

HARLAN COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2019

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HARLAN COMMUNITY SCHOOL DISTRICT

OFFICIALS

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|---------------------------|--------------------------|---------------------|
| Board of Education | | |
| Amy Rueschenberg | President | 2021 |
| Jessica Anderson | Vice President | 2021 |
| Lonnie Muxfeldt | Board Member - resigned | 2021 |
| Seth Pro | Board member - appointed | 2019 |
| Kathy Mahlberg | Board Member - resigned | 2019 |
| Tarah Devlin-Lawler | Board member - appointed | 2019 |
| Joni Larsen | Board Member | 2019 |
| Monte Schechinger | Board Member | 2019 |
| Al Hazelton | Board Member | 2021 |

School Officials

| | | |
|-----------------------|--|------------|
| Justin Wagner | Superintendent - resigned | 2019 |
| Kelli Klaassen | Director of Personnel/Board Secretary | Indefinite |
| Brian Gubbels | Director of Finance/District Treasurer | Indefinite |
| Ahlers & Cooney, P.C. | Attorney | Indefinite |

HARLAN COMMUNITY SCHOOL DISTRICT



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

December 23, 2019

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, 2019, 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...

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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, 2019, 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 Changes in the District's Total OPEB Liability, Related Ratios and Notes on pages 9 through 15 and 48 through 53 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, 2018 (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.

Continued...

December 23, 2019
Harlan Community School District
Independent Auditors' Report

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2019 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

Schroer and Associates, PC
Council Bluffs, Iowa

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, 2019. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2019 FINANCIAL HIGHLIGHTS

- General Fund revenues increased \$189,676 from \$16,502,697 in fiscal 2018 to \$16,692,373 in fiscal 2019, while General Fund expenditures increased \$406,323 from \$16,392,646 in fiscal 2018 to \$16,798,969 in fiscal 2019. The net increase in revenues and increase in expenditures resulted in a decrease in the District's General Fund balance from \$1,934,583 in fiscal 2018 to \$1,838,754 in fiscal 2019 which is a 4.9 percent decrease from the prior year.
- The increase in General Fund revenues was primarily attributable to an increase in state revenues. The increase in expenditures was due primarily to wages and employee benefits, legal fees, utilities, and snow removal.
- The District's General Fund financial transactions resulted a slight increase to the District's solvency ratio as it was 9.8% for 2018 and 9.9% for 2019. 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 Changes in the District's Total OPEB Liability, Related Ratios and Notes.

- Supplementary Information provides detailed information about the non-major governmental funds.

REPORTING OF DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The Government-wide financial 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 financial statements report the District's net position and how they have changed. Net position is 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 financial 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 net position, a statement of revenues, expenses, and changes in fund net position, 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 position and a statement of changes in fiduciary net position.

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, 2019 compared to June 30, 2018.

| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
|----------------------------------|-------------------------|---------------|--------------------------|---------------|----------------|---------------|--------------|
| | June 30, 2019 | June 30, 2018 | June 30, 2019 | June 30, 2018 | June 30, 2019 | June 30, 2018 | 2018-2019 |
| Current and other assets | \$ 12,796 | 12,918 | 312 | 325 | 13,108 | 13,243 | -1.02% |
| Capital assets | 17,109 | 17,666 | 36 | 46 | 17,145 | 17,712 | -3.20% |
| Total assets | 29,905 | 30,584 | 348 | 371 | 30,253 | 30,955 | -2.27% |
| Deferred outflows of resources | 2,320 | 2,757 | 65 | 73 | 2,385 | 2,830 | -15.72% |
| Long-term liabilities | 17,897 | 19,513 | 243 | 261 | 18,140 | 19,774 | -8.26% |
| Other liabilities | 1,924 | 2,116 | 62 | 67 | 1,986 | 2,183 | -9.02% |
| Total liabilities | 19,821 | 21,629 | 305 | 328 | 20,126 | 21,957 | -8.34% |
| Deferred inflows of resources | 7,573 | 7,008 | 24 | 13 | 7,597 | 7,021 | 8.20% |
| Net position | | | | | | | |
| Net investment in capital assets | 8,654 | 8,326 | 36 | 46 | 8,690 | 8,372 | 3.80% |
| Restricted | 2,591 | 2,685 | - | - | 2,591 | 2,685 | -3.50% |
| Unrestricted | (6,414) | (6,307) | 48 | 57 | (6,366) | (6,250) | -1.86% |
| Total net position | \$ 4,831 | 4,704 | 84 | 103 | 4,915 | 4,807 | 2.25% |

The District’s total net position increased by 2.25% or approximately \$108,000 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 \$94,000 or 3.50% from the prior year. The decrease was primarily a result of the district lowering its categorical funding balance through the use of newly enacted flexibility fund legislation which was partially offset by an increase to the physical plant and equipment levy fund net position.

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 approximately \$116,000 or 1.86%. This reduction in unrestricted net position was primarily a result of unanticipated expenditures in several general fund categories during the current year.

Changes in Net Position – Figure A-2 shows the changes in net position for the year ended June 30, 2019 compared to the year ended June 30, 2018.

| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
|---|-------------------------|---------------|--------------------------|------------|----------------|---------------|--------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2018-2019 |
| Revenue | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services | \$ 1,618 | 1,667 | 353 | 368 | 1,971 | 2,035 | -3.14% |
| Operating grants, contributions and restricted interest | 2,925 | 2,942 | 412 | 387 | 3,337 | 3,329 | 0.24% |
| Capital grants, contributions and restricted interest | 15 | 8 | - | - | 15 | 8 | 87.50% |
| General revenues: | | | | | | | |
| Property tax | 6,705 | 6,550 | - | - | 6,705 | 6,550 | 2.37% |
| Statewide sales, services and use tax | 1,465 | 1,304 | - | - | 1,465 | 1,304 | 12.35% |
| Unrestricted state grants | 6,754 | 6,590 | - | - | 6,754 | 6,590 | 2.49% |
| Unrestricted investment earnings | 49 | 36 | - | - | 49 | 36 | 36.11% |
| Other | 2 | 3 | 1 | 1 | 3 | 4 | -25.00% |
| Transfers | 11 | 9 | (11) | (9) | - | - | - |
| Total revenues | <u>19,544</u> | <u>19,109</u> | <u>755</u> | <u>747</u> | <u>20,299</u> | <u>19,856</u> | 2.23% |
| Program expenses: | | | | | | | |
| Instruction | 12,452 | 12,374 | - | - | 12,452 | 12,374 | 0.63% |
| Support services | 5,270 | 5,306 | - | - | 5,270 | 5,306 | -0.68% |
| Non-instructional programs | - | - | 774 | 735 | 774 | 735 | 5.31% |
| Other expenses | 1,695 | 1,941 | - | - | 1,695 | 1,941 | -12.67% |
| Total expenses | <u>19,417</u> | <u>19,621</u> | <u>774</u> | <u>735</u> | <u>20,191</u> | <u>20,356</u> | -0.81% |
| Changes in net position | 127 | (512) | (19) | 12 | 108 | (500) | -121.60% |
| Net position beginning of year | <u>4,704</u> | <u>5,216</u> | <u>103</u> | <u>91</u> | <u>4,807</u> | <u>5,307</u> | -9.42% |
| Net position end of year | <u>\$ 4,831</u> | <u>4,704</u> | <u>84</u> | <u>103</u> | <u>4,915</u> | <u>4,807</u> | 2.25% |

In fiscal year 2019, property tax and unrestricted state grants account for 66.3 percent of total revenue. The District's expenses primarily related to instruction and support services which account for 87.8 percent of the total expenses.

Governmental Activities

Revenues for governmental activities were \$19,109,589 for fiscal 2018 and \$19,543,688 for fiscal 2019. Expenses were \$19,621,410 for fiscal 2018 and \$19,416,723 for fiscal 2019. The District revenues exceeded expenditures resulting in an increase 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, 2019 compared to the year ended June 30, 2018.

Figure A-3
Total and Net Cost of Governmental Activities
(Expressed in Thousands)

| | Total Cost of Services | | | Net Cost of Services | | |
|------------------|------------------------|---------------|---------------|----------------------|---------------|---------------|
| | 2019 | 2018 | Change | 2019 | 2018 | Change |
| | | | 2018-2019 | | | 2018-2019 |
| Instruction | \$ 12,452 | 12,374 | 0.63% | 8,637 | 8,514 | 1.44% |
| Support services | 5,270 | 5,306 | -0.68% | 5,168 | 5,165 | 0.06% |
| Other expenses | 1,695 | 1,941 | -12.67% | 1,054 | 1,325 | -20.45% |
| Total | \$ 19,417 | 19,621 | -1.04% | 14,859 | 15,004 | -0.97% |

- The cost financed by users of the District's programs was \$1,666,845 for 2018 and \$1,618,021 for 2019.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,950,483 for 2018 and \$2,939,463 for 2019.
- The net cost of governmental activities was financed with \$8,170,643 of property and other taxes, and \$6,753,629 of unrestricted state grants.

