816,977	-0-	-0-	2,178,988	1,816,977	19.9%
Unrestricted	3,187,794	3,352,508	202,887	173,104	3,390,681	3,525,612	(3.8%)
Total net assets	<u>\$ 11,744,244</u>	<u>\$ 11,008,902</u>	<u>\$ 324,575</u>	<u>\$ 287,869</u>	<u>\$ 12,068,819</u>	<u>\$ 11,296,771</u>	6.8%

The District’s combined net assets increased by more than 6.8 percent or \$772,048 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 \$362,011 or 19.9 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 – decreased \$134,931 or 3.8 percent. The decrease is the result expenditures exceeding revenues.

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2008.

Figure A-4
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total School District	
	June 30,		June 30,		June 30,	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services and sales	\$ 1,580,574	\$ 1,785,037	\$ 431,351	\$ 413,279	\$ 2,011,925	\$ 2,198,316
Operating grants, contributions and restricted interest	1,883,946	1,824,162	292,475	263,784	2,176,421	2,087,946
Capital grants, contributions, and restricted interest	110,770	-0-	-0-	-0-	110,770	-0-
General revenue:						
Property tax	4,820,524	4,482,594	-0-	-0-	4,820,524	4,482,594
Local option sales tax	887,152	922,286	-0-	-0-	887,152	922,286
Unrestricted state grants	6,594,255	6,491,099	-0-	-0-	6,594,255	6,491,099
Unrestricted investment earnings	172,002	207,359	9,844	8,119	181,846	215,478
Other	42,336	27,978	-0-	(545)	42,336	27,433
Total revenues	<u>16,091,559</u>	<u>15,740,515</u>	<u>733,670</u>	<u>684,637</u>	<u>16,825,229</u>	<u>16,425,152</u>
Program expenses:						
Governmental activities:						
Instruction	10,222,807	9,851,319	-0-	-0-	10,222,807	9,851,319
Support services	4,145,429	3,897,995	-0-	-0-	4,145,429	3,897,995
Non-instructional programs	-0-	-0-	696,964	640,506	696,964	640,506
Other expenses	987,980	774,038	-0-	-0-	987,980	774,038
Total expenses	<u>15,356,216</u>	<u>14,523,352</u>	<u>696,964</u>	<u>640,506</u>	<u>16,053,180</u>	<u>15,163,858</u>
Change in net assets	\$ <u>735,343</u>	\$ <u>1,217,163</u>	\$ <u>36,706</u>	\$ <u>44,131</u>	\$ <u>772,049</u>	\$ <u>1,261,294</u>

Property tax and unrestricted state grants account for 67.8 percent of total revenue. The District's expenses primarily relate to instruction and support services which account for 89.5 percent of the total expenses.

Governmental Activities

Revenues for governmental activities were \$16,091,559 for fiscal 2008 and \$15,740,515 for fiscal 2007. Expenses were \$15,356,216 for fiscal 2008 and \$14,523,352 for fiscal 2007. The District expenditures exceed revenue resulting in a slight decrease in financial position.

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.

	Total Cost of Services		Net Cost of Services	
	June 30,		June 30,	
	2008	2007	2008	2007
Instruction	\$ 10,222,807	\$ 9,851,319	\$ 7,452,859	\$ 7,104,676
Support services	4,145,429	3,897,995	4,042,781	3,762,476
Other expenses	987,980	774,038	285,286	47,001
Totals	\$ 15,356,216	\$ 14,523,352	\$ 11,780,926	\$ 10,914,153

- The cost financed by users of the District's programs was \$1,580,574 for 2008 and \$1,785,037 for 2007.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,994,716 for 2008 and \$1,824,162 for 2007.
- The net cost of governmental activities was financed with the following:

	June 30, 2008	June 30, 2007
Property Taxes	\$ 4,820,524	\$ 4,482,642
Local Option Sales Tax	887,152	922,286
State Unrestricted	6,594,255	6,491,099
Interest Income	172,002	207,359
Other Revenue	42,336	27,978

Business-Type Activities

Revenues of the District's business-type activities were \$723,826 for 2008 and \$684,637 for 2007, and expenses were \$696,964 for 2008 and \$640,506 for 2007. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of changes for services, federal and state reimbursements, and investment income.

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 \$13,666,932 for 2008 and \$5,907,425 for 2007. The primary reasons for the increase in combined fund balances in fiscal 2008 are due to unexpended bond proceeds. 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 slight decrease in General Fund financial position is the product of many factors. Growth during the year in State Foundation Aid, and other State revenues off set most increases in expenditures. However, the increased cost of fuel and the District's use of funds for additional purchases of transportation equipment resulted in expenditures exceeding revenues.

- The General Fund balance decreased from \$3,419,834 to \$3,318,298 due in part increased fuel costs and purchase of equipment.
- The Capital Project Fund balance increased from \$290,445 to \$8,611,105 due to unexpended bond proceeds. Bond proceeds will be expended for the construction on an elementary building addition.
- The Physical Plant and Equipment Levy (PEEL) Fund balance increased from \$1,280,183 fiscal 2007 to \$1,302,963 fiscal 2008. 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 and decrease in expenditures. 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 \$287,869 at June 30, 2007 to \$324,575 at June 30, 2008, representing an increase of approximately 12.8%. As previously noted, the District experienced increased sales and federal funding.

