

**HARLAN COMMUNITY SCHOOL DISTRICT**  
**INDEPENDENT AUDITORS' REPORT**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTAL INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2009**

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**HARLAN COMMUNITY SCHOOL DISTRICT**



Marilyn Schroer, CPA  
Diane McGrain, CPA  
Barbara Mass, CPA

December 3, 2009

## 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, 2009, 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, 2009, 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 3, 2009, 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.

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December 3, 2009  
Harlan Community School District  
Independent Auditors' Report

The Management's Discussion and Analysis and budgetary comparison information on pages 8 through 17 and 47 through 49 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 four years ended June 30, 2008, (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.

*Schroer & Associates, P.C.*

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2009. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2009 Financial Highlights**

- General Fund revenues increased \$351,558 from \$13,804,300 in fiscal 2008 to \$14,155,858 in fiscal 2009, while General Fund expenditures increased \$750,434 from \$13,902,003 in fiscal 2008 to \$14,652,437 in fiscal 2009. The net increase in revenues and expenditures resulted in an decrease in the District's General Fund balance from \$3,318,298 in fiscal 2008 to \$2,822,543 in fiscal 2009 a 14.9 percent decrease from the prior year.
- The increase in General Fund revenues was attributable to State Teacher Compensation, and State Foundation Aid in fiscal 2009. The increase in expenditures was due primarily to wages, and employee benefits.
- The District's General Fund financial transactions resulted in the District's solvency ratio to decrease from 23.5% for 2008 to 18.2% for 2009. 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 continued replacing the chiller in the high school building in an effort to improve the HVAC system. Additionally the District completed the installation of high efficient light fixtures in the high school.
- In May 2009 the District issued a \$6,330,000 revenue bond. The 2009 revenue bond proceeds, combined with the 2008 \$7,950,000 general obligation bond proceeds, are being used to construct an addition to an elementary building. The estimated project cost is \$10,490,000. Construction is expected to be completed in March 2010. Students will begin attending classes in the building in August 2010. The remaining bond proceeds will be used for renovation of the elementary kitchen and high school facility. The elementary kitchen project is anticipated to begin in April 2010 and completed before the 2010-2011 school year. The District is currently working with architects and engineers on the high school renovation plans.
- In Fiscal 2009 the District spent the remaining \$577,759 Quality Zone Academy Bond (QZAB) proceeds on the high school chiller project.

## 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.

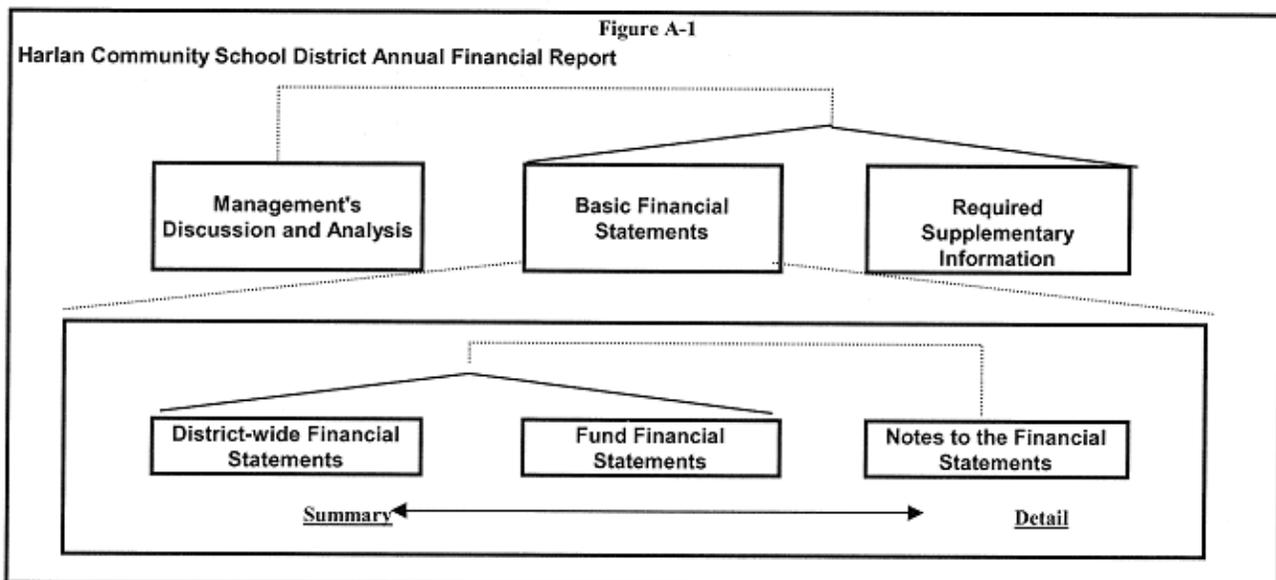


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
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, 2008 and 2009.

	Figure A-3 Condensed Statement of Net Assets						
	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-2009
Current and other assets	\$ 21,122,849	\$ 19,758,578	\$ 282,482	\$ 254,162	\$ 21,405,331	\$ 20,012,740	7.0%
Capital assets	14,199,531	7,432,396	125,374	121,688	14,324,905	7,554,084	89.6%
Total assets	35,322,380	27,190,974	407,856	375,850	35,730,236	27,566,824	29.6%
Long-term obligations	14,961,231	9,317,086	-0-	-0-	14,961,231	9,317,086	60.6%
Other liabilities	8,410,407	6,429,644	55,767	51,275	8,466,174	6,180,919	37.0%
Total liabilities	23,371,638	15,446,730	55,767	51,275	23,427,405	15,498,005	51.2%
Net assets:							
Invested in capital assets							
Net of related debt	7,433,050	6,377,462	125,374	121,688	7,558,424	6,499,150	16.3%
Restricted	1,937,427	2,178,988	-0-	-0-	1,937,427	2,178,988	(11.1%)
Unrestricted	2,580,265	3,187,794	226,715	202,887	2,806,980	3,390,681	(17.2%)
Total net assets	\$ 11,950,742	\$ 11,744,244	\$ 352,089	\$ 324,575	\$ 12,302,831	\$ 12,068,819	1.9%

The District's combined net assets increased by more than 1.9 percent or \$234,012 over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$241,561 or (11.1) percent from the prior year. The decrease was primarily a result of the expenditure of the Qualified Zone Academy Bond proceeds.

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 \$583,701 or 17.2 percent. The decrease is the result of restricting categorical funding and expenditures exceeding revenues.