Business-Type Activities

Revenues of the District's business-type activities were \$746,665 for 2018 and \$755,129 for 2019, and expenses were \$734,833 for 2018 and \$774,538 for 2019. 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 \$4,301,299 for 2018 and \$4,258,859 for 2019. The primary reason for the decrease in combined fund balances in fiscal 2019 is due to unanticipated expenditures in the General Fund which is offset by the timing of certain expenditures in the Management and Capital Projects Funds. The District experienced an decrease in enrollment during fiscal year 2019. The District will need to continue to rely on State Foundation Aid allowable growth increases, new revenue sources, and use fund balances to help cover any increases in costs.

Governmental Fund Highlights

- The District's decrease in General Fund financial position is the product of many factors. The District saw an increase in some revenue areas including state aid, and expenditures increased resulting in an overall decrease in financial position. The increase in expenditures was mainly from increases in

salaries and benefits, legal fees, utilities, and snow removal. The General Fund balance decreased from \$1,934,853 to \$1,838,754 due to a net increase in expenditures over revenues.

- The Capital Project Fund balance increased from \$1,539,844 for 2018 to \$1,639,072 for 2019 due to an increase in revenues and the timing and availability of an equipment purchase that was made.
- The Debt Service Fund Balance increased from \$10,357 for 2018 to \$10,398 for 2019.

Proprietary Fund Highlights

The School Nutrition Fund net position decreased from \$102,945 at June 30, 2018 to \$83,536 at June 30, 2019, representing a decrease of approximately 18.9%.

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, 2019, the District had invested approximately \$17.1 million, net of accumulated depreciation, in a broad range of capital assets including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-4) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year totaled \$888,369.

The original cost of the District's capital assets was \$31.37 million. Governmental funds account for \$31.08 million with the remainder of \$0.29 million in the Proprietary, School Nutrition Fund.

The significant capital assets activities include purchase of two buses, a bell system for the middle school, and several facility updates.

Figure A-4
Capital Assets, net of Depreciation
(Expressed in Thousands)

| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
|-----------------------------------|-------------------------|---------------|--------------------------|---------------|----------------|---------------|--------------|
| | June 30, 2019 | June 30, 2018 | June 30, 2019 | June 30, 2018 | June 30, 2019 | June 30, 2018 | 2018-2019 |
| Land | \$ 26 | 26 | - | - | 26 | 26 | 0.00% |
| Buildings | 16,513 | 17,115 | - | - | 16,513 | 17,115 | -3.52% |
| Improvements other than buildings | 155 | 166 | - | - | 155 | 166 | -6.63% |
| Machinery and equipment | 415 | 359 | 36 | 46 | 451 | 405 | 11.36% |
| Total | 17,109 | 17,666 | 36 | 46 | 17,145 | 17,712 | -3.20% |

Long-Term Debt

At June 30, 2019 the District had approximately \$8,415,000 general obligation and other long-term debt outstanding. This represents a decrease of approximately 9.42% 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.

| Figure A-5 | | | |
|--|-------------------|--------------|-----------------|
| Outstanding Long-Term Obligations | | | |
| (Expressed in Thousands) | | | |
| | Total District | | Total Change |
| | June 30, | | June 30, |
| | 2019 | 2018 | 2018-2019 |
| Revenue bond refunding bonds | \$ 6,015 | 6,215 | -3.22% |
| General obligation refunding bonds | 2,400 | 3,075 | -21.95% |
| Total | <u>\$ 8,415</u> | <u>9,290</u> | -9.42% |

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 decrease in enrollment. The District's funding for fiscal year 2021 will be based on the decreased 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 2020 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, 2019**

| | Governmental Activities | Business Type Activities | Total |
|--|----------------------------|--------------------------------|--------------------|
| Assets | | | |
| Cash, cash equivalents and pooled investments | \$ 5,603,475 | 259,766 | 5,863,241 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 28,282 | - | 28,282 |
| Succeeding year | 6,121,298 | - | 6,121,298 |
| Accounts | 12,274 | - | 12,274 |
| Accrued Interest | 296 | - | 296 |
| Due from other governments | 959,321 | 10,137 | 969,458 |
| Prepaid expenses | 71,540 | 5,083 | 76,623 |
| Inventories | - | 37,719 | 37,719 |
| Capital assets, net of accumulated depreciation | <u>17,108,885</u> | <u>35,877</u> | <u>17,144,762</u> |
| Total assets | <u>29,905,371</u> | <u>348,582</u> | <u>30,253,953</u> |
| Deferred Outflows of Resources | | | |
| Pension related deferred outflows | <u>2,320,084</u> | <u>64,564</u> | <u>2,384,648</u> |
| Total deferred outflows of resources | <u>2,320,084</u> | <u>64,564</u> | <u>2,384,648</u> |
| Liabilities | | | |
| Accounts payable | 91,339 | 6,399 | 97,738 |
| Salaries & benefits payable | 1,747,832 | 38,900 | 1,786,732 |
| Accrued interest payable | 85,191 | - | 85,191 |
| Unearned revenue | - | 16,783 | 16,783 |
| Long-term liabilities: | | | |
| Portion due within one year: | | | |
| Bonds payable | 890,000 | - | 890,000 |
| Compensated absences | 83,391 | - | 83,391 |
| Portion due after one year: | | | |
| Bonds payable, net of unamortized premiums | 7,564,901 | - | 7,564,901 |
| Net pension liability | 8,695,955 | 243,164 | 8,939,119 |
| Total OPEB liability | <u>662,746</u> | <u>-</u> | <u>662,746</u> |
| Total liabilities | <u>19,821,355</u> | <u>305,246</u> | <u>20,126,601</u> |
| Deferred Inflows of Resources | | | |
| Unavailable property tax revenue | 6,121,298 | - | 6,121,298 |
| Unavailable income surtax revenue | 577,158 | - | 577,158 |
| Pension related deferred inflows | 837,643 | 24,364 | 862,007 |
| OPEB related deferred inflows | <u>36,699</u> | <u>-</u> | <u>36,699</u> |
| Total deferred inflows of resources | <u>7,572,798</u> | <u>24,364</u> | <u>7,597,162</u> |
| Net Position | | | |
| Net investment in capital assets | 8,653,984 | 35,877 | 8,689,861 |
| Restricted for: | | | |
| Categorical funding | 181,644 | - | 181,644 |
| Management levy purposes | 579,854 | - | 579,854 |
| Student activities | 190,781 | - | 190,781 |
| Capital projects | 1,177,401 | - | 1,177,401 |
| Physical plant and equipment levy | 461,671 | - | 461,671 |
| Unrestricted | <u>(6,414,033)</u> | <u>47,659</u> | <u>(6,366,374)</u> |
| Total net position | <u>\$ 4,831,302</u> | <u>83,536</u> | <u>4,914,838</u> |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|---|----------------------|------------------------|--|--|--|---------------------------------|---------------------|
| | | 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 | \$ 8,029,852 | 856,386 | 1,910,447 | - | (5,263,019) | - | (5,263,019) |
| Special instruction | 2,579,916 | 194,637 | 274,277 | - | (2,111,002) | - | (2,111,002) |
| Other instruction | 1,841,984 | 561,918 | 17,505 | - | (1,262,561) | - | (1,262,561) |
| | <u>12,451,752</u> | <u>1,612,941</u> | <u>2,202,229</u> | <u>-</u> | <u>(8,636,582)</u> | <u>-</u> | <u>(8,636,582)</u> |
| Support services: | | | | | | | |
| Student services | 420,584 | - | 56,488 | - | (364,096) | - | (364,096) |
| Instructional staff services | 868,939 | - | - | - | (868,939) | - | (868,939) |
| Administration services | 1,834,142 | - | - | - | (1,834,142) | - | (1,834,142) |
| Operation & maintenance of plant services | 1,302,054 | 3,875 | - | - | (1,298,179) | - | (1,298,179) |
| Transportation services | 844,190 | 1,205 | 39,965 | - | (803,020) | - | (803,020) |
| | <u>5,269,909</u> | <u>5,080</u> | <u>96,453</u> | <u>-</u> | <u>(5,168,376)</u> | <u>-</u> | <u>(5,168,376)</u> |
| Other expenditures: | | | | | | | |
| Facilities acquisition | 158,086 | - | - | 14,694 | (143,392) | - | (143,392) |
| Long-term debt interest | 197,338 | - | 41 | - | (197,297) | - | (197,297) |
| AEA flowthrough | 626,046 | - | 626,046 | - | - | - | - |
| Depreciation (unallocated)* | 713,592 | - | - | - | (713,592) | - | (713,592) |
| | <u>1,695,062</u> | <u>-</u> | <u>626,087</u> | <u>14,694</u> | <u>(1,054,281)</u> | <u>-</u> | <u>(1,054,281)</u> |
| Total governmental activities | 19,416,723 | 1,618,021 | 2,924,769 | 14,694 | (14,859,239) | - | (14,859,239) |
| Business-Type activities: | | | | | | | |
| Non-instructional programs: | | | | | | | |
| Nutrition services | 774,538 | 352,908 | 411,686 | - | - | (9,944) | (9,944) |
| Total | <u>\$ 20,191,261</u> | <u>1,970,929</u> | <u>3,336,455</u> | <u>14,694</u> | <u>(14,859,239)</u> | <u>(9,944)</u> | <u>(14,869,183)</u> |
| General Revenues: | | | | | | | |
| Property and other tax levied for: | | | | | | | |
| General purposes | | | | | \$ 6,173,123 | - | 6,173,123 |
| Capital outlay | | | | | 532,005 | - | 532,005 |
| Statewide sales, services and use tax | | | | | 1,465,515 | - | 1,465,515 |
| Unrestricted state grants | | | | | 6,753,629 | - | 6,753,629 |
| Unrestricted investment earnings | | | | | 48,753 | 1,302 | 50,055 |
| Other | | | | | 2,412 | - | 2,412 |
| Transfers | | | | | 10,767 | (10,767) | - |
| Total general revenues | | | | | <u>14,986,204</u> | <u>(9,465)</u> | <u>14,976,739</u> |
| Change in net position | | | | | 126,965 | (19,409) | 107,556 |
| Net position beginning of year | | | | | <u>4,704,337</u> | <u>102,945</u> | <u>4,807,282</u> |
| Net position end of year | | | | | <u>\$ 4,831,302</u> | <u>83,536</u> | <u>4,914,838</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, 2019**