Budgetary Highlights

The District's total actual receipts were approximately \$67,347 more than the total budgeted receipts, a variance of .4%.

Total expenditures were less than budgeted due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures larger than anticipated to accommodate expenditures from grants or other revenues that are unknown at the time the budget is prepared. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year. The District implemented a new budget procedure that allows a carryover of 5% of the budget to be carried over to the next year. This change in procedure and the postponement of several expenditures resulted in a larger variance in expenditures.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2008, the District had invested \$7.4 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 \$445,000.

The original cost of the District's capital assets was \$13.2 million. Governmental funds account for \$13.0 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.

	Capital Assets, net of Depreciation					
	Governmental Activities		Business-type Activities		Total School District	
	June 30,		June 30,		June 30,	
	2008	2007	2008	2007	2008	2007
Land	\$ 25,700	\$ 25,700	\$ -0-	\$ -0-	\$ 25,700	\$ 25,700
Improvements other than buildings	\$ 287,371	\$ 304,660	\$ -0-	\$ -0-	\$ 287,371	\$ 304,660
Construction in Progress	\$ 500,903	\$ 0	\$ -0-	\$ -0-	\$ 500,903	\$ -0-
Buildings	\$ 6,085,769	\$ 6,276,684	\$ -0-	\$ -0-	\$ 6,085,769	\$ 6,276,684
Furniture and equipment	\$ 532,653	\$ 614,514	\$ 121,688	\$ 114,765	\$ 654,341	\$ 729,279
Totals	<u>\$ 7,432,396</u>	<u>\$ 7,221,558</u>	<u>\$ 121,688</u>	<u>\$ 114,765</u>	<u>\$ 7,554,084</u>	<u>\$ 7,336,323</u>

Long-Term Debt

At June 30, 2008 the District had \$9,317,086 general obligation and other long-term debt outstanding. This represents an increase of approximately 338% 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.

	Outstanding Long-Term Obligations		
	Total School District		Total Change
	2007	2007	2008-2007
General obligation bonds	\$ 9,136,986	1,955,000	367.4 %
Notes payable	\$ -0-	4,899	(100.0) %
Early retirement benefits	\$ 114,584	103,832	10.4 %
Compensated absences	\$ 65,516	65,259	.4 %
Totals	<u>\$ 9,317,086</u>	<u>2,128,990</u>	<u>338.0 %</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 an increase in the September 2007 enrollment used in calculating Fiscal 2009 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 has negotiate a two year agreement for Fiscal 2009 and 2010 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 has approved a contract for the construction of an elementary building project for \$9,213,700. The project will be funded by general obligation bonds and revenue bonds. The debt will be repaid with the proceeds from the State Sales/Use Tax for School Infrastructure, resulting in no property tax assessment for debt repayment.

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, 2008**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 14,715,382	233,674	14,949,056
Receivables:			
Property tax:			
Current year	71,733	-	71,733
Succeeding year	4,317,637	-	4,317,637
Accounts	2,513	4,457	6,970
Accrued interest	120,389	-	120,389
Due from other governments	529,242	-	529,242
Prepaid expense	1,682	-	1,682
Inventories	-	16,031	16,031
Capital assets, net of accumulated depreciation	7,432,396	121,688	7,554,084
Total assets	<u>27,190,974</u>	<u>375,850</u>	<u>27,566,824</u>
Liabilities			
Accounts payable	415,022	1,615	416,637
Salaries and benefits payable	1,351,932	38,503	1,390,435
Accrued interest payable	41,074	-	41,074
Deferred revenue:			
Succeeding year property tax	4,317,637	-	4,317,637
Other	3,979	11,157	15,136
Long-term liabilities:			
Portion due within one year:			
Bonds payable	545,000	-	545,000
Early retirement benefits	23,500	-	23,500
Compensated absences	65,516	-	65,516
Portion due after one year:			
Bonds payable, net of unamortized discount	8,591,986	-	8,591,986
Early retirement benefits	91,084	-	91,084
Total liabilities	<u>15,446,730</u>	<u>51,275</u>	<u>15,498,005</u>
Net Assets			
Invested in capital assets, net of related debt	6,377,462	121,688	6,499,150
Restricted for:			
Management levy	206,653	-	206,653
Physical plant and equipment levy	725,432	-	725,432
Capital projects	1,106,812	-	1,106,812
Other special revenue purposes	140,091	-	140,091
Unrestricted	3,187,794	202,887	3,390,681
Total net assets	<u>\$ 11,744,244</u>	<u>324,575</u>	<u>12,068,819</u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