**Changes in net assets** – Figure A-4 shows the changes in net assets for the year ended June 30, 2009.

Figure A-4  
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total School District	
	June 30,		June 30,		June 30,	
	2009	2008	2009	2008	2009	2008
<b>Revenues:</b>						
Program revenues:						
Charges for services and sales	\$ 1,670,377	\$ 1,580,574	\$ 433,553	\$ 431,351	\$ 2,103,930	\$ 2,011,925
Operating grants, contributions and restricted interest	2,185,718	1,883,946	303,736	292,475	2,489,454	2,176,421
Capital grants, contributions, and restricted interest	149,319	110,770	-0-	-0-	149,319	110,770
General revenue:						
Property tax	4,960,431	4,820,524	-0-	-0-	4,960,431	4,820,524
Local option sales tax	909,641	887,152	-0-	-0-	909,641	887,152
Unrestricted state grants	6,515,772	6,594,255	-0-	-0-	6,515,772	6,594,255
Unrestricted investment earnings	79,420	172,002	2,500	9,844	81,920	181,846
Other	44,182	42,336	-0-	-0-	44,182	42,336
Total revenues	<u>16,514,860</u>	<u>16,091,559</u>	<u>739,789</u>	<u>733,670</u>	<u>17,254,649</u>	<u>16,825,229</u>
<b>Program expenses:</b>						
Governmental activities:						
Instruction	10,607,011	10,222,807	-0-	-0-	10,607,011	10,222,807
Support services	4,370,804	4,145,429	-0-	-0-	4,370,804	4,145,429
Non-instructional programs	-0-	-0-	712,275	696,964	712,275	696,964
Other expenses	1,330,547	987,980	-0-	-0-	1,330,547	987,980
Total expenses	<u>16,308,362</u>	<u>15,356,216</u>	<u>712,275</u>	<u>696,964</u>	<u>17,020,637</u>	<u>16,053,180</u>
Change in net assets	\$ <u>206,498</u>	\$ <u>735,343</u>	\$ <u>27,514</u>	\$ <u>36,706</u>	\$ <u>234,012</u>	\$ <u>772,049</u>

Property tax and unrestricted state grants account for 66.5 percent of total revenue. The District's expenses primarily relate to instruction and support services which account for 88 percent of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$16,514,860 for fiscal 2009 and \$16,091,559 for fiscal 2008. Expenses were \$16,308,362 for fiscal 2009 and \$15,356,216 for fiscal 2008. 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.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services		Net Cost of Services	
	June 30,		June 30,	
	2009	2008	2009	2008
Instruction	\$ 10,607,011	\$ 10,222,807	\$ 7,511,391	\$ 7,452,859
Support services	4,370,804	4,145,429	4,235,257	4,042,781
Other expenses	1,330,547	987,980	556,300	285,286
Totals	<u>\$ 16,308,362</u>	<u>\$ 15,356,216</u>	<u>\$ 12,302,948</u>	<u>\$ 11,780,926</u>

- The cost financed by users of the District's programs was \$1,670,377 for 2009 and \$1,580,574 for 2008.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,335,037 for 2009 and \$1,994,716 for 2008.
- The net cost of governmental activities was financed with the following:

	<u>June 30, 2009</u>		<u>June 30, 2008</u>
Property Taxes	\$ 4,960,431	\$	4,820,524
Local Option Sales Tax	\$ 909,641	\$	887,152
State Unrestricted	\$ 6,515,772	\$	6,594,255
Interest Income	\$ 79,420	\$	172,002
Other Revenue	\$ 44,182	\$	42,336

### **Business-Type Activities**

Revenues of the District's business-type activities were \$739,789 for 2009 and \$723,826 for 2008, and expenses were \$712,275 for 2009 and \$696,964 for 2008. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements, and investment income.

### **Individual Fund Analysis**

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$12,757,477 for 2009 and \$13,666,932 for 2008. The primary reasons for the decrease in combined fund balances in fiscal 2009 are due to expending bond proceeds and the use of fund balance to cover current expenditures. The District has seen a slight decrease in enrollment due to changes in legislation. 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 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 some increases in expenditures. However, due to the current economic conditions the State of Iowa cut the District's funding. The District also saw an increase in wages and employee benefits resulting in expenditures exceeding revenues.
- The General Fund balance decreased from \$3,318,298 to \$2,822,543 due in part to increased wages and employee benefits.
- The Capital Project Fund balance increased from \$8,611,105 to \$8,657,818 due to unexpended bond proceeds. Bond proceeds will be expended for the construction of an elementary building addition, furnishings, and equipment, elementary kitchen renovation, and high school renovations.

- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$1,302,963 fiscal 2008 to \$793,045 fiscal 2009. The primary reason for the decrease was the result of the High School chiller and lighting project.
- The Management Fund balance increased due to an increase in revenues. The District will use the carryover balance to cover increased insurance costs in FY2010.
- 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 \$324,575 at June 30, 2008 to \$352,089 at June 30, 2009, representing an increase of approximately 8.5%. As previously noted, the District experienced increased sales and federal funding.

### Budgetary Highlights

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 for internal services, private-purpose trusts and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the accrual basis. The District operated within its amended certified budget. A schedule showing the original and final budget amounts compared to the District's actual financial activity are included in the required supplementary information section of this report.

### Capital Asset and Debt Administration

#### Capital Assets

At June 30, 2009, the District had invested \$14.3 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 \$439,025.

The original cost of the District's capital assets was \$20.9 million. Governmental funds account for \$20.7 million with the remainder of \$.2 million in the Proprietary, School Nutrition Fund.

The significant capital assets activities include the High School chiller, Elementary addition, and purchase of vehicles.

**Figure A-6**

	Capital Assets, net of Depreciation					
	Governmental Activities		Business-type Activities		Total School District	
	June 30,		June 30,		June 30,	
	2009	2008	2009	2008	2009	2008
Land	\$ 25,700	\$ 25,700	\$ -0-	\$ -0-	\$ 25,700	\$ 25,700
Improvements other than buildings	\$ 264,338	\$ 287,371	\$ -0-	\$ -0-	\$ 264,338	\$ 287,371
Construction in Progress	\$ 6,614,742	\$ 500,903	\$ -0-	\$ -0-	\$ 6,614,742	\$ 500,903
Buildings	\$ 6,695,826	\$ 6,085,769	\$ -0-	\$ -0-	\$ 6,695,826	\$ 6,085,769
Furniture and equipment	\$ 598,925	\$ 532,653	\$ 125,374	\$ 121,688	\$ 724,299	\$ 654,341
Totals	<u>\$ 14,199,531</u>	<u>\$ 7,432,396</u>	<u>\$ 125,374</u>	<u>\$ 121,688</u>	<u>\$ 14,324,905</u>	<u>\$ 7,554,084</u>