| 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 | \$ 3,320,389 | 1,520,105 | 10,398 | 752,583 | 5,603,475 |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Delinquent | 24,578 | 2,592 | - | 1,112 | 28,282 |
| Succeeding year | 5,309,764 | 540,745 | - | 270,789 | 6,121,298 |
| Accounts | 733 | - | - | 11,541 | 12,274 |
| Accrued interest | 296 | - | - | - | 296 |
| Due from other governments | 842,856 | 116,465 | - | - | 959,321 |
| Prepaid expenses | 58,763 | - | - | 12,777 | 71,540 |
| Total assets | \$ 9,557,379 | 2,179,907 | 10,398 | 1,048,802 | 12,796,486 |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 84,672 | 90 | - | 6,577 | 91,339 |
| Salaries & benefits payable | 1,747,031 | - | - | 801 | 1,747,832 |
| Total liabilities | 1,831,703 | 90 | - | 7,378 | 1,839,171 |
| Deferred inflows of resources: | | | | | |
| Unavailable revenues: | | | | | |
| Succeeding year property tax revenue | 5,309,764 | 540,745 | - | 270,789 | 6,121,298 |
| Succeeding year income surtax revenue | 577,158 | - | - | - | 577,158 |
| Total deferred inflows of resources | 5,886,922 | 540,745 | - | 270,789 | 6,698,456 |
| Fund balances: | | | | | |
| Nonspendable - prepaids | 58,763 | - | - | 12,777 | 71,540 |
| Restricted for: | | | | | |
| Categorical funding | 181,644 | - | - | - | 181,644 |
| Donated purposes | 66,042 | - | - | - | 66,042 |
| Debt service | - | - | 10,398 | - | 10,398 |
| Capital projects | - | 1,177,401 | - | - | 1,177,401 |
| Physical plant and equipment | - | 461,671 | - | - | 461,671 |
| Management levy purposes | - | - | - | 567,077 | 567,077 |
| Student activities | - | - | - | 190,781 | 190,781 |
| Unassigned | 1,532,305 | - | - | - | 1,532,305 |
| Total fund balances | 1,838,754 | 1,639,072 | 10,398 | 770,635 | 4,258,859 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 9,557,379 | 2,179,907 | 10,398 | 1,048,802 | 12,796,486 |

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, 2019**

| | | |
|---|------------------|----------------------------|
| Total fund balances of governmental funds | | \$ 4,258,859 |
| <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. | | 17,108,885 |
| 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. | | (85,191) |
| Pension and OPEB 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 | \$ 2,320,084 | |
| Deferred inflows of resources | <u>(874,342)</u> | 1,445,742 |
| Long-term liabilities, including bonds and notes payable, compensated absences payable, total OPEB liability 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>(17,896,993)</u> |
| Net position of governmental activities | | \$ <u>4,831,302</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, 2019**

| | General | Capital Projects | Debt Service | Nonmajor Governmental | Total |
|--|---------------------|---------------------|------------------|--------------------------|-------------------|
| Revenues: | | | | | |
| Local sources: | | | | | |
| Local Tax | \$ 5,928,646 | 532,005 | - | 241,479 | 6,702,130 |
| Tuition | 968,998 | - | - | - | 968,998 |
| Other | 242,360 | 14,883 | 41 | 575,181 | 832,465 |
| State sources | 9,185,107 | 1,473,331 | - | 3,628 | 10,662,066 |
| Federal sources | 367,262 | - | - | - | 367,262 |
| Total revenues | <u>16,692,373</u> | <u>2,020,219</u> | <u>41</u> | <u>820,288</u> | <u>19,532,921</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular instruction | 7,518,221 | 359,550 | - | 66,500 | 7,944,271 |
| Special instruction | 2,569,627 | - | - | - | 2,569,627 |
| Other instruction | 1,268,052 | - | - | 546,346 | 1,814,398 |
| | <u>11,355,900</u> | <u>359,550</u> | <u>-</u> | <u>612,846</u> | <u>12,328,296</u> |
| Support services: | | | | | |
| Student services | 414,185 | - | - | 2,462 | 416,647 |
| Instructional staff services | 837,644 | 14,195 | - | - | 851,839 |
| Administration services | 1,663,842 | 12,719 | 1,100 | 139,790 | 1,817,451 |
| Operation and maintenance of plant services | 1,210,052 | 41,037 | - | 72,136 | 1,323,225 |
| Transportation services | 691,300 | 188,642 | - | 38,934 | 918,876 |
| | <u>4,817,023</u> | <u>256,593</u> | <u>1,100</u> | <u>253,322</u> | <u>5,328,038</u> |
| Other expenditures: | | | | | |
| Facilities acquisition | - | 218,076 | - | - | 218,076 |
| Long-term debt: | | | | | |
| Principal | - | - | 875,000 | - | 875,000 |
| Interest and fiscal charges | - | - | 210,672 | - | 210,672 |
| AEA flowthrough | 626,046 | - | - | - | 626,046 |
| | <u>626,046</u> | <u>218,076</u> | <u>1,085,672</u> | <u>-</u> | <u>1,929,794</u> |
| Total expenditures | <u>16,798,969</u> | <u>834,219</u> | <u>1,086,772</u> | <u>866,168</u> | <u>19,586,128</u> |
| Excess (deficiency) of revenues over (under) expenditures | (106,596) | 1,186,000 | (1,086,731) | (45,880) | (53,207) |
| Other financing sources (uses): | | | | | |
| Operating transfers in | 10,767 | - | 1,086,772 | - | 1,097,539 |
| Operating transfers out | - | (1,086,772) | - | - | (1,086,772) |
| Total other financing sources (uses) | <u>10,767</u> | <u>(1,086,772)</u> | <u>1,086,772</u> | <u>-</u> | <u>10,767</u> |
| Net change in fund balances | (95,829) | 99,228 | 41 | (45,880) | (42,440) |
| Fund balances beginning of year | <u>1,934,583</u> | <u>1,539,844</u> | <u>10,357</u> | <u>816,515</u> | <u>4,301,299</u> |
| Fund balances end of year | <u>\$ 1,838,754</u> | <u>1,639,072</u> | <u>10,398</u> | <u>770,635</u> | <u>4,258,859</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, 2019**

Net change in fund balances - total governmental funds **\$ (42,440)**

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 | \$ 318,460 | |
| Depreciation expense | <u>(875,205)</u> | (556,745) |

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position. 875,000

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. 13,334

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. 995,563

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 | \$ 3,289 | |
| Pension expense | (1,142,192) | |
| OPEB expense | <u>(18,844)</u> | <u>(1,157,747)</u> |