	Expenses	Charges for Service	Program Revenues Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 6,688,021	917,223	876,562
Special instruction	1,955,078	128,201	275,425
Other instruction	1,579,708	526,872	45,665
	10,222,807	1,572,296	1,197,652
Support services:			
Student services	537,905	-	46,703
Instructional staff services	390,916	-	-
Administration services	1,348,010	-	-
Operation and plant maintenance	1,085,945	7,459	-
Transportation services	781,684	819	47,667
Other support services	969	-	-
	4,145,429	8,278	94,370
Other expenditures:			
Facilities acquisition	161,832	-	9,075
Long-term debt interest	88,004	-	63,682
AEA flowthrough	519,167	-	519,167
Depreciation (unallocated)*	218,977	-	-
	987,980	-	591,924
Total governmental activities	15,356,216	1,580,574	1,883,946
Business-type activities:			
Non-instructional programs:			
Nutrition services	696,964	431,351	292,475
	696,964	431,351	292,475
Total	\$ 16,053,180	2,011,925	2,176,421
General Revenues:			
Property tax levied for:			
General purposes			
Capital outlay			
Local option sales tax			
Unrestricted state grants			
Unrestricted investment earnings			
Other			
Gain 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

Capital Grants Contributions and Restricted Interest	Net (Expense) Revenue and Changes in Net Assets		
	Governmental Activities	Business-Type Activities	Total
-	(4,894,236)	-	(4,894,236)
-	(1,551,452)	-	(1,551,452)
-	(1,007,171)	-	(1,007,171)
-	(7,452,859)	-	(7,452,859)
-	(491,202)	-	(491,202)
-	(390,916)	-	(390,916)
-	(1,348,010)	-	(1,348,010)
-	(1,078,486)	-	(1,078,486)
-	(733,198)	-	(733,198)
-	(969)	-	(969)
-	(4,042,781)	-	(4,042,781)
110,770	(41,987)	-	(41,987)
-	(24,322)	-	(24,322)
-	-	-	-
-	(218,977)	-	(218,977)
110,770	(285,286)	-	(285,286)
110,770	(11,780,926)	-	(11,780,926)
-	-	26,862	26,862
110,770	(11,780,926)	26,862	(11,754,064)
\$	4,510,575	-	4,510,575
	309,949	-	309,949
	887,152	-	887,152
	6,594,255	-	6,594,255
	172,002	9,844	181,846
	40,926	-	40,926
	1,410	-	1,410
	12,516,269	9,844	12,526,113
	735,343	36,706	772,049
	11,008,901	287,869	11,296,770
\$	11,744,244	324,575	12,068,819

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
GOVERNMENTAL FUND BALANCE SHEET
YEAR ENDED JUNE 30, 2008**

ASSETS	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
Assets:				
Cash and pooled investments	\$ 4,508,609	8,402,022	1,804,751	14,715,382
Receivables:				
Property tax:				
Delinquent	61,250	-	10,483	71,733
Succeeding year	3,734,795	-	582,842	4,317,637
Accounts	2,342	-	171	2,513
Accrued interest	31,988	80,607	7,794	120,389
Due from other governments	311,956	217,286	-	529,242
Prepaid expenses	1,682	-	-	1,682
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ <u>8,652,622</u>	<u>8,699,915</u>	<u>2,406,041</u>	<u>19,758,578</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 240,941	88,810	85,271	415,022
Salaries and benefits payable	1,351,932	-	-	1,351,932
Deferred revenue:				
Succeeding year property tax	3,734,795	-	582,842	4,317,637
Other	6,656	-	399	7,055
Total liabilities	<u>5,334,324</u>	<u>88,810</u>	<u>668,512</u>	<u>6,091,646</u>
Fund balances:				
Reserved for debt service	-	-	659,769	659,769
Reserved for prepaid expenses	1,682	-	-	1,682
Unreserved	<u>3,316,616</u>	<u>8,611,105</u>	<u>1,077,760</u>	<u>13,005,481</u>
Total fund balances	<u>3,318,298</u>	<u>8,611,105</u>	<u>1,737,529</u>	<u>13,666,932</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	\$ <u>8,652,622</u>	<u>8,699,915</u>	<u>2,406,041</u>	<u>19,758,578</u>

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, 2008**

Total fund balances of governmental funds		\$ 13,666,932
<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.		7,432,396
Other long-term assets are not available to pay for current period expenditures, and therefore, are deferred in the governmental funds.		3,076
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.		(41,074)
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>(9,317,086)</u>
Net assets of governmental activities		\$ <u>11,744,244</u>