## Long-Term Debt

At June 30, 2009 the District had \$14,961,231 general obligation and other long-term debt outstanding. This represents an increase of approximately 60.1% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

	Total School District		Total Change 2009-2008
	2009	2008	
General obligation bonds	\$ 7,595,854	8,036,986	(5.5) %
Revenue Bonds	\$ 7,225,301	1,100,000	556.8 %
Early retirement benefits	\$ 62,965	114,584	(45.0) %
Compensated absences	\$ 77,111	65,516	17.7 %
Totals	\$ 14,961,231	9,317,086	60.6 %

## 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 currently using fund balance to cover the expenditures in excess of revenues. The District administration is taking steps to balance the District's revenues and expenditures and keep the District in a healthy financial position.
- The District has seen a 5.2% decrease in enrollment. The District's funding for FY11 will be based on the decrease enrollment.
- The District is closely monitoring the uncertainty of state and local finances in light of the national and global financial situation. On October 8, 2009, the Governor signed an executive order calling for a 10 percent across the board cut to all state general fund appropriations for the fiscal year 2010. The reduction amounts to approximately \$720,000 for the district. It is uncertain whether or not there will be additional reductions made to the fiscal year 2010 budget. The District has taken steps to reduce fiscal year 2010 expenditures in light of the cut.
- The District's state wide penny sales tax receipts are sufficient enough to pay the current general obligation and revenue bonds. As a result the District will not assess any property tax levy for debt service repayment.
- The District is constructing an addition to an elementary building at an estimated cost of \$10,490,000. The project will be funded by general obligation and revenue bonds. The debt will be repaid with the proceeds from the state wide penny sales tax, resulting in no property tax assessment for debt repayment.
- The District is in the process of developing plans for the renovation of the elementary kitchen and HVAC replacement at the high school. These projects will be funded by the revenue bonds proceeds received in FY2009. The revenue bonds will be repaid by the state wide penny sales tax.

### **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, 2009**

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 15,432,532	262,571	15,695,103
Receivables:			
Property tax:			
Current year	30,160	-	30,160
Succeeding year	4,631,426	-	4,631,426
Accounts	24,941	3,559	28,500
Accrued interest	13,362	-	13,362
Due from other governments	949,932	-	949,932
Prepaid expense	40,496	-	40,496
Inventories	-	16,352	16,352
Capital assets, net of accumulated depreciation	14,199,531	125,374	14,324,905
Total assets	<u>35,322,380</u>	<u>407,856</u>	<u>35,730,236</u>
<b>Liabilities</b>			
Accounts payable	1,604,773	1,236	1,606,009
Salaries and benefits payable	1,466,749	42,764	1,509,513
Accrued interest payable	81,098	-	81,098
Deferred revenue:			
Succeeding year property tax	4,631,426	-	4,631,426
Other	626,361	11,767	638,128
Long-term liabilities:			
Portion due within one year:			
Bonds payable	420,000	-	420,000
Early retirement benefits	33,673	-	33,673
Compensated absences	77,111	-	77,111
Portion due after one year:			
Bonds payable, net of unamortized discount	14,401,155	-	14,401,155
Early retirement benefits	29,292	-	29,292
Total liabilities	<u>23,371,638</u>	<u>55,767</u>	<u>23,427,405</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	7,433,050	125,374	7,558,424
Restricted for:			
Management levy	304,840	-	304,840
Physical plant and equipment levy	795,761	-	795,761
Capital projects	603,144	-	603,144
Other special revenue purposes	233,682	-	233,682
Unrestricted	2,580,265	226,715	2,806,980
Total net assets	<u>\$ 11,950,752</u>	<u>352,089</u>	<u>12,302,831</u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2009**

	Expenses	Charges for Service		<b>Program Revenues</b>
				Operating Grants, Contributions and Restricted Interest
<b>Functions/Programs</b>				
Governmental activities:				
Instruction:				
Regular instruction	\$ 6,877,188	951,365		1,129,130
Special instruction	2,079,220	126,152		283,868
Other instruction	1,650,603	583,106		21,999
	10,607,011	1,660,623		1,434,997
Support services:				
Student services	639,743	-		76,363
Instructional staff services	398,358	-		-
Administration services	1,435,947	-		1,140
Operation and plant maintenance	1,097,537	5,623		-
Transportation services	799,219	4,131		48,290
Other support services	-	-		-
	4,370,804	9,754		125,793
Other expenditures:				
Facilities acquisition	66,955	-		36,818
Long-term debt interest	458,538	-		27,466
AEA flowthrough	560,644	-		560,644
Depreciation (unallocated)*	244,410	-		-
	1,330,547	-		624,928
Total governmental activities	16,308,362	1,670,377		2,185,718
Business-type activities:				
Non-instructional programs:				
Nutrition services	712,275	433,553		303,736
	712,275	433,553		303,736
Total	\$ 17,020,637	2,103,930		2,489,454
<b>General Revenues:</b>				
Property tax levied for:				
General purposes				
Capital outlay				
Local option sales tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Gain (loss) on sale of assets				
Total general revenues				
Change in net assets				
Net assets beginning of year				
Net assets end of year				

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

Capital Grants Contributions and Restricted Interest	Net (Expense) Revenue and Changes in Net Assets		
	Governmental Activities	Business-Type Activities	Total
-	(4,796,693)	-	(4,796,693)
-	(1,669,200)	-	(1,669,200)
-	(1,045,498)	-	(1,045,498)
-	(7,511,391)	-	(7,511,391)
-	(563,380)	-	(563,380)
-	(398,358)	-	(398,358)
-	(1,434,807)	-	(1,434,807)
-	(1,091,914)	-	(1,091,914)
-	(746,798)	-	(746,798)
-	-	-	-
-	(4,235,257)	-	(4,235,257)
149,319	119,182	-	119,182
-	(431,072)	-	(431,072)
-	-	-	-
-	(244,410)	-	(244,410)
149,319	(556,300)	-	(556,300)
149,319	(12,302,948)	-	(12,302,948)
-	-	25,014	25,014
149,319	(12,302,948)	25,014	(12,277,934)
\$	4,608,299	-	4,608,299
	352,132	-	352,132
	909,641	-	909,641
	6,515,772	-	6,515,772
	79,420	2,500	81,920
	47,443	-	47,443
	(3,261)	-	(3,261)
	12,509,446	2,500	12,511,946
	206,498	27,514	234,012
	11,744,244	324,575	12,068,819
\$	11,950,742	352,089	12,302,831