Change in net position of governmental activities **\$ 126,965**

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2019**

| | School Nutrition |
|---|---------------------|
| Assets | |
| Current assets: | |
| Cash, cash equivalents and pooled investments | \$ 259,766 |
| Due from other governments | 10,137 |
| Prepaid expenses | 5,083 |
| Inventories | 37,719 |
| Total current assets | 312,705 |
| Noncurrent assets: | |
| Capital assets, net of accumulated depreciation | 35,877 |
| Total assets | 348,582 |
| Deferred Outflows of Resources | |
| Pension related deferred outflows | 64,564 |
| Liabilities | |
| Current liabilities: | |
| Accounts payable | 6,399 |
| Salaries and benefits and payable | 38,900 |
| Unearned revenue | 16,783 |
| Total current liabilities | 62,082 |
| Noncurrent liabilities: | |
| Net pension liability | 243,164 |
| Total liabilities | 305,246 |
| Deferred Inflows of Resources | |
| Pension related deferred inflows | 24,364 |
| Net Position | |
| Investment in capital assets | 35,877 |
| Unrestricted | 47,659 |
| Total net position | \$ 83,536 |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2019**

| | <u>School Nutrition</u> |
|---|-----------------------------|
| Operating revenue: | |
| Local sources: | |
| Charges for service | \$ 352,908 |
| Operating expenses: | |
| Non-instructional programs: | |
| Food service operations: | |
| Salaries | 291,891 |
| Benefits | 64,760 |
| Purchased services | 1,421 |
| Supplies | 403,302 |
| Depreciation | <u>13,164</u> |
| Total operating expenses | <u>774,538</u> |
| Operating loss | (421,630) |
| Non-operating revenue: | |
| State sources | 5,802 |
| Federal sources | 405,884 |
| Interest on investments | <u>1,302</u> |
| Total non-operating revenue | <u>412,988</u> |
| Change in net position before transfers | (8,642) |
| Transfers out | <u>(10,767)</u> |
| Change in net position | (19,409) |
| Net position beginning of year | <u>102,945</u> |
| Net position end of year | <u>\$ 83,536</u> |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2019**

| | School Nutrition |
|---|---------------------|
| Cash flows from operating activities: | |
| Cash received from sale of lunches and breakfasts | \$ 352,915 |
| Cash payments to employees for services | (357,486) |
| Cash payments to suppliers for goods or services | (353,319) |
| Net cash used in operating activities | (357,890) |
| Cash flows from non-capital financing activities: | |
| State grants received | 5,802 |
| Federal grants received | 340,625 |
| Net cash provided by non-capital financing sources | 346,427 |
| Cash flows from capital and related financing activities: | |
| Acquisition of capital assets | (3,185) |
| Transfers out | (10,767) |
| Net cash used by capital and related financing activities | (13,952) |
| Cash flows from investing activities: | |
| Interest on investments | 1,302 |
| Net increase in cash and cash equivalents | (24,113) |
| Cash and cash equivalents at beginning of year | 283,879 |
| Cash and cash equivalents at end of year | \$ 259,766 |
| Reconciliation of operating loss to net cash used by operating activities: | |
| Operating loss | \$ (421,630) |
| Commodities used | 64,348 |
| Depreciation | 13,164 |
| (Increase) decrease: | |
| Accounts receivable | 194 |
| Inventories | (10,202) |
| Prepaid expenses | (729) |
| Pension related deferred outflows | 8,917 |
| Increase (decrease) in: | |
| Accounts payable | (2,013) |
| Salaries and benefits payable | (2,516) |
| Unearned revenue | (187) |
| Net pension liability | (18,051) |
| Pension related deferred inflows | 10,815 |
| Net cash used in operating activities | \$ (357,890) |

Non-cash investing, capital and financing activities

During the year ended June 30, 2019 the District received \$64,348 of federal commodities.

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2019**

| | Private Purpose Trust Scholarship | Agency |
|---|---|--------|
| Assets | | |
| Cash, cash equivalents and pooled investments | \$ 150,270 | 7,347 |
| Total assets | 150,270 | 7,347 |
| Liabilities | | |
| Due to other governments | - | 7,347 |
| Total liabilities | - | 7,347 |
| Net Position | | |
| Reserved for scholarships | \$ 150,270 | - |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2019**

| | | Private Purpose Trust | <u>Scholarship</u> |
|--------------------------------|----|--------------------------|-----------------------|
| Additions: | | | |
| Local sources: | | | |
| Gifts and contributions | \$ | 4,134 | |
| Interest income | | <u>3,199</u> | |
| Total additions | | | <u>7,333</u> |
| Deductions: | | | |
| Instruction: | | | |
| Regular: | | | |
| Scholarships awarded | | | <u>9,750</u> |
| Change in net position | | (2,417) | |
| Net position beginning of year | | | <u>152,687</u> |
| Net position end of year | \$ | | <u><u>150,270</u></u> |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019**

NOTE 1 Summary of Significant Accounting Policies

The Harlan Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Harlan, Iowa and the predominately agricultural territory in Harrison and Shelby Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Harlan Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Harlan Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in jointly governed organizations that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Harrison and Shelby Counties Assessor's Conference Boards.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net 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, 2019**

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, 2019**

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, 2019**

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 Balance/Net Position

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, 2019**

NOTE 1 Summary of Significant Accounting Policies (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Balance/Net Position - (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, 2017 assessed property valuations; is for the tax accrual period July 1, 2018 through June 30, 2019 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2018.

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 | \$ 5,000 |
| Buildings | 5,000 |
| Improvements other than buildings | 5,000 |
| Furniture and equipment: | |
| School Nutrition Fund Equipment | 1,500 |
| Other furniture and equipment | 5,000 |

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 consist of unrecognized items not yet charged to pension expense and OPEB expense, the unamortized portion of the net difference between projected and actual earnings on pension plan investments and contributions from the District after the measurement date but before the end of the District's reporting period.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019**

NOTE 1 Summary of Significant Accounting Policies (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Balance/Net Position - (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, 2019. 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. The net pension liability attributable to the governmental activities will be paid primarily by the General Fund.

Total OPEB Liability – For purposes of measuring the total OPEB liability, deferred outflows of resources related to OPEB and OPEB expense, information has been determined based on Harlan Community School District's actuary report. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. The total OPEB liability attributable to the governmental activities will be paid primarily by the General Fund and the Enterprise, School Nutrition Fund.

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.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019**

NOTE 1 Summary of Significant Accounting Policies (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Balance/Net Position - (continued)

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 unrecognized items not yet charged to pension and OPEB expense.

Fund Balance – 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.

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, 2019 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 ensure 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, 2019, the District had investments in the Iowa Schools Joint Investment Trust District Government Obligations Portfolio which are valued at an amortized cost of \$962 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, 2019**

NOTE 3 Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2019 is as follows:

| Transfer to | Transfer from | Amount |
|--------------|----------------------------------|---------------------|
| General | Proprietary: School Nutrition | \$ 10,767 |
| Debt Service | Capital Projects | <u>1,086,772</u> |
| | | <u>\$ 1,097,539</u> |

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

NOTE 4 Capital Assets

Capital assets activity for the year ended June 30, 2019 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 | 26,001,360 | 89,085 | - | 26,090,445 |
| Improvements other than buildings | 680,639 | - | - | 680,639 |
| Furniture and equipment | 4,136,110 | 229,375 | 83,937 | 4,281,548 |
| Total capital assets being depreciated | <u>30,818,109</u> | <u>318,460</u> | <u>83,937</u> | <u>31,052,632</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 8,885,895 | 691,034 | - | 9,576,929 |
| Improvements other than buildings | 514,914 | 11,019 | - | 525,933 |
| Furniture and equipment | 3,777,370 | 173,152 | 83,937 | 3,866,585 |
| Total accumulated depreciation | <u>13,178,179</u> | <u>875,205</u> | <u>83,937</u> | <u>13,969,447</u> |
| Total capital assets being depreciated, net | <u>17,639,930</u> | <u>(556,745)</u> | <u>-</u> | <u>17,083,185</u> |
| Governmental activities capital assets, net | <u>\$ 17,665,630</u> | <u>(556,745)</u> | <u>-</u> | <u>17,108,885</u> |
| Business-type activities | | | | |
| Furniture and equipment | \$ 293,867 | 3,185 | 4,600 | 292,452 |
| Less accumulated depreciation | <u>248,011</u> | <u>13,164</u> | <u>4,600</u> | <u>256,575</u> |
| Business-type activities capital assets, net | <u>\$ 45,856</u> | <u>(9,979)</u> | <u>-</u> | <u>35,877</u> |

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019**

NOTE 4 Capital Assets (continued)

Depreciation expense was charged by the District as follows:

| | | |
|--|----|-------------------|
| Governmental activities: | | |
| Instruction: | | |
| Regular | \$ | 7,271 |
| Special | | 2,593 |
| Other | | 8,880 |
| Support services: | | |
| Student services | | 538 |
| Operation and maintenance of plant | | 34,328 |
| Transportation | | <u>108,003</u> |
| | | 161,613 |
| Unallocated | | <u>713,592</u> |
| Total depreciation expense - governmental activities | | <u>\$ 875,205</u> |
| Business-type activities: | | |
| Food services | \$ | <u>13,164</u> |