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008**

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
Revenues:				
Local sources:				
Local tax	\$ 4,172,689	887,152	656,030	5,715,871
Tuition	875,708	-	-	875,708
Other	350,556	110,770	640,092	1,101,418
State sources	7,994,997	-	-	7,994,997
Federal sources	410,350	-	-	410,350
Total revenues	<u>13,804,300</u>	<u>997,922</u>	<u>1,296,122</u>	<u>16,098,344</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	6,486,968	-	153,232	6,640,200
Special instruction	1,955,078	-	-	1,955,078
Other instruction	1,044,039	-	518,191	1,562,230
	<u>9,486,085</u>	<u>-</u>	<u>671,423</u>	<u>10,157,508</u>
Support services:				
Student services	544,349	-	-	544,349
Instructional staff services	379,264	-	22,704	401,968
Administration services	1,209,432	-	134,706	1,344,138
Operation and maintenance of plant services	1,085,457	-	54,434	1,139,891
Transportation services	678,249	-	19,068	697,317
Other support services	-	-	969	969
	<u>3,896,751</u>	<u>-</u>	<u>231,881</u>	<u>4,128,632</u>
Other expenditures:				
Facilities acquisition	-	362,910	299,825	662,735
Long-term debt:				
Principal	-	-	714,900	714,900
Interest and fiscal charges	-	23,172	24,508	47,680
AEA flowthrough	519,167	-	-	519,167
Total	<u>519,167</u>	<u>386,082</u>	<u>1,039,233</u>	<u>1,944,482</u>
Excess (deficiency) of revenues over (under) expenditures	<u>13,902,003</u>	<u>386,082</u>	<u>1,942,537</u>	<u>16,230,622</u>
	(97,703)	611,840	(646,415)	(132,278)
Other financing sources (uses):				
Sale of fixed assets	1,410	-	-	1,410
Sale of general obligation bonds, net of discount	-	7,890,375	-	7,890,375
Operating transfers in	-	-	186,798	186,798
Operating transfers out	(5,243)	(181,555)	-	(186,798)
Total other financing sources (uses)	<u>(3,833)</u>	<u>7,708,820</u>	<u>186,798</u>	<u>7,891,785</u>
Net change in fund balances	(101,536)	8,320,660	(459,617)	7,759,507
Fund balances beginning of year	<u>3,419,834</u>	<u>290,445</u>	<u>2,197,146</u>	<u>5,907,425</u>
Fund balances end of year	\$ <u><u>3,318,298</u></u>	<u><u>8,611,105</u></u>	<u><u>1,737,529</u></u>	<u><u>13,666,932</u></u>

See notes to financial statements
HARLAN COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

Net change in fund balances – total governmental funds \$ 7,759,507

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	\$ 655,424	
Depreciation expense	<u>(444,585)</u>	
		210,839

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. (8,195)

Issuance of long-term debt principal is an other financing source in the governmental funds, but it increases long-term liabilities in the Statement of Net Assets. (7,890,375)

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. 714,900

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. (40,324)

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	(10,752)	
Compensated absences	<u>(257)</u>	
		<u>(11,009)</u>

Change in net assets of governmental activities **\$ 735,343**

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008**

		School Nutrition
Assets		
Cash and cash equivalents	\$	233,674
Accounts receivable		4,457
Inventories		16,031
Capital assets, net of accumulated depreciation		121,688
Total assets		375,850
 Liabilities		
Accounts payable		1,615
Salaries and benefits payable		38,503
Deferred revenue		11,157
Total liabilities		51,275
 Net Assets		
Invested in capital assets, net of related debt		121,688
Unrestricted		202,887
Total net assets	\$	324,575

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008**

	School Nutrition
Operating revenue:	
Local sources:	
Charges for service	\$ 431,351
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	255,417
Benefits	34,332
Purchased services	8,328
Supplies	384,081
Depreciation	14,806
Total operating expenses	696,964
Operating loss	(265,613)
Non-operating revenue:	
State sources	9,456
Federal sources	283,019
Interest on investments	9,844
Total non-operating revenue	302,319
Change in net assets	36,706
Net assets beginning of year	287,869
Net assets end of year	\$ 324,575

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008**

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 429,630
Cash payments to employees for services	(286,992)
Cash payments to suppliers for goods or services	(379,452)
Net cash used in operating activities	(236,814)
Cash flows from non-capital financing activities:	
State grants received	9,456
Federal grants received	242,214
Net cash provided by non-capital financing sources	251,670
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(21,729)
Cash flows from investing activities:	
Interest on investments	9,844
Net increase in cash and cash equivalents	2,971
Cash and cash equivalents, beginning of year	230,703
Cash and cash equivalents, end of year	\$ 233,674
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (265,613)
Commodities used	40,805
Depreciation	14,806
Increase in receivables	(3,117)
Decrease in inventories	(4,968)
Increase in accounts payable	(22,880)
Increase in salaries and benefits payable	2,757
Increase in deferred revenue	1,396
Net cash used in operating activities	\$ (236,814)

Non-cash investing, capital and financing activities:

During the year ended June 30, 2008, the District received \$40,805 of federal commodities.

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS – FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2008**

	Private Purpose Trust	
	Scholarshi p	Agency
Assets		
Cash and pooled investments	\$ 37,865	\$ 736
Liabilities		
Accounts payable	-	71
Due to other governments	-	665
	-	736
Net Assets		
Reserved for scholarships	\$ 37,865	\$ -

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS – FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2008**

		Private Purpose Trust <hr/> Scholarshi p <hr/>
Additions:		
Local sources:		
Gifts and contributions	\$	3,776
Interest		<u>1,308</u>
Total additions		5,084
 Deductions:		
Support services:		
Scholarship awarded		<u>2,348</u>
 Change in net assets		2,736
 Net assets beginning of year		<u>35,129</u>
 Net assets end of year	\$	<u><u>37,865</u></u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

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, 2008**

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.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

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, 2008**

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, 2008**

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, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

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, 2008**

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, 2008. 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, 2008**

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, 2008, disbursements in the non-instructional support function exceeded the amount budgeted. The District did not exceed its General Fund unspent authorized budget.

NOTE 2 Cash and Pooled Investments

The District's deposits in banks at June 30, 2008 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, 2008, the District had investments in the Iowa Schools Joint Investment Trust as follows:

<u>Type</u>	<u>Amortized Cost</u>
Diversified Portfolio	\$ <u>3,638,391</u>

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

**HARLAN COMMUNITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2008**

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 investment in the Iowa Schools Joint Investment was rated AAA by Moody's Investors Service.