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT  
GOVERNMENTAL FUND BALANCE SHEET  
YEAR ENDED JUNE 30, 2009**

	General	Capital Projects	Nonmajor	Total
<b>ASSETS</b>				
Assets:				
Cash and pooled investments	\$ 4,245,503	9,877,037	1,309,992	15,432,532
Receivables:				
Property tax:				
Delinquent	26,022	-	4,138	30,160
Succeeding year	3,998,373	-	633,053	4,631,426
Accounts	9,975	-	14,966	24,941
Accrued interest	7,145	930	5,287	13,362
Due from other governments	803,386	146,546	-	949,932
Prepaid expenses	30,880	-	9,616	40,496
Total assets	\$ 9,121,284	10,024,513	1,977,052	21,122,849
 <b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 171,195	1,366,695	66,883	1,604,773
Salaries and benefits payable	1,466,749	-	-	1,466,749
Deferred revenue:				
Succeeding year property tax	3,998,373	-	633,053	4,631,426
Other	662,424	-	-	662,424
Total liabilities	6,298,741	1,366,695	699,936	8,365,372
 Fund balances:				
Reserved for:				
Prepaid expenses	30,880	-	9,616	40,496
Categorical funding	167,634	-	-	167,634
Debt service	-	-	659,640	659,640
Unreserved	2,624,029	8,657,818	607,860	11,889,707
Total fund balances	2,822,543	8,657,818	1,277,116	12,757,477
Total liabilities and fund balances	\$ 9,121,284	10,024,513	1,977,052	21,122,849

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, 2009**

<b>Total fund balances of governmental funds</b>	\$ 12,757,477
<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.	14,199,531
Other long-term assets are not available to pay for current period expenditures, and therefore, are deferred in the governmental funds.	36,063
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.	(81,098)
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>(14,961,231)</u>
<b>Net assets of governmental activities</b>	<b>\$ <u>11,950,742</u></b>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2009**

	General	Capital Projects	Nonmajor	Total
<b>Revenues:</b>				
<b>Local sources:</b>				
Local tax	\$ 4,333,831	909,641	593,613	5,837,085
Tuition	921,478	-	-	921,478
Other	263,341	149,319	676,703	1,089,363
State sources	8,203,024	-	-	8,203,024
Federal sources	434,184	-	-	434,184
Total revenues	<u>14,155,858</u>	<u>1,058,960</u>	<u>1,270,316</u>	<u>16,485,134</u>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular instruction	6,868,569	-	53,366	6,921,935
Special instruction	2,073,664	-	-	2,073,664
Other instruction	1,060,647	-	581,540	1,642,187
	<u>10,002,880</u>	<u>-</u>	<u>634,906</u>	<u>10,637,786</u>
<b>Support services:</b>				
Student services	652,071	-	-	652,071
Instructional staff services	393,717	-	-	393,717
Administration services	1,273,858	-	149,625	1,423,483
Operation and maintenance of plant services	1,091,310	-	40,312	1,131,622
Transportation services	677,957	-	125,413	803,370
	<u>4,088,913</u>	<u>-</u>	<u>315,350</u>	<u>4,404,263</u>
<b>Other expenditures:</b>				
Facilities acquisition	-	6,229,750	828,625	7,058,375
<b>Long-term debt:</b>				
Principal	-	-	545,000	545,000
Interest and fiscal charges	-	22,080	391,716	413,796
AEA flowthrough	560,644	-	-	560,644
Total	<u>560,644</u>	<u>6,251,830</u>	<u>1,765,341</u>	<u>8,577,815</u>
	<u>14,652,437</u>	<u>6,251,830</u>	<u>2,715,597</u>	<u>23,619,864</u>
Excess (deficiency) of revenues over (under) expenditures	(496,579)	(5,192,870)	(1,445,281)	(7,134,730)
<b>Other financing sources (uses):</b>				
Sale of fixed assets	824	-	-	824
Sale of general obligation bonds, net of discount	-	6,224,451	-	6,224,451
Operating transfers in	-	-	984,868	984,868
Operating transfers out	-	(984,868)	-	(984,868)
Total other financing sources (uses)	<u>824</u>	<u>5,239,583</u>	<u>984,868</u>	<u>6,225,275</u>
Net change in fund balances	(495,755)	46,713	(460,413)	(909,455)
Fund balances beginning of year	<u>3,318,298</u>	<u>8,611,105</u>	<u>1,737,529</u>	<u>13,666,932</u>
Fund balances end of year	<u>\$ 2,822,543</u>	<u>8,657,818</u>	<u>1,277,116</u>	<u>12,757,477</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, 2009**

**Net change in fund balances - total governmental funds** \$ (909,455)

*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	\$ 7,194,120	
Net equipment disposal adjustments	(4,085)	
Depreciation expense	<u>(422,900)</u>	
		6,767,135

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. 32,987

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. (6,253,300)

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. 545,000

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. (15,893)

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	51,619	
Compensated absences	<u>(11,595)</u>	
		<u>40,024</u>

**Change in net assets of governmental activities** **\$ 206,498**

**HARLAN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS - PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2009**

		School Nutrition
<b>Assets</b>		
Cash and cash equivalents	\$	262,571
Accounts receivable		3,559
Inventories		16,352
Capital assets, net of accumulated depreciation		125,374
Total assets		407,856
 <b>Liabilities</b>		
Accounts payable		1,236
Salaries and benefits payable		42,764
Deferred revenue		11,767
Total liabilities		55,767
 <b>Net Assets</b>		
Invested in capital assets, net of related debt		125,374
Unrestricted		226,715
Total net assets	\$	352,089

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN NET ASSETS - PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2009**

	School Nutrition
Operating revenue:	
Local sources:	
Charges for service	\$ 433,553
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	260,083
Benefits	35,844
Purchased services	5,300
Supplies	394,043
Miscellaneous	880
Depreciation	16,125
Total operating expenses	712,275
Operating loss	(278,722)
Non-operating revenue:	
State sources	9,662
Federal sources	294,074
Interest on investments	2,500
Total non-operating revenue	306,236
Change in net assets	27,514
Net assets beginning of year	324,575
Net assets end of year	\$ 352,089

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2009**

		School Nutrition
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$	435,061
Cash payments to employees for services		(291,666)
Cash payments to suppliers for goods or services		(354,105)
Net cash used in operating activities		<u>(210,710)</u>
Cash flows from non-capital financing activities:		
State grants received		9,662
Federal grants received		247,256
Net cash provided by non-capital financing sources		<u>256,918</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets		(19,811)
Cash flows from investing activities:		
Interest on investments		<u>2,500</u>
Net increase in cash and cash equivalents		28,897
Cash and cash equivalents, beginning of year		<u>233,674</u>
Cash and cash equivalents, end of year	\$	<u><u>262,571</u></u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$	(278,722)
Commodities used		46,818
Depreciation		16,125
Decrease in receivables		898
Increase in inventories		(321)
Decrease in accounts payable		(379)
Increase in salaries and benefits payable		4,261
Increase in deferred revenue		610
Net cash used in operating activities	\$	<u><u>(210,710)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2009, the District received \$46,818 of federal commodities.