NOTE 5 Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2019 are summarized as follows:

| | Balance Beginning of Year | Additions | Reductions | Balance End of Year | Due Within One Year |
|---------------------------------------|---------------------------------|----------------------|-------------------------|---------------------------|---------------------------|
| Governmental activities: | | | | | |
| General obligation refunding bonds \$ | 3,075,000 | - | 675,000 | 2,400,000 | 685,000 |
| Unamortized premium | 49,873 | - | 9,972 | 39,901 | - |
| Sales tax refunding bonds | 6,215,000 | - | 200,000 | 6,015,000 | 205,000 |
| Compensated absences | 86,680 | 83,391 | 86,680 | 83,391 | 83,391 |
| Net pension liability | 9,421,778 | - | 725,823 | 8,695,955 | - |
| Total OPEB liability | <u>664,786</u> | <u>-</u> | <u>2,040</u> | <u>662,746</u> | <u>-</u> |
| Total | \$ <u>19,513,117</u> | <u>83,391</u> | <u>1,699,515</u> | <u>17,896,993</u> | <u>973,391</u> |
| Business type activities | | | | | |
| Net pension liability | <u>\$ 261,215</u> | | <u>18,051</u> | <u>243,164</u> | <u>-</u> |

Bonds Payable

Details of the District's June 30, 2019 general obligation bonded indebtedness are as follows:

| Year Ending June 30, | Bond Issue of December 11, 2012 | | | |
|----------------------------|---------------------------------|---------------------|---------------|-------------------------|
| | Interest Rates | Principal | Interest | Premium Amortization |
| 2020 | 1.35% | \$ 685,000 | 36,308 | 9,975 |
| 2021 | 1.50% | 695,000 | 27,060 | 9,975 |
| 2022 | 1.60% | 705,000 | 16,636 | 9,975 |
| 2023 | 1.70% | <u>315,000</u> | <u>5,356</u> | <u>9,976</u> |
| | | <u>\$ 2,400,000</u> | <u>85,360</u> | <u>39,901</u> |

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019**

NOTE 5 Long-Term Liabilities (continued)

Sales Tax Bond

Details of the District's June 30, 2019 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 |
| 2020 | 2.73% | \$ 205,000 | 161,411 |
| 2021 | 2.73% | 210,000 | 155,746 |
| 2022 | 2.73% | 215,000 | 149,945 |
| 2023 | 2.73% | 215,000 | 144,075 |
| 2024 | 2.73% | 225,000 | 138,069 |
| 2025-2029 | 2.73% | 4,070,000 | 402,537 |
| 2030 | 2.73% | 875,000 | 11,944 |
| | | <u>\$ 6,015,000</u> | <u>1,163,727</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 required approximately 25 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bond is \$7,178,727. For the current year, total principal and interest paid on the refunded bonds and total statewide sales, services and use tax revenue were \$366,940 and \$1,465,515, respectively.

There are no reserve requirements on the new bonds.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019**

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.

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.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019**

NOTE 6 Pension Plan (continued)

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 2019, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the District contributed 9.44% of covered payroll, for a total rate of 15.73%.

The District's contributions to IPERS for the year ended June 30, 2019 were \$1,022,088.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2019, the District reported a liability of \$8,939,119 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2018, the District's proportion was 0.1412575%, which was a decrease of 0.004105% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the District recognized pension expense of \$1,211,175. At June 30, 2019, 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 | \$ 49,012 | \$ 202,039 |
| Changes in assumptions | 1,275,221 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 245,619 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 38,127 | 414,350 |
| District contributions subsequent to the measurement date | <u>1,022,288</u> | <u>-</u> |
| Total | <u>\$ 2,384,648</u> | <u>\$ 862,008</u> |

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019**

NOTE 6 Pension Plan (continued)

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - (continued)

\$1,022,288 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, 2020. 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, | | |
|-------------------------|----|-----------------|
| 2020 | \$ | 532,279 |
| 2021 | | 209,944 |
| 2022 | | (158,343) |
| 2023 | | (62,989) |
| 2024 | | <u>(20,539)</u> |
| Total | \$ | <u>500,352</u> |

Actuarial Assumptions - The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|--|---|
| Rate of inflation (effective June 30, 2017) | 2.60% per annum. |
| Rates of salary increase (effective June 30, 2017) | 3.25% to 16.25% average, including inflation. Rates vary by membership group. |
| Long-term investment rate of return (effective June 30, 2017) | 7.00% compounded annually, net of investment expense, including inflation. |
| Wage growth (effective June 30, 2017) | 3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation. |

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates were based on the 2018 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

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:

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019**

NOTE 6 Pension Plan (continued)

Actuarial Assumptions - (continued)

| Asset Class | Asset Allocation | Long-Term Expected Real Rate of Return |
|--------------------------|------------------|---|
| Domestic equity | 22.0% | 6.01% |
| International equity | 15.0 | 6.48 |
| Global smart beta equity | 3.0 | 6.23 |
| Core plus fixed income | 27.0 | 1.97 |
| Public credit | 3.5 | 3.93 |
| Public real assets | 7.0 | 2.91 |
| Cash | 1.0 | (0.25) |
| Private equity | 11.0 | 10.81 |
| Private real assets | 7.5 | 4.14 |
| Private credit | 3.0 | 3.11 |
| Total | 100.0% | |

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. 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.

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 7.00%, 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% lower (6.00%) or 1% higher (8.00%) than the current rate.

| | 1% Decrease (6.00%) | Discount Rate (7.00%) | 1% Increase (8.00%) |
|--|---------------------------|-----------------------------|---------------------------|
| District's proportionate share of the net pension liability | \$ 15,171,481 | \$ 8,939,119 | \$ 3,711,093 |

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.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019**

NOTE 7 Other Postemployment Benefits (OPEB)

Payables to IPERS - At June 30, 2019, the District reported payables to IPERS of \$135,284 for legally required District contributions and \$90,141 for legally required employee contributions withheld from employee wages which had not yet been remitted to IPERS.

Plan Description – The District administers a single-employer benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Governmental Accounting Standards Board (GASB) Statement No. 75.

OPEB Benefits – Individuals who are employed by Harlan Community School District and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical and prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Retired participants must be age 55 or older at retirement. At June 30, 2019, the following employees were covered by the benefit terms:

| | |
|--|-----|
| Inactive employees or beneficiaries currently receiving benefit payments | 19 |
| Active employees | 126 |
| Total | 145 |

Total OPEB Liability – The District's total OPEB liability of \$662,746 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions – The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all periods included in the measurement.

| | |
|---|------------------|
| Rate of inflation (effective June 30, 2018) | 3.00% per annum. |
| Discount rate (effective June 30, 2018) | 3.72% per annum. |
| Healthcare cost trend rate (effective June 30, 2018) | 6.00% per annum. |

Discount Rate – The discount rate used to measure the total OPEB liability was 3.72% which reflects the index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA as of the measurement date.

Mortality rates are from the RPH-2017 annuity mortality table. Annual retirement probabilities are based on varying rates by age and turnover probabilities mirror those used by IPERS.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience studies with dates corresponding to those listed above.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019**

NOTE 7 Other Postemployment Benefits (OPEB) (continued)

Changes in the Total OPEB Liability

| | | Total OPEB Liability |
|---|----|-------------------------|
| Total OPEB liability beginning of year, as restated | \$ | 664,786 |
| Changes for the year: | | |
| Service cost | | 41,165 |
| Interest | | 25,464 |
| Differences between expected and actual experiences | | (24,720) |
| Benefit payments | | (43,949) |
| Net changes | | (2,040) |
| Total OPEB liability end of year | \$ | 662,746 |

Sensitivity of the District's Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.72%) or 1% higher (4.72%) than the current discount rate.

| | | 1% Decrease (2.72%) | | Discount Rate (3.72%) | | 1% Increase (4.72%) |
|----------------------|----|---------------------------|----|-----------------------------|----|---------------------------|
| Total OPEB liability | \$ | 714,497 | \$ | 662,746 | \$ | 615,670 |

Sensitivity of the District's Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the total OPEB liability of the District as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (5.00%) or 1% higher (7.00%) than the current healthcare cost trend rates.

| | | 1% Decrease (5.00%) | | Healthcare Cost Trend Rate (6.00%) | | 1% Increase (7.00%) |
|----------------------|----|---------------------------|----|--|----|---------------------------|
| Total OPEB liability | \$ | 618,808 | \$ | 662,746 | \$ | 715,037 |

OPEB Expense and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2019, the District recognized OPEB expense of \$62,793. At June 30, 2019, the District reported deferred inflows of resources related to OPEB from the following resources:

| | Deferred Inflows of Resources |
|--|----------------------------------|
| Differences between expected and actual experience | \$ 36,699 |

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019**

NOTE 7 Other Postemployment Benefits (OPEB) (continued)

OPEB Expense and Deferred Inflows of Resources Related to OPEB - (continued)

The amount reported as deferred outflows of resources related to OPEB will be recognized as OPEB expense as follows:

| Year Ended June 30, | Amount |
|------------------------|--------------------|
| 2020 | \$ (3,836) |
| 2021 | (3,836) |
| 2022 | (3,836) |
| 2023 | (3,836) |
| 2024 | (3,836) |
| Thereafter | <u>(17,519)</u> |
| Total | <u>\$ (36,699)</u> |

NOTE 8 Termination Benefits

In October, 2018, 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, 2018, and be first year eligible for IPERS benefits. The retirement benefit equaled a one-time payment of \$20,000 (prorated for part-time employees) to a deferred plan on behalf of each electing employee. Three employees were granted the benefit. Early retirement expenditures for the year ended June 30, 2019 totaled \$60,000, with no liability outstanding.

