

HARLAN COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2017

TABLE OF CONTENTS

		<u>Page</u>
Officials		3
Independent Auditors' Report		5-6
Management's Discussion and Analysis		8-14
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Position	A	16
Statement of Activities	B	17
Governmental Fund Financial Statements:		
Balance Sheet	C	18
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	D	19
Statement of Revenues, Expenditures and Changes in Fund Balances	E	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F	21
Proprietary Fund Financial Statements:		
Statement of Net Position	G	22
Statement of Revenues, Expenses and Changes in Fund Net Position	H	23
Statement of Cash Flows	I	24
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Position	J	25
Statement of Changes in Fiduciary Net Position	K	26
Notes to Financial Statements		27-45
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances – Budget and Actual – All Governmental Funds and Proprietary Fund		47
Notes to Required Supplementary Information – Budgetary Reporting		48
Schedule of the District's Proportionate Share of the Net Pension Liability		49
Schedule of District Contributions		50
Notes to Required Supplementary Information - Pension Liability		51
Schedule of Funding Progress for the Retiree Health Plan		52
Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	54
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	55
Capital Project Accounts:		
Combining Balance Sheet	3	56
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	4	57
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	5	58
Schedule of Changes in Fiduciary Assets and Liabilities – Agency Fund	6	59
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	7	60
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		62-63
Schedule of Findings		64-67

HARLAN COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
-------------	--------------	---------------------

Board of Education

Lonnie Muxfeldt	President	2017
Amy Rueschenberg	Vice President	2017
Al Hazelton	Board Member	2017
Angie Monson	Board Member	2017
Kathy Mahlberg	Board Member	2019
Joni Larsen	Board Member	2019
Monte Schechinger	Board Member	2019

School Officials

Justin Wagner	Superintendent	2017
Kelli Klaassen	Director of Personnel/Board Secretary	Indefinite
Brian Gubbels	Director of Finance/District Treasurer	Indefinite
Richard Schenck	Attorney	Indefinite

HARLAN COMMUNITY SCHOOL DISTRICT



Diane McGrain, CPA
Jim Menard, CPA
Kelsey Peterson, CPA

November 15, 2017

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Harlan Community School District, Harlan Iowa, as of and for the year ended June 30, 2017, and the related Notes to the Financial Statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Continued...

omni business centre
42 n. 2nd street
council bluffs, iowa 51503
712•322•8734 / fax 712•322•4699
www.schroer-cpa.com

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Harlan Community School District as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of District Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 8 through 14 and 47 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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 third paragraph of this report, the financial statements for the nine years ended June 30, 2016 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2017 on our consideration of Harlan Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant 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 *Government Auditing Standards* in considering Harlan Community School District's internal control over financial reporting and compliance.

Schroer & Associates, PC

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Harlan Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2017. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2017 FINANCIAL HIGHLIGHTS

- General Fund revenues increased \$966,507 from \$15,678,705 in fiscal 2016 to \$16,645,212 in fiscal 2017, while General Fund expenditures decreased \$401,448 from \$16,910,646 in fiscal 2016 to \$16,509,198 in fiscal 2017. The net increase in revenues and decrease in expenditures resulted in an increase in the District's General Fund balance from \$1,694,614 in fiscal 2016 to \$1,823,324 in fiscal 2017 which is a 7.6 percent increase from the prior year.
- The increase in General Fund revenues was attributable to increases in property tax revenues, state aid revenue, and open enrollment revenue. The decrease in expenditures was due primarily to wages and employee benefits.
- The District's General Fund financial transactions resulted in no change to the District's solvency ratio as it was 9.0% for 2016 and 9.0% for 2017. 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 5-15% as financially acceptable.

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 Position 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, the District's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.
- Supplementary Information provides detailed information about the non-major governmental funds

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 Position includes all of the District's assets, deferred outflow of resources, liabilities and deferred inflows of resources, with the difference reported as net position. 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 position and how they have changed. Net position – 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 position 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 Position – Figure A-1 below provides a summary of the District’s net position at June 30, 2016 compared to June 30, 2017.

Figure A-1
Condensed Statement of Net Position

	Governmental Activities		Business-Type Activities		Total School District		Total Change June 30, 2016-2017
	June 30, 2016	2017	June 30, 2016	2017	June 30, 2016	2017	
Current and other assets	\$ 12,493,795	\$ 12,779,799	\$ 332,322	\$ 298,616	\$ 12,826,117	\$ 13,078,415	1.97%
Capital assets	18,962,361	18,364,125	63,043	54,255	19,025,404	18,418,380	-3.19%
Total assets	31,456,156	31,143,924	395,365	352,871	31,851,521	31,496,795	-1.11%
Deferred outflow of resources	3,178,382	2,938,023	71,254	69,779	3,249,636	3,007,802	-7.44%
Long-term liabilities	18,093,241	19,059,254	207,646	253,603	18,300,887	19,312,857	5.53%
Other liabilities	3,007,273	3,090,649	66,231	73,047	3,073,504	3,163,696	2.93%
Total liabilities	21,100,514	22,149,903	273,877	326,650	21,374,391	22,476,553	5.16%
Deferred inflows of resources	7,952,524	6,669,973	48,324	4,887	8,000,848	6,674,860	-16.57%
Net position:							
Invested in capital assets	8,498,804	8,452,410	63,043	54,255	8,561,847	8,506,665	-0.64%
Restricted	2,890,948	2,722,962	-	-	2,890,948	2,722,962	-5.81%
Unrestricted	(5,808,252)	(5,913,301)	81,375	36,858	(5,726,877)	(5,876,443)	-2.61%
Total net position	\$ 5,581,500	\$ 5,262,071	\$ 144,418	\$ 91,113	\$ 5,725,918	\$ 5,353,184	-6.51%

The District’s total net position decreased by 6.51% or \$372,734 from the prior year. The largest portion of the District’s net position 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 position represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net position decreased approximately \$167,986 or 5.81% from the prior year. The decrease was primarily a result of the district lowering its reserves in the management fund.

Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased \$149,566 or 2.61%. This reduction in unrestricted net position was primarily a result of changes in the District's net pension liability recorded in the current year.

Changes in Net Position – Figure A-2 shows the changes in net position for the year ended June 30, 2016 compared to the year ended June 30, 2017.

**Figure A-2
Changes in Net Position**

	Governmental Activities		Business-type Activities		Total School District	
	June 30,		June 30,		June 30,	
	2016	2017	2016	2017	2016	2017
Revenues:						
Program revenues:						
Charges for services and sales	\$ 1,897,947	\$ 1,802,151	\$ 421,289	\$ 372,523	\$ 2,319,236	\$ 2,174,674
Operating grants, contributions and restricted interest	2,738,631	3,090,640	372,225	360,904	3,110,856	3,451,544
Capital grants, contributions, and restricted interest	4,236	3,184	-	-	4,236	3,184
General revenue:						
Property tax	5,505,370	6,308,569	-	-	5,505,370	6,308,569
Local option sales tax	1,331,529	1,351,046	-	-	1,331,529	1,351,046
Unrestricted state grants	7,052,991	6,720,813	-	-	7,052,991	6,720,813
Unrestricted investment earnings	13,256	14,125	261	461	13,517	14,586
Other	31,434	6,798	-	-	31,434	6,798
Total revenues	<u>18,575,394</u>	<u>19,297,326</u>	<u>793,775</u>	<u>733,888</u>	<u>19,369,169</u>	<u>20,031,214</u>
Program expenses:						
Governmental activities:						
Instruction	12,251,720	12,278,216	-	-	12,251,720	12,278,216
Support services	4,999,304	5,388,956	-	-	4,999,304	5,388,956
Non-instructional programs	-	-	827,063	787,193	827,063	787,193
Other expenses	1,997,451	1,949,583	-	-	1,997,451	1,949,583
Total expenses	<u>19,248,475</u>	<u>19,616,755</u>	<u>827,063</u>	<u>787,193</u>	<u>20,075,538</u>	<u>20,403,948</u>
Change in net position	\$ (673,081)	\$ (319,429)	\$ (33,288)	\$ (53,305)	\$ (706,369)	\$ (372,734)

In fiscal year 2017, property tax and unrestricted state grants account for 65.0 percent of total revenue. The District's expenses primarily related to instruction and support services which account for 86.4 percent of the total expenses.