NOTE 3 Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General	5,243
	Capital Projects	<u>181,555</u>
		\$ <u><u>186,798</u></u>

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

NOTE 4 Capital Assets

Capital assets activity for the year ended June 30, 2008 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	-	500,903	-	500,903
Total capital assets not being depreciated	<u>25,700</u>	<u>500,903</u>	<u>-</u>	<u>526,603</u>
Capital assets being depreciated:				
Buildings	9,689,151	17,820	-	9,706,971
Improvements other than buildings	620,094	-	-	620,094
Furniture and equipment	2,728,355	136,701	236,006	2,629,050
Total capital assets being depreciated	<u>13,037,600</u>	<u>154,521</u>	<u>236,006</u>	<u>12,956,115</u>
Less accumulated depreciation for:				
Buildings	3,412,467	208,735	-	3,621,202
Improvements other than buildings	315,434	17,289	-	332,723
Furniture and equipment	2,113,842	218,561	236,006	2,096,397
Total accumulated depreciation	<u>5,841,743</u>	<u>444,585</u>	<u>236,006</u>	<u>6,050,322</u>
Total capital assets being depreciated, net	<u>7,195,857</u>	<u>(290,064)</u>	<u>-</u>	<u>6,905,793</u>
Governmental activities capital assets, net	<u>\$ 7,221,557</u>	<u>210,839</u>	<u>-</u>	<u>7,432,396</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 209,715	21,729	-	231,444
Less accumulated depreciation	94,950	14,806	-	109,756
Business-type activities capital assets, net	<u>\$ 114,765</u>	<u>6,923</u>	<u>-</u>	<u>121,688</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 63,703
Other	17,478
Support Services:	
Student services	1,611
Administration	1,267
Operation and maintenance of plant	23,561
Transportation	<u>117,988</u>

	<u>225,608</u>
Unallocated depreciation	<u>218,977</u>
Total governmental activities depreciation expense	\$ <u>444,585</u>
Business-type activities:	
Food services	\$ <u>14,806</u>

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

NOTE 5 Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2008 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 855,000	7,950,000	710,000	8,095,000	445,000
Unamortized discount	-	(59,625)	(1,611)	(58,014)	-
Sales tax bonds	100,000	-	-	100,000	100,000
Quality Zone Academy bonds	1,000,000	-	-	1,000,000	-
Truck loan	4,900	-	4,900	-	-
Early retirement	103,832	10,752	-	114,584	23,500
Compensated absences	65,259	257	-	65,516	65,516
Total	\$ 2,128,991	7,901,384	713,289	9,317,086	634,016

General Obligation Bonds

Details of the District's June 30, 2008 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issued March 31, 1999		Bond Issued February 1, 2008		Total
	Interest Rate	Principal	Interest Rate	Principal	Principal
2009	2.85%	\$ 145,000	3.25%	\$ 300,000	\$ 445,000
2010	-	-	3.25%	420,000	420,000
2011	-	-	3.35%	435,000	435,000
2012	-	-	3.50%	450,000	450,000
2013	-	-	3.50%	470,000	470,000
2014-2018	-	-	3.50-3.75%	2,650,000	2,650,000
2019-2023	-	-	3.75-4.00%	3,225,000	3,225,000
		<u>\$ 145,000</u>		<u>\$ 7,950,000</u>	<u>\$ 8,095,000</u>

Year Ending June 30,	Bond Issued March 31, 1999		Bond Issued February 1, 2008		Total	
	Interest	Interest	Discount Amortization	Interest	Discount Amortization	
2009	\$ 2,066	\$ 387,400	\$ 3,868	\$ 389,466	\$ 3,868	
2010	-	280,800	3,868	280,800	3,868	
2011	-	267,150	3,868	267,150	3,868	
2012	-	252,578	3,868	252,578	3,868	
2013	-	236,828	3,868	236,828	3,868	
2014-2018	-	922,840	19,340	922,840	19,340	
2019-2023	-	391,720	19,334	391,720	19,334	
	<u>\$ 2,066</u>	<u>\$ 2,739,316</u>	<u>\$ 58,014</u>	<u>\$ 2,741,382</u>	<u>\$ 58,014</u>	

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

NOTE 5 Long-Term Liabilities (continued)

Sales Tax Bond Payable

Detail of the District's June 30, 2008 sales tax bond indebtedness is as follows:

Year Ending June 30,	Bond Issue of March 31, 1999			Total
	Interest Rates	Principal	Interest	
2009	4.50 %	\$ 100,000	2,250	102,250

The District has pledged future local option sales and service tax revenues to repay the \$100,000 bonds issued in March 1999. 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. The total principal and interest remaining to be paid on the bonds is \$102,250. For the current year, no principal and interest of \$4,500 was paid on the bonds, and total local option sales and service tax revenues were \$882,152.