NOTE 9 Risk Management

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

NOTE 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 \$626,046 for the year ended June 30, 2019 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019**

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, 2019 totaled \$282,052. Future required minimum lease payments are as follows:

| Year Ending June 30, | Amount |
|-------------------------|------------|
| 2020 | \$ 149,533 |
| 2021 | 52,369 |
| | \$ 201,902 |

NOTE 12 Categorical Funding

In accordance with Iowa Administrative Code Section 98.1, categorical funding is financial support from the state and federal governments targeted for particular categories of students, special programs, or special purposes. This support is in addition to school district or area education agency general purpose revenue, for purposes beyond the basic educational program and most often has restrictions on its use. Any portion of categorical funding provided by the state that is not expended by the end of the fiscal year must be carried forward as a restricted fund balance.

The following is a schedule of the categorical funding restricted in the General Fund at June 30, 2019.

| Program | Amount |
|------------------------|------------|
| Home school assistance | \$ 8,593 |
| Voluntary preschool | 11,773 |
| Early literacy | 10,692 |
| Teacher quality | 32,860 |
| Teacher leadership | 106,832 |
| Flex fund | 10,894 |
| | \$ 181,644 |

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019**

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.

Tax Abatements of Other Entities

Property tax revenues of the District were reduced by the following amounts for the year ended June 30, 2019 under agreements entered into by the following entities:

| <u>Entity</u> | <u>Tax Abatement Program</u> | <u>Amount of Tax Abated</u> |
|----------------|------------------------------|-----------------------------|
| City of Harlan | Other tax abatement program | \$ 6,654 |
| Shelby County | Other tax abatement program | 7,358 |

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, 2019, there was no reimbursement amount.

NOTE 14 Prospective Accounting Change

Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*. This statement will be implemented for the fiscal year ending June 30, 2020. The revised requirements of this statement will enhance the consistency and comparability of fiduciary activity reporting by state and local governments by establishing specific criteria for identifying fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities.

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, 2019**

| | Governmental Fund Types Actual | Proprietary Fund Type Actual | Total Actual | Budgeted Amounts | | Final to Actual Variance - Positive (Negative) |
|---|--------------------------------------|------------------------------------|-------------------|-------------------|-------------------|--|
| | | | | Original | Final | |
| Revenues: | | | | | | |
| Local sources | \$ 8,503,593 | 354,210 | 8,857,803 | 10,237,322 | 10,237,322 | (1,379,519) |
| State sources | 10,662,066 | 5,802 | 10,667,868 | 9,308,843 | 9,308,843 | 1,359,025 |
| Federal sources | 367,262 | 405,884 | 773,146 | 735,000 | 735,000 | 38,146 |
| Total receipts | <u>19,532,921</u> | <u>765,896</u> | <u>20,298,817</u> | <u>20,281,165</u> | <u>20,281,165</u> | <u>17,652</u> |
| Expenditures: | | | | | | |
| Instruction | 12,328,296 | - | 12,328,296 | 12,187,664 | 12,440,000 | 111,704 |
| Support services | 5,328,038 | - | 5,328,038 | 5,365,449 | 5,483,250 | 155,212 |
| Non-instructional programs | - | 774,538 | 774,538 | 775,000 | 790,000 | 15,462 |
| Other expenditures | 1,929,794 | - | 1,929,794 | 3,124,391 | 2,100,000 | 170,206 |
| Total disbursements | <u>19,586,128</u> | <u>774,538</u> | <u>20,360,666</u> | <u>21,452,504</u> | <u>20,813,250</u> | <u>452,584</u> |
| Excess (deficiency) of revenue over (under) expenditures | (53,207) | (8,642) | (61,849) | (1,171,339) | (532,085) | 470,236 |
| Other financing sources, net | <u>10,767</u> | <u>(10,767)</u> | <u>-</u> | <u>1,087,672</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | (42,440) | (19,409) | (61,849) | (83,667) | (532,085) | 470,236 |
| Balances beginning of year | <u>4,301,299</u> | <u>102,945</u> | <u>4,404,244</u> | <u>4,014,957</u> | <u>4,014,957</u> | <u>389,287</u> |
| Balances end of year | <u>\$ 4,258,859</u> | <u>83,536</u> | <u>4,342,395</u> | <u>3,931,290</u> | <u>3,482,872</u> | <u>859,523</u> |

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2019**

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, decreasing budget expenditure by \$639,254.

During the year ended June 30, 2019, 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 FIVE YEARS*
(IN THOUSANDS)
REQUIRED SUPPLEMENTARY INFORMATION**

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| District's proportion of the net pension liability | 0.141258% | 0.145363% | 0.149279% | 0.153362% | 0.153786% |
| District's proportionate share of the net pension liability | \$ 8,939 | 9,683 | 9,395 | 7,577 | 6,099 |
| District's covered payroll | \$ 10,617 | 10,857 | 10,508 | 10,508 | 10,057 |
| District's proportionate share of the net pension liability as a percentage of its covered payroll | 84.20% | 89.19% | 89.41% | 72.11% | 60.64% |
| IPERS' net position as a percentage of the total pension liability | 83.62% | 82.21% | 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.

See Accompanying Independent Auditors' Report

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

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|-----------|--------|--------|--------|--------|--------|-------|-------|-------|--------|
| Statutorily required contribution | \$ 1,022 | 948 | 970 | 958 | 939 | 898 | 815 | 730 | 639 | 669 |
| Contributions in relation to the statutorily required contribution | 1,022 | 948 | 970 | 958 | 939 | 898 | 815 | 730 | 639 | 669 |
| Contribution deficiency (excess) | \$ - | - | - | - | - | - | - | - | - | - |
| District's covered payroll | \$ 10,829 | 10,617 | 10,857 | 10,508 | 10,508 | 10,057 | 9,405 | 9,060 | 9,198 | 10,070 |
| Contributions as a percentage of covered payroll | 9.44% | 8.93% | 8.93% | 8.93% | 8.93% | 8.93% | 8.67% | 8.06% | 6.95% | 6.65% |

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.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

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 CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY,
RELATED RATIOS AND NOTES
FOR THE LAST TWO YEARS
REQUIRED SUPPLEMENTARY INFORMATION**

| | 2019 | 2018 |
|--|--------------|-----------|
| Service cost | \$ 41,165 | 41,165 |
| Interest cost | 25,464 | 25,334 |
| Difference between expected and actual experiences | (24,720) | (17,366) |
| Benefit payments | (43,949) | (46,010) |
| Net change in total OPEB liability | (2,040) | 3,123 |
| | | |
| Total OPEB liability beginning of year, as restated | 664,786 | 661,663 |
| | | |
| Total OPEB liability end of year | \$ 662,746 | 664,786 |
| | | |
| Covered-employee payroll | \$ 8,880,033 | 8,647,233 |
| | | |
| Total OPEB liability as a percentage of covered-employee payroll | 7.46% | 7.69% |

Notes to Schedule of Changes in the District's Total OPEB Liability and Related Ratios

Changes in benefits terms:

There were no significant changes in benefit terms.