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2009**

	Private Purpose Trust <u>Scholarship</u>	<u>Agency</u>
<b>Assets</b>		
Cash and pooled investments	\$ 41,117	\$ 2,585
<b>Liabilities</b>		
Due to other governments	<u>-</u>	<u>2,585</u>
<b>Net Assets</b>		
Reserved for scholarships	\$ <u>41,117</u>	\$ <u>-</u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2009**

		Private Purpose Trust <u>Scholarship</u>
Additions:		
Local sources:		
Gifts and contributions	\$	8,501
Interest		<u>318</u>
Total additions		8,819
 Deductions:		
Instruction:		
Regular:		
Scholarship awarded		<u>5,567</u>
 Change in net assets		3,252
 Net assets beginning of year		<u>37,865</u>
 Net assets end of year	\$	<u><u>41,117</u></u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009**

**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, 2009**

**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, 2009**

**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, 2009**

**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, 2009**

**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 becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2008.

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, 2009**

**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, 2009. 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, 2009**

**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, 2009, disbursements did not exceed the amended budgeted amounts. 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, 2009 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, 2009, the District had investments in the Iowa Schools Joint Investment Trust as follows:

<u>Type</u>	<u>Amortized Cost</u>
Diversified Portfolio	\$ <u>7,492,248</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, 2009**

**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, 2009 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	937,368
Special Revenue: Physical Plant and Equipment	Capital Projects	47,500
		\$ 984,868

**HARLAN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009**

**NOTE 4 Capital Assets**

Capital assets activity for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities</b>				
Capital assets not being depreciated:				
Land	\$ 25,700	-	-	25,700
Construction in progress	500,903	6,251,831	137,992	6,614,742
Total capital assets not being depreciated	<u>526,603</u>	<u>6,251,831</u>	<u>137,992</u>	<u>6,640,442</u>
Capital assets being depreciated:				
Buildings	9,706,971	826,815	16,837	10,516,949
Improvements other than buildings	620,094	-	-	620,094
Furniture and equipment	2,629,050	253,466	-	2,882,516
Total capital assets being depreciated	<u>12,956,115</u>	<u>1,080,281</u>	<u>16,837</u>	<u>14,019,559</u>
Less accumulated depreciation for:				
Buildings	3,618,230	215,645	12,752	3,821,123
Improvements other than buildings	335,695	20,061	-	355,756
Furniture and equipment	2,096,397	187,194	-	2,283,591
Total accumulated depreciation	<u>6,050,322</u>	<u>422,900</u>	<u>12,752</u>	<u>6,460,470</u>
Total capital assets being depreciated, net	<u>6,905,793</u>	<u>657,381</u>	<u>4,085</u>	<u>7,559,089</u>
Governmental activities capital assets, net	<u>\$ 7,432,396</u>	<u>6,909,212</u>	<u>142,077</u>	<u>14,199,531</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Business-type activities:</b>				
Furniture and equipment	\$ 231,444	19,811	-	251,255
Less accumulated depreciation	109,756	16,125	-	125,881
Business-type activities capital assets, net	<u>\$ 121,688</u>	<u>3,686</u>	<u>-</u>	<u>125,374</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 47,041
Other	16,985
Support Services:	
Student services	1,611
Administration	1,267
Operation and maintenance of plant	12,841
Transportation	98,745
	<u>178,490</u>
Unallocated depreciation	<u>244,410</u>
Total governmental activities depreciation expense	<u>\$ 422,900</u>
Business-type activities:	
Food services	<u>\$ 16,125</u>

**HARLAN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009**

**NOTE 5 Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2009 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 8,095,000	-	445,000	7,650,000	420,000
Unamortized discount	(58,014)	-	(3,868)	(54,146)	-
Revenue bonds	100,000	6,330,000	100,000	6,330,000	-
Unamortized discount	(105,549)	(850)	-	(104,699)	-
Quality Zone Academy bonds	1,000,000	-	-	1,000,000	-
Early retirement	114,584	-	51,619	62,965	33,673
Compensated absences	65,516	11,595	-	77,111	77,111
<b>Total</b>	<b>\$ 9,317,086</b>	<b>6,236,046</b>	<b>591,901</b>	<b>14,961,231</b>	<b>530,784</b>

General Obligation Bonds

Details of the District's June 30, 2009 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issued February 1, 2008			
	Interest Rate	Principal	Interest	Discount Amortization
2010	3.25%	\$ 420,000	\$ 280,800	3,868
2011	3.35%	435,000	267,150	3,868
2012	3.50%	450,000	252,578	3,868
2013	3.50%	470,000	236,828	3,868
2014	3.50%	490,000	220,378	3,868
2015-2019	3.50-3.75%	2,755,000	828,398	19,340
2020-2024	3.75-4.00%	2,630,000	265,780	15,466
		<b>\$ 7,650,000</b>	<b>\$ 2,351,912</b>	<b>54,146</b>

Revenue Bonds

Details of the District's June 30, 2009 local option sales and service tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issued May 1, 2009		Total	
	Interest Rate	Principal	Interest	Discount Amortization
2010	-	-	\$ 230,790	\$ 5,100
2011	-	-	346,185	5,100
2012	-	-	346,185	5,100
2013	-	-	346,185	5,100
2014	-	-	346,185	5,100
2015-2019	5.00%	475,000	1,674,050	25,550
2020-2024	5.00-5.30%	1,155,000	1,522,793	25,550
2025-2029	5.40-5.625%	3,075,000	856,029	25,550
2030	5.63%	1,625,000	45,703	2,549
		<b>\$ 6,330,000</b>	<b>\$ 5,714,105</b>	<b>\$ 104,699</b>

**HARLAN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009**

**NOTE 5 Long-Term Liabilities (continued)**

The District has pledged future local option (statewide) sales and service tax revenues to repay the \$6,330,000 bonds issued in May 2009. The bonds were issued for the purpose of financing a portion of the costs of a new school. The bonds are payable solely from the proceeds of the local option (statewide) sales and services tax revenues received by the District and are payable through 2030. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 100 percent of the local option (statewide) sales and service tax revenues. The total principal and interest remaining to be paid on the note is \$12,044,105. For the current year, no principal and interest was paid on the bond and total statewide sales and services revenue were \$909,641.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) \$633,000 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The accrued interest on the revenue bond proceeds shall be placed into a sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the local option (statewide) sales and services tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

The District has complied with the above provisions.