Governmental Activities

Revenues for governmental activities were \$18,575,394 for fiscal 2016 and \$19,297,326 for fiscal 2017. Expenses were \$19,248,475 for fiscal 2016 and \$19,616,755 for fiscal 2017. The District expenditures exceeded revenues 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, for the year ended June 30, 2016 compared to the year ended June 30, 2017.

Figure A-3

Total and Net Cost of Governmental Activities

	Total Cost of Services		Net Cost of Services	
	June 30,		June 30,	
	2016	2017	2016	2017
Instruction	\$ 12,251,720	\$ 12,278,216	\$ 8,539,778	\$ 8,198,171
Support services	4,999,304	5,388,956	4,727,689	5,172,422
Other expenses	1,997,451	1,949,583	1,340,194	1,350,187
Totals	\$ 19,248,475	\$ 19,616,755	\$ 14,607,661	\$ 14,720,780

- The cost financed by users of the District's programs was \$1,897,947 for 2016 and \$1,802,151 for 2017.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,742,867 for 2016 and \$3,093,824 for 2017.
- The net cost of governmental activities was financed with the following:

	June 30, 2016	June 30, 2017
Property Taxes	\$ 5,505,370	\$ 6,308,569
Local Option Sales Tax	1,331,529	1,351,046
State Unrestricted	7,052,991	6,720,813
Interest Income	13,256	14,125
Other Revenue	31,434	6,798
	<u>\$ 13,934,580</u>	<u>\$ 14,401,351</u>

Business-Type Activities

Revenues of the District's business-type activities were \$793,775 for 2016 and \$733,888 for 2017, and expenses were \$827,063 for 2016 and \$787,193 for 2017. 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 \$4,307,324 for 2016 and \$4,283,174 for 2017. The primary reason for the decrease in combined fund balances in fiscal 2017 is due to the reserves being lowered in the Management Fund. The District experienced a decrease in enrollment during fiscal year 2017, and will have to rely on State Foundation Aid allowable growth increases, new revenue sources, or use fund balance to cover any increases in costs.

Governmental Fund Highlights

- The District's increase in General Fund financial position is the product of many factors. The District saw an increase in some revenue areas including property tax collections and expenditures decreased slightly resulting in an overall increase in financial position. The decrease in expenditures were mainly from decreases in salaries and benefits. The General Fund balance increased from \$1,694,614 to \$1,823,324 due in part to an overall increase in revenues over expenditures.

- The Capital Project and Debt Service Fund balances remained level from 2016 to 2017. The Non-major Governmental Fund balance decreased from \$1,121,569 for 2016 to \$964,533 for 2017 due in large part to the reserves being lowered in the Management Fund. Due to GASB 54 Fund Balance Reporting Requirements, the Physical Plant and Equipment Levy (PPEL) Fund balance is now included in the Capital Project Fund balance.

Proprietary Fund Highlights

The School Nutrition Fund net position decreased from \$144,418 at June 30, 2016 to \$91,113 at June 30, 2017, representing a decrease of approximately 37.0%.

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' budget is prepared on the accrual basis. The District operated within its 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, 2017, the District had invested approximately \$18.42 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 totaled \$884,836.

The original cost of the District's capital assets was \$30.96 million. Governmental funds account for \$30.67 million with the remainder of \$.29 million in the Proprietary, School Nutrition Fund.

The significant capital assets activities include the vehicle purchases and lighting project.

	Governmental Activities		Business-type Activities		Total School District	
	June 30,		June 30,		June 30,	
	2016	2017	2016	2017	2016	2017
Land	\$ 25,700	\$ 25,700	\$ -	\$ -	\$ 25,700	\$ 25,700
Improvements other than buildings	187,762	176,744	-	-	187,762	176,744
Buildings	18,252,332	17,742,028	-	-	18,252,332	17,742,028
Furniture and equipment	496,567	419,653	63,043	54,255	559,610	473,908
Totals	\$ 18,962,361	\$ 18,364,125	\$ 63,043	\$ 54,255	\$ 19,025,404	\$ 18,418,380

Long-Term Debt

At June 30, 2017 the District had \$10,199,847 general obligation and other long-term debt outstanding. This represents a decrease of approximately 8% from last year. The decrease is primarily attributable to the District making the annual payments on the outstanding debt. (See Figure A-5) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

	Outstanding Long-Term Obligations		
	Total School District		Total Change
	2016	2017	2016-2017
Revenue bond refunding bonds	\$ 6,590,000	\$ 6,405,000	-2.81%
General obligation refunding bonds	4,449,821	3,794,847	-14.72%
Totals	<u>\$ 11,039,821</u>	<u>\$ 10,199,847</u>	<u>-7.61%</u>

FACTORS THAT BEAR 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 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 slight increase in enrollment. The District's funding for fiscal year 2018 will be based on the increased enrollment. It is paramount that the District makes its financial decisions based upon sound assumptions of future enrollment trends.
- The District is closely monitoring the uncertainty of state and local finances in light of the national and global financial situation. It is uncertain whether or not there will be additional reductions made to the fiscal year 2018 budget.
- 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.

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 Brian Gubbels, Director of Finance, Harlan Community School District, 2102 Durant Street, Harlan, Iowa 51537.

BASIC FINANCIAL STATEMENTS

HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities	Business Type Activities	Total
Assets			
Cash, cash equivalents and pooled investments	\$ 5,636,110	264,842	5,900,952
Receivables:			
Property tax:			
Delinquent	73,217	-	73,217
Succeeding year	5,874,631	-	5,874,631
Accounts	41,060	-	41,060
Accrued Interest	106	-	106
Due from other governments	1,040,799	8,478	1,049,277
Prepaid expenses	113,876	3,817	117,693
Inventories	-	21,479	21,479
Capital assets, net of accumulated depreciation	18,364,125	54,255	18,418,380
Total assets	<u>31,143,924</u>	<u>352,871</u>	<u>31,496,795</u>
Deferred Outflows of Resources			
Pension related deferred outflows	2,649,891	69,779	2,719,670
Advanced debt refunding deferred outflows	288,132	-	288,132
Total deferred outflows of resources	<u>2,938,023</u>	<u>69,779</u>	<u>3,007,802</u>
Liabilities			
Accounts payable	367,636	8,526	376,162
Salaries & benefits payable	1,647,412	47,545	1,694,957
Accrued interest payable	92,268	-	92,268
Unearned revenue	-	16,976	16,976
Long-term liabilities:			
Portion due within one year:			
Bonds payable	850,000	-	850,000
Other post employment benefits	47,318	-	47,318
Compensated absences	86,015	-	86,015
Portion due after one year:			
Bonds payable, net of unamortized premiums	9,349,847	-	9,349,847
Net pension liability	9,140,975	253,603	9,394,578
Other post employment benefits	568,432	-	568,432
Total liabilities	<u>22,149,903</u>	<u>326,650</u>	<u>22,476,553</u>
Deferred Inflows of Resources			
Unavailable property tax revenue	5,874,631	-	5,874,631
Unavailable income surtax revenue	606,946	-	606,946
Pension related deferred inflows	188,396	4,887	193,283
Total deferred inflows of resources	<u>6,669,973</u>	<u>4,887</u>	<u>6,674,860</u>
Net Position			
Net investment in capital assets	8,452,410	54,255	8,506,665
Restricted for:			
Categorical funding	273,446	-	273,446
Management levy purposes	811,554	-	811,554
Student activities	152,979	-	152,979
Capital projects	1,203,059	-	1,203,059
Physical plant and equipment levy	281,924	-	281,924
Unrestricted	<u>(5,913,301)</u>	<u>36,858</u>	<u>(5,876,443)</u>
Total net position	<u>\$ 5,262,071</u>	<u>91,113</u>	<u>5,353,184</u>