Changes in assumptions:

Changes in assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period.

| | |
|--------------------------|-------|
| Year ended June 30, 2019 | 3.72% |
| Year ended June 30, 2018 | 3.72% |
| Year ended June 30, 2017 | 2.50% |

See Accompanying Independent Auditors' Report

SUPPLEMENTARY INFORMATION

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019**

| Assets | Special Revenue | | |
|---|--------------------|---------------------|-----------|
| | Management Levy | Student Activity | Total |
| Assets: | | | |
| Cash, cash equivalents and pooled investments | \$ 565,965 | 186,618 | 752,583 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 1,112 | - | 1,112 |
| Succeeding year | 270,789 | - | 270,789 |
| Accounts | - | 11,541 | 11,541 |
| Prepaid expenses | 12,777 | - | 12,777 |
| Total assets | \$ 850,643 | 198,159 | 1,048,802 |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ - | 6,577 | 6,577 |
| Salaries and benefits payable | - | 801 | 801 |
| Total liabilities | - | 7,378 | 7,378 |
| Deferred inflows of resources: | | | |
| Unavailable succeeding year property tax revenue | 270,789 | - | 270,789 |
| Fund balances: | | | |
| Nonspendable: | | | |
| Prepays | 12,777 | - | 12,777 |
| Restricted for: | | | |
| Management levy purposes | 567,077 | - | 567,077 |
| Student activities | - | 190,781 | 190,781 |
| Total fund balances | 579,854 | 190,781 | 770,635 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 850,643 | 198,159 | 1,048,802 |

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, 2019**

| | Special Revenue | | |
|---|--------------------|---------------------|----------------|
| | Management Levy | Student Activity | Total |
| Revenues: | | | |
| Local sources: | | | |
| Local Tax | \$ 241,479 | - | 241,479 |
| Other | 10,868 | 564,313 | 575,181 |
| State sources | 3,628 | - | 3,628 |
| Total revenues | <u>255,975</u> | <u>564,313</u> | <u>820,288</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular instruction | 66,500 | - | 66,500 |
| Other instruction | - | 546,346 | 546,346 |
| | <u>66,500</u> | <u>546,346</u> | <u>612,846</u> |
| Support services: | | | |
| Student services | 2,462 | - | 2,462 |
| Administration services | 139,790 | - | 139,790 |
| Operation and maintenance of plant services | 72,136 | - | 72,136 |
| Transportation services | 38,934 | - | 38,934 |
| | <u>253,322</u> | <u>-</u> | <u>253,322</u> |
| Total expenditures | <u>319,822</u> | <u>546,346</u> | <u>866,168</u> |
| Net change in fund balances | (63,847) | 17,967 | (45,880) |
| Fund balances beginning of year | <u>643,701</u> | <u>172,814</u> | <u>816,515</u> |
| Fund balances end of year | <u>\$ 579,854</u> | <u>190,781</u> | <u>770,635</u> |

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET – CAPITAL PROJECT ACCOUNTS
YEAR ENDED JUNE 30, 2019**

| Assets | Capital Projects | | |
|---|--|--|------------------|
| | Statewide Sales, Services and Use Tax | Physical Plant and Equipment Levy | Total |
| Assets: | | | |
| Cash, cash equivalents and pooled investments | \$ 1,060,936 | 459,169 | 1,520,105 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | - | 2,592 | 2,592 |
| Succeeding year | - | 540,745 | 540,745 |
| Due from other governments | 116,465 | - | 116,465 |
| Total assets | \$ 1,177,401 | 1,002,506 | 2,179,907 |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ - | 90 | 90 |
| Total liabilities | - | 90 | 90 |
| Deferred inflows of resources: | | | |
| Unavailable succeeding year property tax revenue | - | 540,745 | 540,745 |
| Fund balances: | | | |
| Restricted for: | | | |
| School infrastructure | 1,177,401 | - | 1,177,401 |
| Physical plant and equipment | - | 461,671 | 461,671 |
| Total fund balances | 1,177,401 | 461,671 | 1,639,072 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 1,177,401 | 1,002,506 | 2,179,907 |

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, 2019**

| | Capital Projects | | |
|---|--|--|--------------------|
| | Statewide Sales, Services and Use Tax | Physical Plant and Equipment Levy | Total |
| Revenues: | | | |
| Local sources: | | | |
| Local Tax | \$ - | 532,005 | 532,005 |
| Other | 14,694 | 189 | 14,883 |
| State sources | 1,465,515 | 7,816 | 1,473,331 |
| Total revenues | <u>1,480,209</u> | <u>540,010</u> | <u>2,020,219</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular instruction | 297,474 | 62,076 | 359,550 |
| Support services: | | | |
| Instructional staff services | - | 14,195 | 14,195 |
| Administration services | - | 12,719 | 12,719 |
| Operation and maintenance of plant services | 41,014 | 23 | 41,037 |
| Transportation services | - | 188,642 | 188,642 |
| | <u>41,014</u> | <u>215,579</u> | <u>256,593</u> |
| Other expenditures: | | | |
| Facilities acquisition | 28,374 | 189,702 | 218,076 |
| Total expenditures | <u>366,862</u> | <u>467,357</u> | <u>834,219</u> |
| Excess of revenues over expenditures | 1,113,347 | 72,653 | 1,186,000 |
| Other financing uses: | | | |
| Operating transfers out | <u>(1,086,772)</u> | - | <u>(1,086,772)</u> |
| Total other financing uses | <u>(1,086,772)</u> | - | <u>(1,086,772)</u> |
| Net change in fund balances | 26,575 | 72,653 | 99,228 |
| Fund balances beginning of year | <u>1,150,826</u> | <u>389,018</u> | <u>1,539,844</u> |
| Fund balances end of year | <u>\$ 1,177,401</u> | <u>461,671</u> | <u>1,639,072</u> |

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND,
STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2019**

| | Balance Beginning of Year | Revenues | Expend- itures | Balance End of Year |
|------------------------------------|---------------------------------|----------------|-------------------|---------------------------|
| Drama | \$ 4,982 | 3,625 | 4,714 | 3,893 |
| HS vocal music | - | 5,675 | 5,382 | 293 |
| MS vocal music | 341 | 1,316 | 1,211 | 446 |
| Show choir | 932 | 2,990 | 3,922 | - |
| HS instr music | 1,254 | 2,212 | 2,253 | 1,213 |
| HS jazz | - | 3,658 | 3,658 | - |
| MS jazz | - | 883 | - | 883 |
| HS flag corp | 2,108 | 3,300 | 4,545 | 863 |
| Athletics | 7,357 | 208,220 | 202,427 | 13,150 |
| Splish splash auto detailing | 310 | - | 310 | - |
| FB holocaust memorial rock project | 879 | 11 | - | 890 |
| Cheerleaders | - | 3,866 | 3,866 | - |
| FFA | 13,022 | 78,786 | 75,654 | 16,154 |
| Harpoon | 16,001 | 3,836 | 6,508 | 13,329 |
| Entrepreneurial vending | - | 281 | 281 | - |
| National honor society | - | 1,153 | 776 | 377 |
| BPA | - | 25,802 | 25,802 | - |
| Science club | 5 | - | - | 5 |
| Foreign language club | 8,383 | 2,552 | 1,914 | 9,021 |
| Student council | 2,285 | 15,849 | 14,973 | 3,161 |
| Pom pom | - | 6,429 | 5,196 | 1,233 |
| Best buddies | 4,680 | 844 | 1,295 | 4,229 |
| Key club | 3,393 | 170 | 334 | 3,229 |
| For the birds | 482 | 47 | - | 529 |
| FCCLA club | 2,826 | 794 | 87 | 3,533 |
| Friends of Rachele | 1,728 | 21 | - | 1,749 |
| Fundraising | 654 | 34,202 | 33,681 | 1,175 |
| Prom | 3,739 | 12,935 | 14,514 | 2,160 |
| HS miscellaneous | - | 920 | 794 | 126 |
| Hosa fund | 593 | 12,960 | 11,106 | 2,447 |
| Cyclone corner store | 12,419 | 29,111 | 27,348 | 14,182 |
| Concessions | 2,486 | 16,419 | 18,354 | 551 |
| Vending | 6,461 | 6,771 | 10,235 | 2,997 |
| MS cheerleading | 4,455 | 2,695 | 1,904 | 5,246 |
| MS vending | 4,443 | 10,196 | 6,462 | 8,177 |
| Trapshooting | 8,139 | 21,008 | 21,990 | 7,157 |
| MS student council | 20,330 | 21,687 | 18,061 | 23,956 |
| MS yearbook | 6,672 | 3,011 | 2,749 | 6,934 |
| MS building improvements | 98 | 2 | - | 100 |
| MS builders club | 40 | - | 40 | - |
| MS student fund | 1,995 | 10,992 | 5,333 | 7,654 |
| Special olympics | - | 1,552 | 536 | 1,016 |
| New Park student fund | 21,563 | 7,268 | 6,954 | 21,877 |
| West Ridge student fund | 7,153 | 256 | 1,177 | 6,232 |
| West Ridge student store | 606 | 8 | - | 614 |
| Total | \$ 172,814 | 564,313 | 546,346 | 190,781 |