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.

**HARLAN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009**

**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, 2009 totaled \$26,400. Future required minimum lease payments are as follows:

Year Ended June 30,	Amount
2010	\$ 26,400
2011	26,400
2012	26,400
2013	26,400
2014	26,400
2015-2019	132,000
2020-2024	132,000
2025-2029	132,000
2030-2034	132,000
2035-2039	132,000
2040-2044	132,000
2045	2,200
	<u>\$ 926,200</u>

**NOTE 7 Pension and Retirement Benefits**

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

Plan members are required to contribute 4.10% of their annual salary and the District is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2009, 2008, and 2007, were \$611,932, \$547,810, and \$473,036, 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, 2009**

**NOTE 9 Other Postemployment Benefits (OPEB)**

The District implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions* during the year ended June 30, 2009.

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. The District pays for all or a portion of active employees' coverage. Retired members can continue their coverage at their own expense and also receive an explicit subsidy of \$83 per month staying within plan coverage and \$168 per month if they elect to discontinue coverage within the district plan. There are 152 active and 20 retired members in the plan, and 2 retirees elected coverage outside the plan. Participants must be age 55 or older at retirement.

The medical and prescription drug coverage is provided through a fully-insured plan with Wellmark. The same premium is paid for retirees under age 65 for the medical and prescription drug benefit as active employees, which results in an implicit subsidy. The OPEB liability includes both the explicit and the implicit subsidies.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2009, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$	96,482
Annual OPEB cost		96,482
Contributions made		(33,517)
Increase in net OPEB obligation		62,965
Net OPEB obligation, beginning of year		-
Net OPEB obligation, end of year	\$	<u>62,965</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2009.

**HARLAN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009**

**NOTE 9 Other Postemployment Benefits (OPEB) – Continued**

For the year ended June 30, 2009, the District made an explicit contribution of \$20,427 and an implicit contribution of \$13,090 to the medical plan. Plan members eligible for benefits contributed \$74,612, or 85% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2009 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2009	\$ 96,482	34.7 %	\$ 62,965

Funding Status and Funding Progress - As of July 1, 2008, the most recent actuarial valuation for the period July 1, 2008 through June 30, 2009, the actuarial accrued liability was \$842,763, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$842,763. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$9,436,000, and the ratio of the UAAL to covered payroll was 8.90%. As of June 30, 2009, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2008 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

The most recent aging curve study was presented by the Society of Actuaries in February 2006. This study provided the bases for the "aging cost assumption" used in the valuation.

**HARLAN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009**

**NOTE 9 Other Postemployment Benefits (OPEB) – Continued**

Projected claim costs of the medical plan are \$403 per month for retirees. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**NOTE 10 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 \$560,644 for the year ended June 30, 2009 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**NOTE 11 Construction Commitment**

The District had the following construction commitments at June 30, 2009:

<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	\$ 755,965	755,965	-	37,798
Elementary Building Construction	\$ 9,218,547	5,781,031	<u>3,437,516</u>	<u>289,052</u>
			\$ <u>3,437,516</u>	<u>326,850</u>

**NOTE 12 Subsequent Events**

In August 2009, the District approved \$217,839 for computer purchases and \$50,995 to replace a hot water heater.

**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, 2009**

	Governmental Fund Types <u>Actual</u>	Proprietary Fund Types <u>Actual</u>	<u>Total Actual</u>
Receipts:			
Local sources	\$ 7,847,926	436,053	8,283,979
State sources	8,203,024	9,662	8,212,686
Federal sources	434,184	294,074	728,258
Total receipts	<u>16,485,134</u>	<u>739,789</u>	<u>17,224,923</u>
Disbursements:			
Instruction	10,637,786	-	10,637,786
Support services	4,404,263	-	4,404,263
Non-instructional programs	-	712,275	712,275
Other expenditures	8,577,815	-	8,577,815
Total disbursements	<u>23,619,864</u>	<u>712,275</u>	<u>24,332,139</u>
Excess (deficiency) of receipts over (under) disbursements	(7,134,730)	27,514	(7,107,216)
Other financing sources, net	<u>6,225,275</u>	<u>-</u>	<u>6,225,275</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(909,455)	27,514	(881,941)
Balances beginning of year	<u>13,666,932</u>	<u>324,575</u>	<u>13,991,507</u>
Balances end of year	<u>\$ 12,757,477</u>	<u>352,089</u>	<u>13,109,566</u>

See Accompanying Independent Auditors' Report

Budgeted Amounts		Final to Actual Variance Positive (Negative)
Original	Final	
8,689,701	8,689,701	(405,722)
8,541,637	8,541,637	(328,951)
612,675	612,675	115,583
<u>17,844,013</u>	<u>17,844,013</u>	<u>(619,090)</u>
11,349,000	11,349,000	711,214
4,569,000	4,569,000	164,737
710,000	745,000	32,725
8,299,212	9,542,362	964,547
<u>24,927,212</u>	<u>26,205,362</u>	<u>595,073</u>
(7,083,199)	(8,361,349)	(24,017)
<u>-</u>	<u>-</u>	<u>6,225,275</u>
(7,083,199)	(8,361,349)	7,479,408
<u>13,399,750</u>	<u>13,399,750</u>	<u>591,757</u>
<u>6,316,551</u>	<u>5,038,401</u>	<u>8,071,165</u>

**HARLAN COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2009**

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 \$1,278,150.

During the year ended June 30, 2009, disbursements did not exceed the amended budgeted amounts and the District did not exceed its General Fund unspent authorized budget.