See notes to financial statements

HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business- Type Activities	Total
Governmental activities:							
Instruction:							
Regular instruction	\$ 7,807,364	909,975	2,026,185	-	(4,871,204)	-	(4,871,204)
Special instruction	2,541,501	241,075	294,898	-	(2,005,528)	-	(2,005,528)
Other instruction	1,929,351	594,959	12,953	-	(1,321,439)	-	(1,321,439)
	<u>12,278,216</u>	<u>1,746,009</u>	<u>2,334,036</u>	<u>-</u>	<u>(8,198,171)</u>	<u>-</u>	<u>(8,198,171)</u>
Support services:							
Student services	471,531	-	118,436	-	(353,095)	-	(353,095)
Instructional staff services	947,614	-	-	-	(947,614)	-	(947,614)
Administration services	1,760,766	-	-	-	(1,760,766)	-	(1,760,766)
Operation & maintenance of plant services	1,310,352	7,883	-	-	(1,302,469)	-	(1,302,469)
Transportation services	898,693	48,259	41,956	-	(808,478)	-	(808,478)
	<u>5,388,956</u>	<u>56,142</u>	<u>160,392</u>	<u>-</u>	<u>(5,172,422)</u>	<u>-</u>	<u>(5,172,422)</u>
Other expenditures:							
Facilities acquisition	111,612	-	-	3,184	(108,428)	-	(108,428)
Long-term debt interest	521,867	-	7	-	(521,860)	-	(521,860)
AEA flowthrough	596,205	-	596,205	-	-	-	-
Depreciation (unallocated)*	719,899	-	-	-	(719,899)	-	(719,899)
	<u>1,949,583</u>	<u>-</u>	<u>596,212</u>	<u>3,184</u>	<u>(1,350,187)</u>	<u>-</u>	<u>(1,350,187)</u>
Total governmental activities	19,616,755	1,802,151	3,090,640	3,184	(14,720,780)	-	(14,720,780)
Business-Type activities:							
Non-instructional programs:							
Nutrition services	787,193	372,523	360,904	-	-	(53,766)	(53,766)
Total	\$ <u>20,403,948</u>	<u>2,174,674</u>	<u>3,451,544</u>	<u>3,184</u>	<u>(14,720,780)</u>	<u>(53,766)</u>	<u>(14,774,546)</u>
General Revenues:							
Property and other tax levied for:							
General purposes					\$ 5,798,437	-	5,798,437
Capital outlay					510,132	-	510,132
Statewide sales, services and use tax					1,351,046	-	1,351,046
Unrestricted state grants					6,720,813	-	6,720,813
Unrestricted investment earnings					14,125	461	14,586
Other					6,798	-	6,798
Total general revenues					<u>14,401,351</u>	<u>461</u>	<u>14,401,812</u>
Change in net position					(319,429)	(53,305)	(372,734)
Net position beginning of year					5,581,500	144,418	5,725,918
Net position end of year					\$ <u>5,262,071</u>	<u>91,113</u>	<u>5,353,184</u>

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

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
YEAR ENDED JUNE 30, 2017**

Assets	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Cash, cash equivalents and pooled investments	\$ 3,256,706	1,411,669	10,334	957,401	5,636,110
Receivables:					
Property tax:					
Delinquent	64,781	6,516	-	1,920	73,217
Succeeding year	5,197,076	520,106	-	157,449	5,874,631
Accounts	29,614	11,446	-	-	41,060
Accrued interest	106	-	-	-	106
Due from other governments	928,395	112,404	-	-	1,040,799
Prepaid expenses	56,143	47,171	-	10,562	113,876
Total assets	\$ 9,532,821	2,109,312	10,334	1,127,332	12,779,799
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Accounts payable	\$ 258,063	104,223	-	5,350	367,636
Salaries & benefits payable	1,647,412	-	-	-	1,647,412
Total liabilities	1,905,475	104,223	-	5,350	2,015,048
Deferred inflows of resources:					
Unavailable revenues:					
Succeeding year property tax revenue	5,197,076	520,106	-	157,449	5,874,631
Succeeding year income surtax revenue	606,946	-	-	-	606,946
Total deferred inflows of resources	5,804,022	520,106	-	157,449	6,481,577
Fund balances:					
Nonspendable - prepaids	56,143	47,171	-	10,562	113,876
Restricted for:					
Categorical funding	273,446	-	-	-	273,446
Donated purposes	60,428	-	-	-	60,428
Debt service	-	-	10,334	-	10,334
Capital projects	-	1,203,059	-	-	1,203,059
Physical plant and equipment	-	234,753	-	-	234,753
Management levy purposes	-	-	-	800,992	800,992
Student activities	-	-	-	152,979	152,979
Unassigned	1,433,307	-	-	-	1,433,307
Total fund balances	1,823,324	1,484,983	10,334	964,533	4,283,174
Total liabilities, deferred inflows of resources and fund balances	\$ 9,532,821	2,109,312	10,334	1,127,332	12,779,799

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2017**

Total fund balances of governmental funds	\$	4,283,174
 <i>Amounts reported for governmental activities in the Statement of Net Position 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.		18,364,125
Payments to escrow in excess of loan proceeds received to advance refund debt are being amortized as deferred outflow of resources and are not reported in the governmental funds.		288,132
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.		(92,268)
Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:		
Deferred outflows of resources	\$ 2,649,891	
Deferred inflows of resources	<u>(188,396)</u>	2,461,495
Long-term liabilities, including bonds and notes payable, compensated absences payable, other postemployment benefits payable and net pension liability are not due and payable in the current period and, therefore, are not reported as liabilities of the governmental funds.		<u>(20,042,587)</u>
Net position of governmental activities	\$	<u>5,262,071</u>