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
YEAR ENDED JUNE 30, 2019**

| | <u>Balance Beginning of Year</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance End of Year</u> |
|--------------------------|--|------------------|-------------------|------------------------------------|
| Assets | | | | |
| Cash | \$ 15,425 | - | 8,078 | 7,347 |
| Total assets | <u>\$ 15,425</u> | <u>-</u> | <u>8,078</u> | <u>7,347</u> |
| Liabilities | | | | |
| Due to other governments | \$ 15,425 | - | 8,078 | 7,347 |
| Total liabilities | <u>\$ 15,425</u> | <u>-</u> | <u>8,078</u> | <u>7,347</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 | | | | | | | | | |
|---|------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
| Revenues: | | | | | | | | | | |
| Local sources: | | | | | | | | | | |
| Local Tax | 6,702,130 | 6,549,869 | 6,304,778 | 6,144,495 | 6,125,125 | 6,025,640 | 7,218,238 | 7,636,847 | 7,512,198 | 6,342,488 |
| Tuition | 968,998 | 1,004,343 | 1,105,533 | 1,095,726 | 1,112,376 | 1,071,903 | 993,423 | 1,077,900 | 1,044,614 | 990,705 |
| Other | 832,465 | 897,419 | 1,030,937 | 1,320,954 | 1,532,938 | 1,755,302 | 858,994 | 965,743 | 853,217 | 948,330 |
| State sources | 10,662,066 | 10,252,749 | 10,380,675 | 9,554,814 | 9,818,541 | 9,450,324 | 7,789,617 | 8,330,873 | 7,794,654 | 6,996,289 |
| Federal sources | 367,262 | 397,940 | 471,165 | 454,561 | 475,526 | 521,920 | 382,000 | 545,439 | 736,524 | 1,290,479 |
| Total | \$ 19,532,921 | 19,102,320 | 19,293,088 | 18,570,550 | 19,064,506 | 18,825,089 | 17,242,272 | 18,556,802 | 17,941,207 | 16,568,291 |
| Expenditures: | | | | | | | | | | |
| Instruction: | | | | | | | | | | |
| Regular instruction | 7,944,271 | 7,832,759 | 7,654,258 | 8,113,459 | 8,102,246 | 7,781,024 | 7,119,814 | 6,458,017 | 6,561,370 | 7,223,885 |
| Special instruction | 2,569,627 | 2,292,562 | 2,536,759 | 2,546,048 | 2,336,968 | 2,115,622 | 1,973,450 | 2,302,080 | 2,025,680 | 1,816,504 |
| Other instruction | 1,814,398 | 1,930,106 | 1,914,665 | 1,754,009 | 1,825,380 | 1,770,513 | 1,814,507 | 1,731,674 | 1,701,138 | 1,919,532 |
| Support services: | | | | | | | | | | |
| Student services | 416,647 | 374,186 | 481,618 | 621,220 | 600,823 | 494,895 | 424,509 | 432,328 | 375,374 | 654,989 |
| Instructional staff services | 851,839 | 935,517 | 953,133 | 480,465 | 481,445 | 491,024 | 436,804 | 666,983 | 371,410 | 372,660 |
| Administration services | 1,817,451 | 1,857,957 | 1,729,895 | 1,791,784 | 1,725,334 | 1,642,779 | 1,610,252 | 1,426,148 | 1,495,949 | 1,551,890 |
| Operation and maintenance of plant services | 1,323,225 | 1,277,704 | 1,277,883 | 1,247,355 | 1,253,922 | 1,273,294 | 1,222,965 | 1,313,770 | 1,196,590 | 1,115,072 |
| Transportation services | 918,876 | 704,403 | 828,330 | 925,826 | 881,947 | 956,706 | 778,561 | 847,034 | 726,086 | 799,634 |
| Other support services | - | 18,000 | - | - | - | - | - | - | 3,997 | - |
| Other expenditures: | | | | | | | | | | |
| Facilities acquisition | 218,076 | 184,032 | 271,516 | 468,003 | 1,598,039 | 1,041,240 | 206,167 | 835,401 | 1,584,854 | 4,952,994 |
| Long-term debt: | | | | | | | | | | |
| Principal | 875,000 | 850,000 | 830,000 | 1,745,000 | 5,385,000 | 490,000 | 470,000 | 450,000 | 435,000 | 420,000 |
| Interest and fiscal charges | 210,672 | 229,196 | 247,214 | 246,622 | 721,892 | 648,996 | 685,065 | 601,190 | 613,336 | 511,790 |
| AEA flowthrough | 626,046 | 607,284 | 596,205 | 594,017 | 596,354 | 577,516 | 547,192 | 547,409 | 613,093 | 615,639 |
| Total | \$ 19,586,128 | 19,093,706 | 19,321,476 | 20,533,808 | 25,509,350 | 19,283,609 | 17,289,286 | 17,612,034 | 17,703,877 | 21,954,589 |

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

December 23, 2019

**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, 2019, 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 December 23, 2019.

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.

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. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings as item I-A-19 that we consider to be a significant deficiency.

Continued . . .

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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, 2019 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.



Schroer & Associates, P.C.
Council Bluffs, Iowa

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2019**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-19 Vacation/Leave Hour Tracking

Criteria - An effective internal control system provides for internal controls related to ensuring proper accounting for vacation/leave hours. Internal controls over safeguarding assets constitute a process, effected by an entity's governing body, management and other personnel designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from error or misappropriation.

Condition - As a result of a newspaper article regarding the Superintendent's leaves, the Superintendent asked for an internal audit of his leave records to be compared with the days he was gone. The Superintendent was paid 5.56 days of unused vacation in July 2018. The internal audit concluded the Superintendent had been overpaid and subsequently his pay was docked 6.50 days on September 20, 2018. The Board's attorney reviewed the internal audit report. In the course of an independent investigation of other matters, the Board asked the independent investigator to review the findings. The independent investigator concluded that the overpaid vacation days was actually 5.7475 days. The net result is the District owes the Superintendent for 0.7525 days which equates to \$486.

We reviewed both the internal audit report and the independent investigator's report and compared the information provided to the leave records provided by the District and concurred with the findings.

Cause - The District has not implemented procedures to ensure administrator leave time is properly tracked and approved.

Effect - Lack of proper tracking and approval of vacation/leave could result in unauthorized or improper transactions and the opportunity for misappropriation.

Recommendation - The District should implement procedures to ensure administrator's vacation/leave is properly tracked and approved.

Response - We have reviewed and implemented additional procedures.

Conclusion - Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2019**

Part II: Other Findings Related to Statutory Reporting:

II-A-19 Certified Budget

Expenditures for the year ended June 30, 2019 did not exceed the certified budget amounts.

II-B-19 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-19 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-19 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> |
|---|--------------------------------|---------------|
| Jim Bruck, employee, co-owner of Drive Safely, LLC | Purchased services | \$ 42,380 |
| Randy Kroger, employee, owner of Kroger & Sons Hauling, LLC | Hauling | \$ 19,595 |

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.

II-E-19 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-19 Board Minutes

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

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2019**

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

II-G-19 Certified Enrollment

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

II-H-19 Supplemental Weighting

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

II-I-19 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-19 Certified Annual Report

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

II-K-19 Categorical Funding

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

II-L-19 Revenue Bonds

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

II-M-19 Notification of Suspected Fraud

Comment – The Board was made aware of an issue with the Superintendent's leave records in September 2018. An internal audit was performed and subsequently reviewed by the District's legal counsel and an independent investigator. However, no notice was provided to the State Auditor's Office regarding the concerns identified.

Recommendation – Section 11.6(7) of the Code of Iowa requires the Office of Auditor of State be notified by the CPA and the governmental agency immediately upon suspicion of embezzlement, theft or other financial irregularities. The District should ensure that any suspected irregularities identified in the future are properly reported to the State Auditor's Office as required by the Code of Iowa.

Response – Because no embezzlement or theft was suspected due to the Superintendent asking to have his leaves records audited internally, the Office of Auditor of State was not contacted. If embezzlement, theft, or other financial irregularities are suspected, the District will follow the requirements of Section 11.6(7) of the Code of Iowa.

Conclusion – Response accepted.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2019**

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

II-N-19 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, 2019, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

| | | |
|--------------------------------|----|-----------|
| Beginning balance | \$ | 1,150,826 |
| Revenues/transfers in: | | |
| Sales tax revenues | | 1,465,515 |
| Other local revenues | | 14,694 |
| | | 1,480,209 |
| Expenditures/transfers out: | | |
| Equipment | | 343,433 |
| Architect fees | | 23,429 |
| Transfers to debt service fund | | 1,086,772 |
| | | 1,453,634 |
| Ending balance | \$ | 1,177,401 |

For the year ended June 30, 2019, 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 | \$ | 2.04 | \$ | 1,086,772 |