**HARLAN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS FOR THE  
RETIREE HEALTH PLAN (In Thousands)  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2009**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2008	\$ -	\$ 843	\$ 843	0.0 %	\$ 9,436	8.9 %

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

**OTHER SUPPLEMENTARY INFORMATION**

**HARLAN COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2009**

	Special Revenue		
	Management Levy	Physical Plant and Equipment	Student Activity
<b>Assets</b>			
Assets:			
Cash and pooled investments	\$ 357,981	823,241	127,086
Receivables:			
Property Tax:			
Current year	1,668	2,470	-
Succeeding year	269,713	363,340	-
Accounts	235	11,818	2,913
Accrued interest	-	5,287	-
Prepaid expenses	8,921	-	695
Total assets	\$ 638,518	1,206,156	130,694
<b>Liabilities and Fund Equity</b>			
Liabilities:			
Accounts payable	\$ 1,000	49,771	16,112
Deferred revenue:			
Succeeding year property tax	269,713	363,340	-
Total liabilities	270,713	413,111	16,112
Fund balances:			
Reserved for:			
Debt Service	-	657,956	-
Prepays	8,921	-	695
Unreserved	358,884	135,089	113,887
Total fund balances	367,805	793,045	114,582
Total liabilities and fund equity	\$ 638,518	1,206,156	130,694

See Accompanying Independent Auditors' Report

<u>Debt Service</u>	<u>Total</u>
1,684	1,309,992
-	4,138
-	633,053
-	14,966
-	5,287
-	9,616
<u>1,684</u>	<u>1,977,052</u>
-	66,883
-	633,053
-	699,936
1,684	659,640
-	9,616
-	607,860
<u>1,684</u>	<u>1,277,116</u>
<u>1,684</u>	<u>1,977,052</u>

**HARLAN COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2009**

	Special Revenue		
	Management Levy	Physical Plant and Equipment	Student Activity
Revenues:			
Local sources:			
Local Tax	\$ 243,969	349,644	-
Other	27,813	64,265	584,606
Total revenues	<u>271,782</u>	<u>413,909</u>	<u>584,606</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	18,482	34,884	-
Other instruction	-	-	581,540
	<u>18,482</u>	<u>34,884</u>	<u>581,540</u>
Support services:			
Administration services	148,825	-	-
Operation and maintenance of plant services	38,714	1,598	-
Transportation services	19,193	106,220	-
	<u>206,732</u>	<u>107,818</u>	<u>-</u>
Other expenditures:			
Facilities acquisition	-	828,625	-
Long-term debt:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
	<u>-</u>	<u>828,625</u>	<u>-</u>
Total expenditures	<u>225,214</u>	<u>971,327</u>	<u>581,540</u>
Excess (deficiency) of revenues over (under) expenditures	46,568	(557,418)	3,066
Other financing sources (uses):			
Operating transfers in	-	47,500	-
Net changes in fund balances	46,568	(509,918)	3,066
Fund balances beginning of year	<u>321,237</u>	<u>1,302,963</u>	<u>111,516</u>
Fund balances end of year	<u>\$ 367,805</u>	<u>793,045</u>	<u>114,582</u>

See Accompanying Independent Auditors' Report

<u>Debt Service</u>	<u>Total</u>
-	593,613
19	676,703
<u>19</u>	<u>1,270,316</u>
-	53,366
-	581,540
<u>-</u>	<u>634,906</u>
800	149,625
-	40,312
-	125,413
<u>800</u>	<u>315,350</u>
-	828,625
545,000	545,000
391,716	391,716
<u>936,716</u>	<u>1,765,341</u>
<u>937,516</u>	<u>2,715,597</u>
(937,497)	(1,445,281)
<u>937,368</u>	<u>984,868</u>
(129)	(460,413)
<u>1,813</u>	<u>1,737,529</u>
<u>1,684</u>	<u>1,277,116</u>

**HARLAN COMMUNITY SCHOOL DISTRICT**  
**SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND - STUDENT ACTIVITY ACCOUNTS**  
**YEAR ENDED JUNE 30, 2009**

	Balance Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance End of Year
Drama	\$ 3,520	2,113	4,685	486	1,434
Thespians	486	-	-	(486)	-
HS vocal music	986	3,804	4,682	-	108
MS vocal music	286	3	-	-	289
HS instrumental music	45	1,644	4,370	2,700	19
HS jazz	6	5,428	6,544	1,112	2
MS jazz	68	300	705	337	-
MS flag corp	48	1	-	-	49
Honor choir	192	-	370	178	-
HS flag corp	1,378	245	1,652	300	271
Baton	383	921	636	-	668
FB band resale	-	439	1,773	1,334	-
Athletics	18,399	190,640	214,169	22,822	17,692
Activity tickets	413	19,350	-	(19,623)	140
Splish splash auto detailing	-	1,607	809	-	798
FB Holocaust memorial rock project	-	111	-	751	862
Cheerleaders	1,018	13,277	12,218	(478)	1,599
FFA	8,580	75,965	72,204	3,232	15,573
Harpoon	17,171	7,826	8,336	1,175	17,836
Entrepreneurial vending	-	21,740	16,322	(5,418)	-
National honor society	671	584	1,314	575	516
BPA	158	30,781	30,319	1,775	2,395
Science club	530	5	-	(530)	5
Spanish club	2,122	406	262	-	2,266
Student council	2,711	10,759	13,604	1,513	1,379
Pom pom	2,180	1,781	1,254	(393)	2,314
Destination imagination	354	-	-	(354)	-
Key Club	2,640	1,648	2,253	275	2,310
For the birds	969	503	441	75	1,106
Speech	200	51	484	233	-
FCCLA Club	866	3,071	4,138	775	574
FEA Club	1,609	-	-	(1,609)	-
Friends of Rachele	66	16	-	1,609	1,691
Class of 2007	36	-	-	(36)	-
Class of 2008	518	-	488	(30)	-
Class of 2009	1,067	120	718	(469)	-
Class of 2010	1,642	1,305	-	(1,922)	1,025
Class of 2011	1,179	1,100	-	-	2,279
Class of 2012	-	999	-	-	999
Prom	2,471	14,731	15,763	1,988	3,427
HS miscellaneous	50	2,631	1,136	-	1,545
Hosa fund	-	7,557	9,069	1,516	4
Jel fund	382	412	854	62	2
Cyclone corner store	-	60,135	53,055	(7,064)	16
Concessions	5,162	31,265	19,566	(7,425)	9,436
Vending	11,863	12,567	23,992	818	1,256
MS cheerleading	2,422	1,913	1,208	-	3,127
MS vending	1,118	5,749	4,324	(814)	1,729
MS student council	4,795	19,241	18,323	(1,086)	4,627
MS yearbook	3,488	3,945	4,673	-	2,760
MS drama	235	1,104	1,521	301	119
MS building improvements	272	1,654	1,185	-	741
MS builders fund	-	1,748	1,440	-	308
MS student fund	1,416	8,019	9,997	1,546	984
New Park student fund	3,592	6,510	5,444	124	4,782
West Ridge student fund	1,165	6,877	5,240	125	2,927
West Ridge student store	588	5	-	-	593
<b>Total</b>	<b>\$ 111,516</b>	<b>584,606</b>	<b>581,540</b>	<b>-</b>	<b>114,582</b>