See notes to financial statements

HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	General	Capital Projects	Debt Service	Nonmajor Governmental	Total
Revenues:					
Local sources:					
Local Tax	\$ 5,644,931	509,793	-	150,054	6,304,778
Tuition	1,105,533	-	-	-	1,105,533
Other	400,646	3,523	7	626,761	1,030,937
State sources	9,018,699	1,359,399	-	2,577	10,380,675
Federal sources	471,165	-	-	-	471,165
Total revenues	<u>16,640,974</u>	<u>1,872,715</u>	<u>7</u>	<u>779,392</u>	<u>19,293,088</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	7,114,373	433,557	-	106,328	7,654,258
Special instruction	2,536,759	-	-	-	2,536,759
Other instruction	1,313,584	-	-	601,081	1,914,665
	<u>10,964,716</u>	<u>433,557</u>	<u>-</u>	<u>707,409</u>	<u>12,105,682</u>
Support services:					
Student services	481,618	-	-	-	481,618
Instructional staff services	934,693	18,440	-	-	953,133
Administration services	1,601,649	5,573	1,000	121,673	1,729,895
Operation and maintenance of plant services	1,183,058	14,119	-	80,706	1,277,883
Transportation services	747,259	47,127	-	33,944	828,330
	<u>4,948,277</u>	<u>85,259</u>	<u>1,000</u>	<u>236,323</u>	<u>5,270,859</u>
Other expenditures:					
Facilities acquisition	-	271,516	-	-	271,516
Long-term debt:					
Principal	-	-	830,000	-	830,000
Interest and fiscal charges	-	-	247,214	-	247,214
AEA flowthrough	596,205	-	-	-	596,205
	<u>596,205</u>	<u>271,516</u>	<u>1,077,214</u>	<u>-</u>	<u>1,944,935</u>
Total expenditures	<u>16,509,198</u>	<u>790,332</u>	<u>1,078,214</u>	<u>943,732</u>	<u>19,321,476</u>
Excess (deficiency) of revenues over (under) expenditures	131,776	1,082,383	(1,078,207)	(164,340)	(28,388)
Other financing sources (uses):					
Sale of general fixed assets	4,238	-	-	-	4,238
Operating transfers in	-	-	1,078,214	7,304	1,085,518
Operating transfers out	(7,304)	(1,078,214)	-	-	(1,085,518)
Total other financing sources (uses)	<u>(3,066)</u>	<u>(1,078,214)</u>	<u>1,078,214</u>	<u>7,304</u>	<u>4,238</u>
Net change in fund balances	128,710	4,169	7	(157,036)	(24,150)
Fund balances beginning of year	<u>1,694,614</u>	<u>1,480,814</u>	<u>10,327</u>	<u>1,121,569</u>	<u>4,307,324</u>
Fund balances end of year	<u>\$ 1,823,324</u>	<u>1,484,983</u>	<u>10,334</u>	<u>964,533</u>	<u>4,283,174</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, 2017**

Net change in fund balances - total governmental funds \$ (24,150)

*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 not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays depreciation expense and adjustments for disposals in the year are as follows:

Expenditures for capital assets	\$ 273,512	
Depreciation expense	<u>(871,748)</u>	(598,236)

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position.	830,000
--	---------

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.	(274,653)
--	-----------

The current year District employer share of IPERS contributions are reported as expenditures in the governmental funds, but are reported as deferred outflow of resources in the Statement of Net Position.	943,949
---	---------

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.

Compensated absences	\$ (351)	
Pension expense	(1,140,490)	
Other post employment benefits	<u>(55,498)</u>	<u>(1,196,339)</u>

Change in net position of governmental activities \$ (319,429)

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2017**

	<u>School Nutrition</u>
Assets	
Current assets:	
Cash, cash equivalents and pooled investments	\$ 264,842
Due from other governments	8,478
Prepaid expenses	3,817
Inventories	<u>21,479</u>
Total current assets	298,616
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>54,255</u>
Total assets	<u>352,871</u>
Deferred Outflows of Resources	
Pension related deferred outflows	69,779
Liabilities	
Current liabilities:	
Accounts payable	8,526
Salaries and benefits and payable	47,545
Unearned revenue	<u>16,976</u>
Total current liabilities	73,047
Noncurrent liabilities:	
Net pension liability	<u>253,603</u>
Total liabilities	<u>326,650</u>
Deferred Inflows of Resources	
Pension related deferred inflows	4,887
Net Position	
Investment in capital assets	54,255
Unrestricted	<u>36,858</u>
Total net position	<u>\$ 91,113</u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2017**

	School Nutrition
Operating revenue:	
Local sources:	
Charges for service	\$ 372,523
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	292,133
Benefits	54,952
Purchased services	1,567
Supplies	425,453
Depreciation	13,088
Total operating expenses	787,193
Operating loss	(414,670)
Non-operating revenue:	
State sources	5,812
Federal sources	355,092
Interest on investments	461
Total non-operating revenue	361,365
Change in net position	(53,305)
Net position beginning of year	144,418
Net position end of year	\$ 91,113

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2017**

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 374,970
Cash payments to employees for services	(346,636)
Cash payments to suppliers for goods or services	(369,654)
Net cash used in operating activities	(341,320)
Cash flows from non-capital financing activities:	
State grants received	5,812
Federal grants received	293,269
Net cash provided by non-capital financing sources	299,081
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(4,300)
Cash flows from investing activities:	
Interest on investments	461
Net increase in cash and cash equivalents	(46,078)
Cash and cash equivalents at beginning of year	310,920
Cash and cash equivalents at end of year	\$ 264,842

Reconciliation of operating loss to net cash used by operating activities:

Operating loss	\$ (414,670)
Commodities used	53,345
Depreciation	13,088
(Increase) decrease:	
Inventories	(4,067)
Prepaid expenses	173
Pension related deferred outflows	1,475
Increase (decrease) in:	
Accounts payable	7,915
Salaries and benefits payable	(3,546)
Unearned revenue	2,447
Net pension liability	45,957
Pension related deferred inflows	(43,437)
Net cash used in operating activities	\$ (341,320)

Non-cash investing, capital and financing activities

During the year ended June 30, 2017 the District received \$53,345 of federal commodities.

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2017**

	Private Purpose Trust	Agency
	Scholarship	
Assets		
Cash, cash equivalents and pooled investments	\$ 159,858	15,909
Total assets	159,858	15,909
Liabilities		
Due to other governments	-	15,909
Total liabilities	-	15,909
Net Position		
Reserved for scholarships	\$ 159,858	-

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2017**

		Private Purpose Trust <u>Scholarship</u>
Additions:		
Local sources:		
Gifts and contributions	\$	3,335
Interest income		<u>491</u>
Total additions		3,826
 Deductions:		
Instruction:		
Regular:		
Scholarships awarded		<u>14,823</u>
 Change in net position		(10,997)
 Net position beginning of year		<u>170,855</u>
 Net position end of year	\$	<u><u>159,858</u></u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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 predominate 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 Position 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 Position presents the District's nonfiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets 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.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 1 Summary of Significant Accounting Policies (continued)

B. Basis of Presentation – (continued)

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

Unrestricted net position consists of net position that does not meet the definition of the preceding two categories. Unrestricted net position is often subject to constraints on resources that are imposed by management which 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 government-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. Combining schedules are also included for the Capital Project Fund accounts.

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 revenues 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 expenditures, including instructional, support and other costs.

The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the District's long term debt.

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

The District reports the following major proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 1 Summary of Significant Accounting Policies (continued)

B. Basis of Presentation - (continued)

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

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

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

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

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 position 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.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 1 Summary of Significant Accounting Policies (continued)

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

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity

The following accounting policies are followed in preparing the financial statements:

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.

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.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 1 Summary of Significant Accounting Policies (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity - (continued)

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, 2015 assessed property valuations; is for the tax accrual period July 1, 2016 through June 30, 2017 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2016.