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, 2008 totaled \$19,327. A liability has been recorded in the District-wide financial statements representing the District's commitment to fund early retirement benefits.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

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, 2008 totaled \$26,400. Future required minimum lease payments are as follows:

Year Ended June 30,	Amount
2009	\$ 26,400
2010	26,400
2011	26,400
2012	26,400
2013	26,400
2014-2018	132,000
2019-2023	132,000
2024-2028	132,000
2029-2033	132,000
2034-2038	132,000
2039-2043	132,000
2044-2045	28,600
	<u>\$ 952,600</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 3.90% of their annual salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007, and 2006, were \$547,810, \$473,036, and \$451,051, 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, 2008**

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 \$519,167 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

NOTE 10 Construction Commitment

The District had the following construction commitments at June 30, 2008:

<u>Project</u>	<u>Estimated Contract Price</u>	<u>Paid to Date</u>	<u>Remaining Commitment</u>	<u>Retainage Payable</u>
Chiller/Lighting Replacement Construction	\$ 755,274	71,500	683,774	3,763
Elementary Building Engineer	\$ 470,000	343,100	<u>84,600</u>	<u>-</u>
			\$ <u><u>768,374</u></u>	<u><u>3,763</u></u>

NOTE 11 Subsequent Events

The District approved a contract in August 2008 for construction of a new elementary building for \$9,213,700.

In September 2008, the District approved a bid of \$43,248 for an elementary storage building, and a bid of \$106,220 for purchase of a bus.

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, 2008**

	Governmental Fund Types <u>Actual</u>	Proprietary Fund Types <u>Actual</u>	Total <u>Actual</u>
Receipts:			
Local sources	\$ 7,692,997	441,195	8,134,192
State sources	7,994,997	9,456	8,004,453
Federal sources	410,350	283,019	693,369
Total receipts	<u>16,098,344</u>	<u>733,670</u>	<u>16,832,014</u>
Disbursements:			
Instruction	10,157,508	-	10,157,508
Support services	4,128,632	-	4,128,632
Non-instructional programs	-	696,964	696,964
Other expenditures	1,944,482	-	1,944,482
Total disbursements	<u>16,230,622</u>	<u>696,964</u>	<u>16,927,586</u>
Excess (deficiency) of receipts over (under) disbursements	(132,278)	36,706	(95,572)
Other financing sources, net	<u>7,891,785</u>	<u>-</u>	<u>7,891,785</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	7,759,507	36,706	7,796,213
Balances beginning of year	<u>5,907,425</u>	<u>287,869</u>	<u>6,195,294</u>
Balances end of year	<u>\$ 13,666,932</u>	<u>324,575</u>	<u>13,991,507</u>

See Accompanying Independent Auditors' Report

<u>Budgeted Amounts</u>		<u>Final to Actual Variance Positive (Negative)</u>
<u>Original</u>	<u>Final</u>	
8,172,807	8,172,807	(38,615)
7,976,300	7,976,300	28,153
615,560	615,560	77,809
<u>16,764,667</u>	<u>16,764,667</u>	<u>67,347</u>
10,767,250	10,767,250	609,742
4,186,500	4,252,000	123,368
680,100	680,100	(16,864)
1,823,332	2,225,632	281,150
<u>17,457,182</u>	<u>17,924,982</u>	<u>997,396</u>
(692,515)	(1,160,315)	1,064,743
<u>1,000</u>	<u>1,000</u>	<u>7,890,785</u>
(691,515)	(1,159,315)	8,955,528
<u>5,376,588</u>	<u>5,376,588</u>	<u>818,706</u>
<u>4,685,073</u>	<u>4,217,273</u>	<u>9,774,234</u>

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2008**

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 \$529,596.

During the year ended June 30, 2008, disbursements in the non-instructional support function exceeded the amount budgeted and the District did not exceed its General Fund unspent authorized budget.

OTHER SUPPLEMENTARY INFORMATION

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008**

	Special Revenue		
	Management Levy	Physical Plant and Equipment	Student Activity
Assets			
Assets:			
Cash and pooled investments	\$ 315,921	1,364,375	122,642
Receivables:			
Property Tax:			
Current year	5,487	4,996	-
Succeeding year	239,293	343,549	-
Accounts	-	-	171
Accrued interest	-	7,794	-
Total assets	\$ 560,701	1,720,714	122,813
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	\$ -	73,974	11,297
Deferred revenue:			
Succeeding year property tax	239,293	343,549	-
Other	171	228	-
Total liabilities	239,464	417,751	11,297
Fund balances:			
Reserved for:			
Debt Service	-	657,956	-
Unreserved	321,237	645,007	111,516
Total fund balances	321,237	1,302,963	111,516
Total liabilities and fund equity	\$ 560,701	1,720,714	122,813

See Accompanying Independent Auditors' Report

Schedule 1

<u>Debt Service</u>	<u>Total</u>
1,813	1,804,751
-	10,483
-	582,842
-	171
-	<u>7,794</u>
<u>1,813</u>	<u>2,406,041</u>
-	85,271
-	582,842
-	399
-	<u>668,512</u>
1,813	659,769
-	1,077,760
<u>1,813</u>	<u>1,737,529</u>
<u>1,813</u>	<u>2,406,041</u>