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUND  
YEAR ENDED JUNE 30, 2009**

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance End of Year</u>
<b>Assets</b>				
Cash	\$ 736	5,805	3,956	2,585
Total assets	<u>736</u>	<u>5,805</u>	<u>3,956</u>	<u>2,585</u>
<b>Liabilities</b>				
Accounts payable	71	-	71	-
Due to other governments	665	5,805	3,885	2,585
Total liabilities	<u>\$ 736</u>	<u>5,805</u>	<u>3,956</u>	<u>2,585</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 FIVE YEARS**

	Modified Accrual Basis				
	2009	2008	2007	2006	2005
<b>Revenues:</b>					
<b>Local sources:</b>					
Local Tax	\$ 5,837,085	5,715,871	4,475,863	5,143,601	4,779,429
Tuition	921,478	875,705	1,163,555	1,018,745	749,905
Other	1,089,363	1,101,418	2,003,624	1,125,999	901,406
State sources	8,203,024	7,994,997	7,621,498	7,045,015	6,597,218
Federal sources	434,184	410,350	464,915	567,328	645,349
Total	<u>\$ 16,485,134</u>	<u>16,098,341</u>	<u>15,729,455</u>	<u>14,900,688</u>	<u>13,673,307</u>
<b>Expenditures:</b>					
<b>Instruction:</b>					
Regular instruction	\$ 6,921,935	6,640,200	6,094,933	5,697,085	5,467,395
Special instruction	2,073,664	1,955,078	2,305,201	2,055,594	1,490,215
Other instruction	1,642,187	1,562,230	1,429,800	1,404,287	1,561,313
<b>Support services:</b>					
Student services	652,071	544,349	432,183	490,975	519,832
Instructional staff services	393,717	401,968	420,718	353,555	316,907
Administration services	1,423,483	1,344,138	1,253,482	1,244,337	1,053,037
Operation and maintenance of plant services	1,131,622	1,139,891	1,080,158	1,048,294	1,328,061
Transportation services	803,370	697,317	800,819	689,655	526,169
Other support services	-	969	-	-	-
Non-instructional programs	-	-	-	-	44
<b>Other expenditures:</b>					
Facilities acquisition	7,058,375	662,735	269,496	375,293	-
<b>Long-term debt:</b>					
Principal	545,000	714,900	699,909	669,659	653,396
Interest and fiscal charges	413,796	47,680	43,324	70,377	119,264
AEA flowthrough	560,644	519,167	498,288	458,259	449,820
Total	<u>\$ 23,619,864</u>	<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, 2009**

<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	FY09	\$ 46818
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY09	33,253
National School Lunch Program	10.555	FY09	214,003
			<u>247,256</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY09	168,004
Vocational Education – Basic Grants to States	84.048	FY09	12,299
Safe and Drug-Free Schools and Communities			
- State Grants	84.186	FY09	2,988
State Grants for Innovative Programs	84.298	FY09	12,853
Improving Teacher Quality State Grants	84.367	FY09	61,330
Title IVA – Grants for State Assessments	84.369	FY09	9,631
Loess Hills Area Education Agency:			
Individuals with Disabilities Education Act			
(IDEA) Special Education – Grants to State	84.027	FY09	90,393
Carol M. White Physical Education Program	84-215F	FY09	323
			<u>323</u>
Total			\$ <u>651,895</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 3, 2009

**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, 2009, and have issued our report thereon dated December 3, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harlan Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Harlan Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Harlan Community School District's internal control over financial reporting.

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

Continued . . .

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

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

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

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harlan Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2009 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.

Continued. . .

December 3, 2009  
Harlan Community School District  
Internal Control and Compliance Report

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.

*Schroer & Associates, P.C.*

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**



Marilyn Schroer, CPA  
Diane McGrain, CPA  
Barbara Mass, CPA

December 3, 2009

**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, 2009. 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, 2009.

Continued. . .

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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.

*Schroer & Associates, P.C.*

**HARLAN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2009**

**Part I: Summary of the Independent Auditors' Results:**

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency (not considered a material weakness) in internal control over financial reporting was 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, 2009**

**Part II: Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCY:**

II-A-09 Disbursement Approval

Comment – For two out of sixty transactions tested, there was no evidence of Board approval.

Recommendation – The District should ensure all expenditures are properly approved. The District should also review the list of bills presented to the Board at regular meetings to ensure all claims are included.

Response – We will ensure all expenditures are properly approved.

Conclusion – Response accepted.

**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, 2009**

**Part IV: Other Findings Related to Statutory Reporting:**

IV-A-09 Certified Budget

Expenditures for the year ended June 30, 2008 did not exceed the amended certified budget amounts.

IV-B-09 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-09 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-09 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	\$ 18,010
Mike Bierl, employee, owner of Same Printing	T-shirts	\$ 9,621

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

IV-E-09 Bond Coverage

Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

**HARLAN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2009**

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

IV-F-09 Board Minutes

Comment – As previously noted, two transactions requiring board approval were not noted in the minutes as being approved by the board.

Recommendation – All expenditures should be approved by the board and included in the list of claims as required by Chapter 279.29 of the Code of Iowa.

Response – We will do this.

Conclusion – Response accepted.

IV-G-09 Certified Enrollment

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

IV-H-09 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-09 Certified Annual Report

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

IV-J-09 Categorical Funding

No instances were noted of categorical funding used to supplant rather than supplement other funds.

IV-K-09 Statewide Sales and Services Tax

No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax. For the year ended June 30, 2009, the District's financial activity and other required information for the statewide sales and services tax are as follows:

Beginning balance	\$	-
Statewide sales and services tax revenue		909,641
Debt service for school infrastructure:		
General obligation debt		<u>909,641</u>
Ending balance	\$	<u>-</u>

**HARLAN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2009**

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

IV-L-09 Revenue Bonds

The District is in compliance with the provisions of the revenue bond resolution.

IV-M-09 Disposal of Property

Comment - During the year the District disposed of a shed without proper notification.

Recommendation - In accordance with Chapter 297.22 of the Code of Iowa, the Board should hold a public hearing on any proposal to dispose of property belonging to the school. However, if the value of the property is less than \$5,000, the District may dispose of the property by any procedure adopted by the Board, and each disposal shall be published in the newspaper for two consecutive weeks.

Response - In the future we will publish notices of disposals as required.

Conclusion - Response accepted.