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 Position. 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

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

Deferred Outflows of Resources - Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources related to pension consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period. Deferred outflows of resources related to advanced debt refunding consist of the unamortized balance not yet charged to interest expense.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 1 Summary of Significant Accounting Policies (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity - (continued)

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.

Unearned Revenue - Nutrition fund unearned revenue consists of student meal charges collected but not yet earned.

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, 2017. 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 Position.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources – Deferred inflows of resources represent an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources 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 year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and other receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consists of succeeding year property tax receivables that will not be recognized as revenue until the year for which it is levied, succeeding year income surtax that will not be recognized as revenue until available, and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 1 Summary of Significant Accounting Policies (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity - (continued)

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts not in spendable form, such as inventories and prepaid expenses.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resource are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Education through resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

NOTE 2 Cash and Pooled Investments

The District's deposits in banks at June 30, 2017 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, 2017, the District had investments in the Iowa Schools Joint Investment Trust District Government Obligations Portfolio which are valued at an amortized cost of \$935 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAAM by Standard & Poor's Financial Services.

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 3 Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2017 is as follows:

Transfer to	Transfer from	Amount
Special Revenue Student Activity	General	\$ 7,304
Debt Service	Capital Projects	<u>1,078,214</u>
		<u>\$ 1,085,518</u>

Transfers generally move revenues from the fund statutorily required to collect the resources, to the fund statutorily required to expend the resources.

The transfer from the General Fund to the Special Revenue, Student Activity Fund was for the purchase of safety equipment.

NOTE 4 Capital Assets

Capital assets activity for the year ended June 30, 2017 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 25,700	-	-	25,700
Capital assets being depreciated:				
Buildings	25,763,483	176,868		25,940,351
Improvements other than buildings	680,639	-		680,639
Furniture and equipment	3,933,308	96,644		4,029,952
Total capital assets being depreciated	<u>30,377,430</u>	<u>273,512</u>	<u>-</u>	<u>30,650,942</u>
Less accumulated depreciation for:				
Buildings	7,511,151	687,172		8,198,323
Improvements other than buildings	492,877	11,018		503,895
Furniture and equipment	3,436,741	173,558		3,610,299
Total accumulated depreciation	<u>11,440,769</u>	<u>871,748</u>	<u>-</u>	<u>12,312,517</u>
Total capital assets being depreciated, net	<u>18,936,661</u>	<u>(598,236)</u>	<u>-</u>	<u>18,338,425</u>
Governmental activities capital assets, net	<u>\$ 18,962,361</u>	<u>(598,236)</u>	<u>-</u>	<u>18,364,125</u>
Business-type activities				
Furniture and equipment	\$ 285,067	4,300		289,367
Less accumulated depreciation	<u>222,024</u>	<u>13,088</u>		<u>235,112</u>
Business-type activities capital assets, net	<u>\$ 63,043</u>	<u>(8,788)</u>	<u>-</u>	<u>54,255</u>

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 4 Capital Assets (continued)

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 6,319
Special		8,880
Other		5,534
Support services:		
Student services		538
Operation and maintenance of plant		21,001
Transportation		<u>109,577</u>
		151,849
Unallocated		<u>719,899</u>
Total depreciation expense - governmental activities		<u>\$ 871,748</u>
Business-type activities:		
Food services		<u>\$ 13,088</u>

NOTE 5 Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2017 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation refunding bonds	4,380,000	-	645,000	3,735,000	660,000
Unamortized premium	69,821	-	9,974	59,847	-
Sales tax refunding bonds	6,590,000	-	185,000	6,405,000	190,000
Compensated absences	85,664	86,015	85,664	86,015	86,015
Net pension liability	7,369,153	1,771,822	-	9,140,975	-
Net OPEB liability	<u>560,252</u>	<u>101,483</u>	<u>45,985</u>	<u>615,750</u>	<u>47,318</u>
Total	<u>\$ 19,054,890</u>	<u>1,959,320</u>	<u>971,623</u>	<u>20,042,587</u>	<u>983,333</u>
Business type activities					
Net pension liability	<u>\$ 207,646</u>	<u>45,957</u>	<u>-</u>	<u>253,603</u>	<u>-</u>

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 5 Long-Term Liabilities (continued)

Bonds Payable

Details of the District's June 30, 2017 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of December 11, 2012			
	Interest Rates	Principal	Interest	Premium Amortization
2018	2.00%	660,000	56,932	9,974
2019	1.10%	675,000	43,732	9,974
2020	1.35%	685,000	36,308	9,974
2021	1.50%	695,000	27,061	9,974
2022	1.60%	705,000	16,636	9,974
2023	1.70%	315,000	5,536	9,977
		<u>\$ 3,735,000</u>	<u>186,205</u>	<u>59,847</u>

Sales Tax Bond

Details of the District's June 30, 2017 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of February 5, 2015		
	Interest Rates	Principal	Interest
2018	2.73%	190,000	172,264
2019	2.73%	200,000	166,940
2020	2.73%	205,000	161,411
2021	2.73%	210,000	155,746
2022	2.73%	215,000	149,945
2023-2027	2.73%	2,825,000	590,565
2028-2030	2.73%	2,560,000	106,060
		<u>\$ 6,405,000</u>	<u>1,502,931</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$6,705,000 bonds issued February 5, 2015. The bonds were issued for the purpose of refunding the May 2009 bonds. The bonds are payable solely from the proceeds of the statewide sales, services and use 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 statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bond is \$7,907,931. For the current year, total principal and interest paid on the refunded bonds and total statewide sales, services and use tax revenue were \$362,383 and \$1,351,046, respectively. There were no payments made on the refunding bonds.

There are no reserve requirements on the new bonds.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 5 Long-Term Liabilities (continued)

Advanced Debt Refunding

On February 5, 2015, the District issued \$6,705,000 in revenue bonds with interest rates of 2.73% per annum. A total of \$7,240,430, which includes the refunding note proceeds was placed in escrow to decrease the \$6,330,000 revenue bond issued in May 2009. The old debt has a final call date of July 1, 2018. The escrow balance of \$6,538,099, and the refunded debt outstanding of \$6,155,000 at June 30, 2017 are not reflected in the District's financial statement.

For the year ended June 30, 2017, the District reported deferred outflows of \$288,132 related to the advanced debt refunding that will be recognized as interest expense as follows:

<u>Year Ending June 30,</u>	
2018	\$ <u>288,132</u>

NOTE 6 Pension Plan

Plan Description - IPERS membership is mandatory for employees of the District, except for those covered by another retirement system. Employees of the District are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 6 Pension Plan (continued)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2017, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the District contributed 8.93% of covered payroll, for a total rate of 14.88%.