**HARLAN COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2008**

	Special Revenue		
	Management Levy	Physical Plant and Equipmen t	Student Activity
Revenues:			
Local sources:			
Local Tax	\$ 336,417	319,613	-
Other	36,119	55,166	531,216
Total revenues	<u>372,536</u>	<u>374,779</u>	<u>531,216</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	115,858	37,374	-
Other instruction	-	-	518,191
	<u>115,858</u>	<u>37,374</u>	<u>518,191</u>
Support services:			
Instructional staff services	22,704	-	-
Administration services	134,706	-	-
Operation and maintenance of plant services	39,634	14,800	-
Transportation services	19,068	-	-
Other support services	969	-	-
	<u>217,081</u>	<u>14,800</u>	<u>-</u>
Other expenditures:			
Facilities acquisition	-	299,825	-
Long-term debt:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
	<u>-</u>	<u>299,825</u>	<u>-</u>
Total expenditures	<u>332,939</u>	<u>351,999</u>	<u>518,191</u>
Excess (deficiency) of revenues over (under) expenditures	39,597	22,780	13,025
Other financing sources (uses):			
Operating transfers in	-	-	-
Net changes in fund balances	39,597	22,780	13,025
Fund balances beginning of year	<u>281,640</u>	<u>1,280,183</u>	<u>98,491</u>
Fund balances end of year	<u>\$ 321,237</u>	<u>1,302,963</u>	<u>111,516</u>

See Accompanying Independent Auditors' Report

<u>Debt Service</u>	<u>Total</u>
-	656,030
17,591	640,092
<u>17,591</u>	<u>1,296,122</u>
-	153,232
-	518,191
<u>-</u>	<u>671,423</u>
-	22,704
-	134,706
-	54,434
-	19,068
-	969
<u>-</u>	<u>231,881</u>
-	299,825
714,900	714,900
24,508	24,508
<u>739,408</u>	<u>1,039,233</u>
<u>739,408</u>	<u>1,942,537</u>
(721,817)	(646,415)
<u>186,798</u>	<u>186,798</u>
(535,019)	(459,617)
<u>536,832</u>	<u>2,197,146</u>
<u><u>1,813</u></u>	<u><u>1,737,529</u></u>

HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND - STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2008

	Balance Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance End of Year
Drama	\$ 3,367	943	790	-	3,520
Thespians	473	13	-	-	486
HS vocal music	56	3,368	2,438	-	986
MS vocal music	278	8	-	-	286
HS instrumental music	815	2,001	3,871	1,100	45
HS jazz	347	4,916	7,277	2,020	6
MS jazz	247	620	799	-	68
MS flag corp	80	3	35	-	48
Honor choir	10	3	190	369	192
HS flag corp	1,405	43	670	600	1,378
Baton	744	1,130	1,491	-	383
Athletics	15,629	199,617	208,762	11,915	18,399
Activity tickets	52	20,058	48	(19,649)	413
Cheerleaders	2,564	13,531	16,398	1,321	1,018
FFA	9,189	78,187	70,813	(7,983)	8,580
Harpoon	14,355	8,068	6,352	1,100	17,171
Entrepreneurial vending	-	18,965	24,629	5,664	-
National honor society	942	188	1,684	1,225	671
BPA	198	28,672	29,652	940	158
Science club	516	14	-	-	530
Spanish club	2,076	570	524	-	2,122
Student council	3,697	12,286	14,622	1,350	2,711
Pom pom	1,618	1,932	1,370	-	2,180
Destination imagination	461	21	128	-	354
Key Club	741	3,790	2,228	337	2,640
For the birds	1,185	657	1,098	225	969
Speech	1,505	316	1,621	-	200
FCCLA Club	847	303	1,009	725	866
FEA Club	1,565	44	-	-	1,609
Friends of Rachele	-	877	53	(758)	66
Class of 2007	2,183	36	-	(2,183)	36
Class of 2008	1,175	130	1,799	1,012	518
Class of 2009	2,872	1,547	4,280	928	1,067
Class of 2010	1,142	1,280	780	-	1,642
Class of 2011	-	1,179	-	-	1,179
Prom	1,167	13,438	10,194	(1,940)	2,471
HS miscellaneous	-	9,016	8,966	-	50
Hosa fund	-	382	591	209	-
Jel fund	-	906	524	-	382
Concessions	3,962	27,277	20,852	(5,225)	5,162
Vending	9,158	8,978	12,890	6,617	11,863
MS cheerleading	1,825	1,653	1,056	-	2,422
MS vending	321	7,151	4,854	(1,500)	1,118
MS student council	823	31,956	27,984	-	4,795
MS yearbook	2,113	3,958	2,583	-	3,488
MS drama	-	822	1,087	500	235
MS building improvements	-	1,008	736	-	272
MS builders fund	85	176	261	-	-
MS student fund	1,094	11,780	12,239	781	1,416
New Park student fund	1,645	4,865	3,068	150	3,592
West Ridge student fund	3,392	2,518	4,895	150	1,165
West Ridge student store	572	16	-	-	588
Total	\$ 98,491	531,216	518,191	-	111,516