The District's contributions to IPERS for the year ended June 30, 2017 were \$969,537.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2017, the District reported a liability of \$9,394,578 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the IPERS' relative to the contributions of all IPERS participating employers. At June 30, 2016, the District's proportion was 0.1492787%, which was a decrease of 0.004083% from its proportion measured as of June 30, 2015.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 6 Pension Plan (continued)

For the year ended June 30, 2017, the District recognized pension expense of \$1,114,241. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 83,030	\$ 112,120
Changes in assumptions	143,332	-
Net difference between projected and actual earnings on pension plan investments	1,338,430	-
Changes in proportion and differences between District contributions and proportionate share of contributions	185,341	81,163
District contributions subsequent to the measurement date	<u>969,537</u>	<u>-</u>
Total	<u>\$ 2,719,670</u>	<u>\$ 193,283</u>

\$969,537 reported as deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2018	\$ 235,856
2019	235,856
2020	720,600
2021	378,858
2022	<u>(14,320)</u>
Total	<u>\$ 1,556,850</u>

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 6 Pension Plan (continued)

Actuarial Assumptions - The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	1.90%
Domestic equity	24	5.85
International equity	16	6.32
Private equity/debt	11	10.31
Real estate	8	3.87
Credit opportunities	5	4.48
U.S. TIPS	5	1.36
Other real assets	2	6.42
Cash	1	(0.26)
	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 6 Pension Plan (continued)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 15,199,155	\$ 9,394,578	\$ 4,495,438

Pension Plan Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to IPERS - At June 30, 2017, the District reported payables to IPERS of \$121,805 for legally required District contributions and \$81,158 for legally required employee contributions withheld from employee wages which had not yet been remitted to IPERS.

NOTE 7 Termination Benefits

In November, 2016, the District approved a voluntary early retirement plan for employees. The plan was offered for one year. Eligible employees must have completed at least 10 years of full time service to the District, must have reached the age of fifty-five by June 30, 2016, and be first year eligible for IPERS benefits. The retirement benefit equaled a one-time payment of \$20,000 to a deferred plan on behalf of each electing employee. Four employees were granted the benefit. Early retirement expenditures for the year ended June 30, 2017 totaled \$80,000, with no liability outstanding.

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, 2017**

NOTE 9 Other Postemployment Benefits (OPEB)

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. For new retirees after June 30, 2017, the explicit subsidy increases to \$125 per month. There are 121 active and 22 retired members in 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, 2017, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$	150,462
Interest on net OPEB obligation		14,006
Adjustment to annual required contribution		(63,735)
Annual OPEB cost		100,733
Contributions made		45,235
Increase in net OPEB obligation		55,498
Net OPEB obligation, beginning of year		560,252
Net OPEB obligation, end of year	\$	615,750

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2014. 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, 2017.

For the year ended June 30, 2017, the District made an explicit contribution of \$25,084 and an implicit contribution of \$20,151 to the medical plan. Plan members eligible for benefits contributed \$111,515, or 81.6% of the premium costs.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 9 Other Postemployment Benefits (OPEB) (continued)

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, 2017 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 96,108	51.1%	\$ 511,848
2016	89,924	46.1%	560,252
2017	100,733	44.9%	615,750

Funding Status and Funding Progress - As of July 1, 2014, the most recent actuarial valuation for the period July 1, 2016 through June 30, 2017, the actuarial accrued liability was \$435,065, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$435,065. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$9,043,000, and the ratio of the UAAL to covered payroll was 4.81%. As of June 30, 2017, 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, 2014 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 basis for the "aging cost assumption" used in the valuation.

Projected claim costs of the medical plan are \$583 per month for retirees. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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 \$596,205 for the year ended June 30, 2017 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

NOTE 11 Lease Agreements

The District has signed operating lease agreements for the rental of computer equipment. Rent expense for the year ended June 30, 2017 totaled \$286,312. Future required minimum lease payments are as follows:

Year Ending June 30,	Amount
2018	\$ 191,094
2019	159,905
2020	97,164
	\$ 448,163

NOTE 12 Categorical Funding

The District ending balances for categorical funding by project as of the year ended June 30, 2017 are as follows:

Project	Amount
Home school assistance	\$ 185,585
Teachers compensation	9,573
Voluntary preschool	2,801
Teacher quality core	27,492
Teacher quality	26,575
Teacher leadership	21,420
	\$ 273,446

NOTE 13 Tax Abatements

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 13 Tax Abatements (continued)

Tax Abatements of Other Entities

Property tax revenues of the District were reduced by the following amounts for the year ended June 30, 2017 under agreements entered into by the following entities:

Entity	Tax Abatement Program	Amount of Tax Abated
City of Harlan	Urban renewal and economic development projects	\$ 4,795
	Other tax abatement program	23,733

The State of Iowa reimburses the District an amount equivalent to the increment of valuation on which property tax is divided times \$5.40 per \$1,000 of taxable valuation. For the year ended June 30, 2017, this reimbursement amounted to \$2,470.

NOTE 14 New Accounting Pronouncement

The District adopted the tax abatement disclosure guidance set forth in Governmental Accounting Standards Board Statement No. 77, *Tax Abatement Disclosures*. The Statement sets forth guidance for the disclosure of information about the nature and magnitude of tax abatements which will make these transactions more transparent to financial statement users. Adoption of the guidance did not have an impact on amounts reported in the financial statements. The Notes to Financial statements include information about tax abatements of other entities which impact the District.

NOTE 15 Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement will be implemented for the fiscal year ending June 30, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with postemployment benefits other than pensions, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government's other postemployment benefits.

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, 2017**

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive - (Negative)
				Original	Final	
				Revenues:		
Local sources	\$ 8,441,248	372,984	8,814,232	8,904,460	8,904,460	(90,228)
State sources	10,380,675	5,812	10,386,487	10,482,733	10,482,733	(96,246)
Federal sources	471,165	355,092	826,257	858,500	858,500	(32,243)
Total receipts	<u>19,293,088</u>	<u>733,888</u>	<u>20,026,976</u>	<u>20,245,693</u>	<u>20,245,693</u>	<u>(218,717)</u>
Expenditures:						
Instruction	12,105,682	-	12,105,682	12,297,715	12,297,715	192,033
Support services	5,270,859	-	5,270,859	5,135,793	5,305,000	34,141
Non-instructional programs	-	787,193	787,193	863,970	863,970	76,777
Other expenditures	1,944,935	-	1,944,935	1,889,922	2,010,000	65,065
Total disbursements	<u>19,321,476</u>	<u>787,193</u>	<u>20,108,669</u>	<u>20,187,400</u>	<u>20,476,685</u>	<u>368,016</u>
Excess (deficiency) of revenue over (under) expenditures	(28,388)	(53,305)	(81,693)	58,293	(230,992)	149,299
Other financing sources, net	<u>4,238</u>	<u>-</u>	<u>4,238</u>	<u>5,000</u>	<u>5,000</u>	<u>(762)</u>
Excess(deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(24,150)	(53,305)	(77,455)	63,293	(225,992)	148,537
Balances beginning of year	<u>4,307,324</u>	<u>144,418</u>	<u>4,451,742</u>	<u>4,346,488</u>	<u>4,346,488</u>	<u>105,254</u>
Balances end of year	<u>\$ 4,283,174</u>	<u>91,113</u>	<u>4,374,287</u>	<u>4,409,781</u>	<u>4,120,496</u>	<u>253,791</u>

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2017**

This budgetary comparison is presented as Required Supplementary Information in accordance with *Governmental Accounting Standards Board* 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 budget expenditures by \$289,285.

During the year ended June 30, 2017, expenditures did not exceed the amended amounts budgeted and the District did not exceed its General Fund unspent authorized budget.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST THREE YEARS*
(IN THOUSANDS)
REQUIRED SUPPLEMENTARY INFORMATION**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.149279%	0.153362%	0.153786%
District's proportionate share of the net pension liability	\$ 9,395	7,577	6,099
District's covered-employee payroll	\$ 10,508	10,508	10,057
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	89.41%	72.11%	60.64%
IPERS' net position as a percentage of the total pension liability	81.82%	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST TEN YEARS
(IN THOUSANDS)
REQUIRED SUPPLEMENTARY INFORMATION

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Statutorily required contribution	\$ 970	958	939	898	815	730	639	669	662	548
Contributions in relation to the statutorily required contribution	970	958	939	898	815	730	639	669	662	548
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
City's covered-employee payroll	\$ 10,857	10,508	10,508	10,057	9,405	9,060	9,198	10,070	10,424	9,055
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.93%	8.67%	8.06%	6.95%	6.65%	6.35%	6.05%

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2015**

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008, transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN (In Thousands)
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017**

Year Ended 30-Jun	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	Jul 1, 2008	- \$	903 \$	903	0.0%	\$ 9,736	9.23%
2011	Jul 1, 2008	-	675	675	0.0%	8,890	7.59%
2012	Jul 1, 2011	-	890	890	0.0%	8,736	10.19%
2013	Jul 1, 2011	-	854	854	0.0%	9,185	9.30%
2014	Jul 1, 2011	-	809	809	0.0%	9,812	8.18%
2015	Jul 1, 2014	-	570	570	0.0%	8,029	7.10%
2016	Jul 1, 2014	-	505	505	0.0%	8,820	5.73%
2017	Jul 1, 2014	-	435	435	0.0%	9,043	4.81%

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.

See Accompanying Independent Auditors' Report

SUPPLEMENTARY INFORMATION

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017**

Assets	Special Revenue		
	Management Levy	Student Activity	Total
Assets:			
Cash, cash equivalents and pooled investments	\$ 799,072	158,329	957,401
Receivables:			
Property tax:			
Delinquent	1,920	-	1,920
Succeeding year	157,449	-	157,449
Accounts	-	-	-
Prepaid expenses	10,562	-	10,562
Total assets	\$ 969,003	158,329	1,127,332
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Accounts payable	\$ -	5,350	5,350
Total liabilities	-	5,350	5,350
Deferred inflows of resources:			
Unavailable succeeding year property tax revenue	157,449	-	157,449
Fund balances:			
Nonspendable:			
Prepays	10,562	-	10,562
Restricted for:			
Management levy purposes	800,992	-	800,992
Student activities	-	152,979	152,979
Total fund balances	811,554	152,979	964,533
Total liabilities, deferred inflows of resources and fund balances	\$ 969,003	158,329	1,127,332

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017**

	Special Revenue		
	Management Levy	Student Activity	Total
Revenues:			
Local sources:			
Local Tax	\$ 150,054	-	150,054
Other	31,707	595,054	626,761
State sources	<u>2,577</u>	-	<u>2,577</u>
Total revenues	<u>184,338</u>	<u>595,054</u>	<u>779,392</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	106,328	-	106,328
Other instruction	-	601,081	601,081
	<u>106,328</u>	<u>601,081</u>	<u>707,409</u>
Support services:			
Administration services	121,673	-	121,673
Operation and maintenance of plant services	80,706	-	80,706
Transportation services	33,944	-	33,944
	<u>236,323</u>	-	<u>236,323</u>
Total expenditures	<u>342,651</u>	<u>601,081</u>	<u>943,732</u>
Deficiency of revenues under expenditures	(158,313)	(6,027)	(164,340)
Other financing sources:			
Operating transfers in	-	7,304	7,304
Total other financing sources	<u>-</u>	<u>7,304</u>	<u>7,304</u>
Net change in fund balances	(158,313)	1,277	(157,036)
Fund balances beginning of year	<u>969,867</u>	<u>151,702</u>	<u>1,121,569</u>
Fund balances end of year	<u>\$ 811,554</u>	<u>152,979</u>	<u>964,533</u>

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET – CAPITAL PROJECT ACCOUNTS
YEAR ENDED JUNE 30, 2017**

Assets	<u>Capital Projects</u>		<u>Total</u>
	<u>Statewide Sales, Services and Use Tax</u>	<u>Physical Plant and Equipment Levy</u>	
Assets:			
Cash, cash equivalents and pooled investments	\$ 1,090,655	321,014	1,411,669
Receivables:			
Property tax:			
Delinquent	-	6,516	6,516
Succeeding year	-	520,106	520,106
Accounts	-	11,446	11,446
Due from other governments	112,404	-	112,404
Prepaid expenses	-	47,171	47,171
	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ <u>1,203,059</u>	<u>906,253</u>	<u>2,109,312</u>
 Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Accounts payable	\$ -	104,223	104,223
Total liabilities	<u> </u>	<u>104,223</u>	<u>104,223</u>
 Deferred inflows of resources:			
Unavailable succeeding year property tax revenue	-	520,106	520,106
 Fund balances:			
Nonspendable:			
Prepays	-	47,171	47,171
Restricted for:			
School infrastructure	1,203,059	-	1,203,059
Physical plant and equipment	-	234,753	234,753
Total fund balances	<u>1,203,059</u>	<u>281,924</u>	<u>1,484,983</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities, deferred inflows of resources and fund balances	\$ <u>1,203,059</u>	<u>906,253</u>	<u>2,109,312</u>

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
CAPITAL PROJECT ACCOUNTS
YEAR ENDED JUNE 30, 2017**

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local Tax	\$ -	509,793	509,793
Other	2,747	776	3,523
State sources	1,351,046	8,353	1,359,399
Total revenues	1,353,793	518,922	1,872,715
Expenditures:			
Current:			
Instruction:			
Regular instruction	300,308	133,249	433,557
Support services:			
Instructional staff services	-	18,440	18,440
Administration services	5,573	-	5,573
Operation and maintenance of plant services	-	14,119	14,119
Transportation services	-	47,127	47,127
	5,573	79,686	85,259
Other expenditures:			
Facilities acquisition	-	271,516	271,516
Total expenditures	305,881	484,451	790,332
Excess (deficiency) of revenues over (under) expenditures	1,047,912	34,471	1,082,383
Other financing (uses):			
Operating transfers out	(1,078,214)	-	(1,078,214)
Total other financing (uses)	(1,078,214)	-	(1,078,214)
Net change in fund balances	(30,302)	34,471	4,169
Fund balances beginning of year	1,233,361	247,453	1,480,814
Fund balances end of year	\$ 1,203,059	281,924	1,484,983

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND,
STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2017**