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
YEAR ENDED JUNE 30, 2008**

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance End of Year</u>
Assets				
Cash	\$ 2,367	4,246	5,877	736
Total assets	<u>2,367</u>	<u>4,246</u>	<u>5,877</u>	<u>736</u>
Liabilities				
Accounts payable	-	71	-	71
Due to other governments	2,367	4,175	5,877	665
Total liabilities	<u>\$ 2,367</u>	<u>4,246</u>	<u>5,877</u>	<u>736</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			
	2008	2007	2006	2005
Revenues:				
Local sources:				
Local Tax	\$ 5,715,871	4,475,863	5,143,601	4,779,429
Tuition	875,705	1,163,555	1,018,745	749,905
Other	1,101,418	2,003,624	1,125,999	901,406
State sources	7,994,997	7,621,498	7,045,015	6,597,218
Federal sources	410,350	464,915	567,328	645,349
Total	<u>\$ 16,098,341</u>	<u>15,729,455</u>	<u>14,900,688</u>	<u>13,673,307</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 6,640,200	6,094,933	5,697,085	5,467,395
Special instruction	1,955,078	2,305,201	2,055,594	1,490,215
Other instruction	1,562,230	1,429,800	1,404,287	1,561,313
Support services:				
Student services	544,349	432,183	490,975	519,832
Instructional staff services	401,968	420,718	353,555	316,907
Administration services	1,344,138	1,253,482	1,244,337	1,053,037
Operation and maintenance of plant services	1,139,891	1,080,158	1,048,294	1,328,061
Transportation services	697,317	800,819	689,655	526,169
Other support services	969	-	-	-
Non-instructional programs	-	-	-	44
Other expenditures:				
Facilities acquisition	662,735	269,496	375,293	-
Long-term debt:				
Principal	714,900	699,909	669,659	653,396
Interest and fiscal charges	47,680	43,324	70,377	119,264
AEA flowthrough	519,167	498,288	458,259	449,820
Total	<u>\$ 16,230,622</u>	<u>15,328,311</u>	<u>14,557,370</u>	<u>13,485,453</u>

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

<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)	10.555	FY08	\$ 40,805
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY08	36,060
National School Lunch Program	10.555	FY08	206,154
			<u>242,214</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY08	159,333
Vocational Education – Basic Grants to States	84.048	FY08	15,211
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY08	6,838
State Grants for Innovative Programs	84.298	FY08	13,247
Improving Teacher Quality State Grants	84.367	FY08	59,434
Title IVA – Grants for State Assessments	84.369	FY08	11,042
Loess Hills Area Education Agency:			
Individuals with Disabilities Education Act (IDEA)			
Special Education – Grants to State	84.027	FY08	84,865
Carol M. White Physical Education Program	84-215F	FY08	13,677
			<u>13,677</u>
Total			<u>\$ 646,666</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.

**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**

December 10, 2008

**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, 2008, and have issued our report thereon dated December 10, 2008. 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.

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.

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.

Continued. . .

December 10, 2008
Harlan Community School District
Internal Control and Compliance Report

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 did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 a certain immaterial instance of non-compliance that is 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, 2008 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**

December 10, 2008

**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, 2008. 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, 2008.

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, 2008**

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) No significant deficiencies or material weaknesses in internal control over financial reporting were noted.
- (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, 2008**

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

No matters were reported.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

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, 2008**

Part IV: Other Findings Related to Statutory Reporting:

IV-A-08 Certified Budget

Comment – Expenditures for the year ended June 30, 2008 exceeded the amended certified budget amount in the non-instructional support function.

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

Response – Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion – Response accepted.

IV-B-08 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-08 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-08 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	\$ 11,904
Mike Bierl, employee, owner of Same Printing	T-shirts	\$ 6,875

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.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008**

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

IV-E-08 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-08 Board Minutes

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

IV-G-08 Certified Enrollment

No variances in the basic enrollment data certified to the Department of Education were noted.

IV-H-08 Deposits and Investments

No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the District's investment policy were noted.

IV-I-08 Certified Annual Report

The Certified Annual Report was certified timely to the Iowa Department of Education.

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 \$16,825,229 for the year ended June 30, 2008, a 2.4 percent increase from the prior year. Revenues included \$5,707,676, in local tax, charges for service of \$2,011,925, operating grants, contributions and restricted interest of \$2,176,421, capital grants, contributions and restricted interest of \$110,770, unrestricted interest of \$181,846, and other general revenues of \$6,636,591.

Expenses for District operation totaled \$16,053,180, a 5.8 percent increase from the prior year. Expenses included \$6,688,021 for regular instruction, \$1,579,708 for other instruction, and \$1,955,078 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.

December 10, 2008

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, 2008. Please review it and let me know if you have any changes. I still need your updated MD & A.

Please sign and have Mr. Decker sign the client representation letter and also return to me.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/jb

December 10, 2008

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, 2008.

- 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, 2008

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 10, 2008

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, 2008.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh
Enc.

Harlan Community School District

Hours Worked:

December 10, 2008

To 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 information of the Harlan Community School District, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 10, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated December 7, 2005, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with the cash basis of accounting. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Harlan Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Harlan Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance 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. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Harlan Community School District's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Harlan Community School District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Harlan Community School District's compliance with those requirements.

Continued...

December 10, 2008
Harlan Community School District
Communication with Those Charged with Governance

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on October 6, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Harlan Community School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or to the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 10, 2008.

Continued...

December 10, 2008
Harlan Community School District
Communication with Those Charged with Governance

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultation has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to the retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and management of the Harlan Community School District, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

SCHROER & ASSOCIATES, P.C.