	Balance Beginning of Year	Revenues	Expend- itures	Transfers In (Out)	Balance End of Year
Drama	\$ 3,509	1,265	3,182	-	1,592
HS speech	-	1,278	1,278	-	-
HS vocal music	-	2,844	2,844	-	-
MS vocal music	481	437	579	-	339
Show choir	560	4,227	2,706	-	2,081
HS instr music	2,457	1,427	2,754	-	1,130
HS jazz	-	2,076	2,076	-	-
MS jazz	-	275	113	-	162
MS flag corp	49	-	-	-	49
HS flag corp	1,193	2,411	1,907	-	1,697
Athletics	2,127	171,804	177,235	7,304	4,000
Splish splash auto detailing	1,267	1,193	2,116	-	344
FB holocaust memorial rock project	872	1	-	-	873
Cheerleaders	1,359	3,851	2,246	-	2,964
FFA	21,228	95,767	97,498	(5,848)	13,649
Harpoon	15,518	6,572	7,563	-	14,527
Entrepreneurial vending	1,756	1	-	-	1,757
National honor society	-	385	385	-	-
BPA	3,940	36,707	37,904	-	2,743
Science club	5	-	-	-	5
Foreign language club	5,200	4,399	2,917	-	6,682
Student council	4,182	19,239	20,687	-	2,734
Pom pom	46	5,908	5,228	-	726
Destination imagination	3,351	1,153	-	-	4,504
Key club	3,964	1,416	2,265	-	3,115
For the birds	104	1,066	1,170	-	-
FCCLA club	2,675	2,533	2,769	-	2,439
FEA	133	-	-	-	133
Friends of Rachele	1,715	1	-	-	1,716
Fundraising	1,730	63,493	60,817	-	4,406
Prom	-	16,081	14,569	-	1,512
HS miscellaneous	104	568	534	-	138
Hosa fund	-	25,497	25,497	-	-
Cyclone corner store	21,348	19,052	29,770	-	10,630
Concessions	1,000	21,474	19,753	-	2,721
Vending	7,060	2,960	4,314	-	5,706
MS cheerleading	4,708	638	537	-	4,809
MS vending	639	6,766	5,733	-	1,672
Trapshooting	-	25,398	26,246	5,848	5,000
MS student council	6,855	23,226	17,792	-	12,289
MS yearbook	6,131	3,109	2,719	-	6,521
MS drama	605	-	-	-	605
MS building improvements	98	-	-	-	98
MS builders club	281	-	-	-	281
MS student fund	98	10,398	9,763	-	733
Special olympics	-	368	52	-	316
New Park student fund	14,948	2,990	768	-	17,170
West Ridge student fund	7,804	4,800	4,795	-	7,809
West Ridge student store	602	-	-	-	602
Total	\$ 151,702	595,054	601,081	7,304	152,979

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
YEAR ENDED JUNE 30, 2017**

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	\$ 11,815	4,094	-	15,909
Total assets	<u>\$ 11,815</u>	<u>4,094</u>	<u>-</u>	<u>15,909</u>
Liabilities				
Due to other governments	\$ 11,815	4,094	-	15,909
Total liabilities	<u>\$ 11,815</u>	<u>4,094</u>	<u>-</u>	<u>15,909</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 TEN YEARS**

	Modified Accrual Basis									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Revenues:										
Local sources:										
Local Tax	6,304,778	6,144,495	6,125,125	6,025,640	7,218,238	7,636,847	7,512,198	6,342,488	5,837,085	5,715,871
Tuition	1,105,533	1,095,726	1,112,376	1,071,903	993,423	1,077,900	1,044,614	990,705	921,478	875,705
Other	1,030,937	1,320,954	1,532,938	1,755,302	858,994	965,743	853,217	948,330	1,089,363	1,101,418
State sources	10,380,675	9,554,814	9,818,541	9,450,324	7,789,617	8,330,873	7,794,654	6,996,289	8,203,024	7,994,997
Federal sources	471,165	454,561	475,526	521,920	382,000	545,439	736,524	1,290,479	434,184	410,350
Total	\$ 19,293,088	18,570,550	19,064,506	18,825,089	17,242,272	18,556,802	17,941,207	16,568,291	16,485,134	16,098,341
Expenditures:										
Instruction:										
Regular instruction	7,654,258	8,113,459	8,102,246	7,781,024	7,119,814	6,458,017	6,561,370	7,223,885	6,921,935	6,640,200
Special instruction	2,536,759	2,546,048	2,336,968	2,115,622	1,973,450	2,302,080	2,025,680	1,816,504	2,073,664	1,955,078
Other instruction	1,914,665	1,754,009	1,825,380	1,770,513	1,814,507	1,731,674	1,701,138	1,919,532	1,642,187	1,562,230
Support services:										
Student services	481,618	621,220	600,823	494,895	424,509	432,328	375,374	654,989	652,071	544,349
Instructional staff services	953,133	480,465	481,445	491,024	436,804	666,983	371,410	372,660	393,717	401,968
Administration services	1,729,895	1,791,784	1,725,334	1,642,779	1,610,252	1,426,148	1,495,949	1,551,890	1,423,483	1,344,138
Operation and maintenance of plant services	1,277,883	1,247,355	1,253,922	1,273,294	1,222,965	1,313,770	1,196,590	1,115,072	1,131,622	1,139,891
Transportation services	828,330	925,826	881,947	956,706	778,561	847,034	726,086	799,634	803,370	697,317
Other support services	-	-	-	-	-	-	3,997	-	-	969
Other expenditures:										
Facilities acquisition	271,516	468,003	1,598,039	1,041,240	206,167	835,401	1,584,854	4,952,994	7,058,375	662,735
Long-term debt:										
Principal	830,000	1,745,000	5,385,000	490,000	470,000	450,000	435,000	420,000	545,000	714,900
Interest and fiscal charges	247,214	246,622	721,892	648,996	685,065	601,190	613,336	511,790	413,796	47,680
AEA flowthrough	596,205	594,017	596,354	577,516	547,192	547,409	613,093	615,639	560,644	519,167
Total	\$ 19,321,476	20,533,808	25,509,350	19,283,609	17,289,286	17,612,034	17,703,877	21,954,589	23,619,864	16,230,622

See Accompanying Independent Auditors' Report

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**



Diane McGrain, CPA
Jim Menard, CPA
Kelsey Peterson, CPA

November 15, 2017

**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 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, 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, 2017, and the related Notes to the Financial Statements, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated November 15, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Harlan Community School District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harlan Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Harlan Community School District's internal control.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Continued. . .

omni business centre
42 n. 2nd street
council bluffs, iowa 51503
712•322•8734 / fax 712•322•4699
www.schroer-cpa.com

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2017 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

Harlan Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Harlan Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.

Schwan & Associates, PC

HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2017

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

No significant deficiencies or material weaknesses were noted.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2017**

Part II: Other Findings Related to Statutory Reporting:

II-A-17 Certified Budget

Expenditures for the year ended June 30, 2017 did not exceed the certified budget amounts.

II-B-17 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.

II-C-17 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.

II-D-17 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>
Mike Bierl, employee, owner of Same Printing	T-shirts	\$ 973
Jim Bruck, employee, co-owner of of Drivers Safety, LLC	Purchased services	\$ 17,360
Randy Kroger, employee, owner of Kroger & Sons, LLC	Hauling	\$ 21,815

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

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2017**

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

II-E-17 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.

II-F-17 Board Minutes

Comment - No transactions were found that we believe should have been approved by the Board minutes, but were not.

However, we noted the claims approved for the May 22, 2017 meeting was missing from the publication of the minutes.

Recommendation – In accordance with Chapter 279 of the Code of Iowa, the schedule of claims allowed should be published at least once a month.

Response – We will publish the claims that were missed.

Conclusion – Response accepted.

II-G-17 Certified Enrollment

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

II-H-17 Supplemental Weighting

No variances regarding the supplemental weighting certified to the Department of Education were noted.

II-I-17 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.

II-J-17 Certified Annual Report

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

II-K-17 Categorical Funding

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

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2017**

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

II-L-17 Statewide Sales and Services Tax

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, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2017, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance	\$	1,233,361
Revenues/transfers in:		
Sales tax revenues		1,351,046
Other local revenues		2,747
		1,353,793
Expenditures/transfers out:		
Equipment		300,308
Computer software		5,573
Transfers to debt service fund		1,078,214
		1,384,095
Ending balance	\$	1,203,059

For the year ended June 30, 2017, the District reduced the following levy as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

		Rate of Levy Reduction Per \$1,000 of Taxable Valuation		Property Tax Dollars Reduced
Debt service levy	\$	2.11	\$	1,078,214

II-M-17 Revenue Bonds

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