

HARMONY COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2004

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Harmony Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Matt Mitchell	President	2005
Burton Mills	Vice President	2003
Barb Wellman	Board Member	2005
Myron Helmers	Board Member	2003
Karen Schlicher	Board Member	2004
Board of Education (After September 2003 Election)		
Matt Mitchell	President	2005
Burton Mills	Vice President	2006
Barb Wellman	Board Member	2005
Dennis Grossman	Board Member	2006
Karen Schlicher	Board Member	2004
School Officials		
Alan Marshall	Superintendent	2004
Karen Ruppert	District Secretary	2004
Iris Kerr	District Treasurer	2004
Crystal Cronk	Attorney	2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Harmony Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Harmony Community School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 5 to the financial statements, management has not recorded certain capital assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require those general capital assets be capitalized and depreciated, which would increase the assets and expenses of the governmental activities. The amount by which this departure would affect the assets and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effect of the matter discussed in the preceding paragraph the financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of Harmony Community School District at June 30, 2004 and the respective changes in financial and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

As described in Note 10 to the financial statements, during the year ended June 30, 2004, Harmony Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments; Statement No. 37, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments: Omnibus; Statement No. 38, Certain Financial

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Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule- Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated September 1, 2004 on our consideration of the Harmony Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 37 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Harmony Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Nolte, Cornman - Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

September 1, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Harmony 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, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$3,612,546 in fiscal 2003 to \$3,474,146 in fiscal 2004, while General Fund expenditures increased from \$3,536,553 in fiscal 2003 to \$3,651,916 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from \$685,346 in fiscal 2003 to a balance of \$507,776 in fiscal 2004, a 26% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in local tax revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. The increase in expenditure combined with the decrease in revenues, resulting in the decrease in the District's General Fund.
- A decline in interest rates during the past fiscal year, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone to decrease from \$25,178 in fiscal year 2003 to \$8,443 in fiscal year 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Harmony 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 Harmony 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 Harmony Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

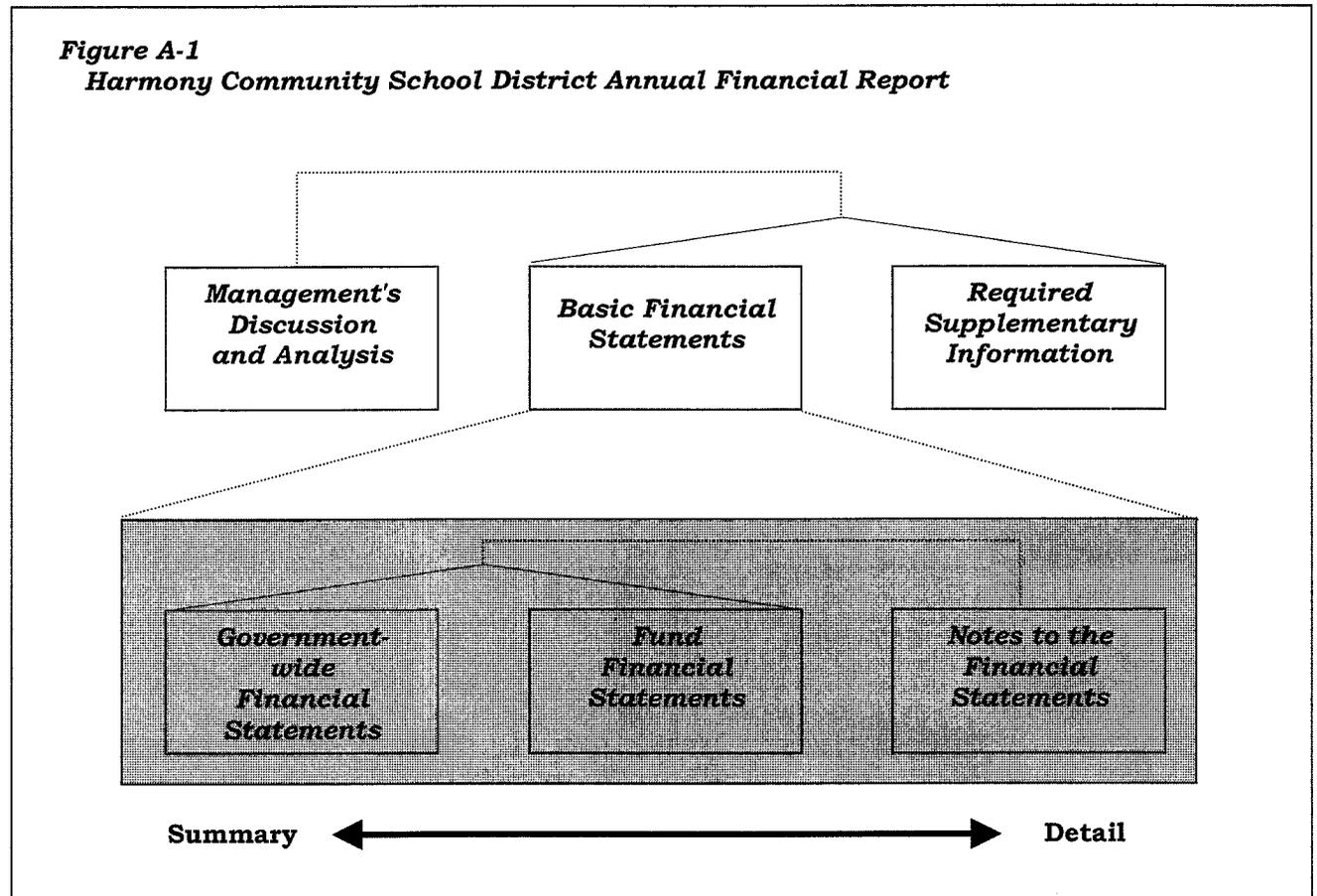


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE 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 Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. 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 the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects, and Debt Service Fund.

The required financial statements for the 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 as 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 the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Private-Purpose Trust fund.
- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

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 include the statement of fiduciary net assets and the statement of changes in fiduciary net assets.

Reconciliation between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 3,289,190	13,442	3,302,632
Capital assets	0	11,294	11,294
Total assets	<u>3,289,190</u>	<u>24,736</u>	<u>3,313,926</u>
Long-term obligations	2,999,253	0	2,999,253
Other liabilities	2,670,269	0	2,670,269
Total liabilities	<u>5,669,522</u>	<u>0</u>	<u>5,669,522</u>
Net assets:			
Invested in capital assets, net of related debt	0	11,294	11,294
Restricted	259,502	0	259,502
Unrestricted	(2,639,834)	13,442	(2,626,392)
Total net assets	<u>\$ (2,380,332)</u>	<u>24,736</u>	<u>(2,355,596)</u>

Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	\$ 245,157	72,718	317,875
Operating grants and contributions and restricted interest	490,961	84,918	575,879
Capital grants and contributions and restricted interest	621,264	0	621,264
General revenues:			
Property tax	1,456,167	0	1,456,167
Local option sales and service tax	29,406	0	29,406
Unrestricted state grants	1,793,853	0	1,793,853
Other	13,157	108	13,265
Total revenues	4,649,965	157,744	4,807,709
Program expenses:			
Governmental activities:			
Instructional	2,414,004	0	2,414,004
Support services	1,220,467	0	1,220,467
Non-instructional programs	59,276	156,981	216,257
Other expenses	1,440,831	0	1,440,831
Total expenses	5,134,578	156,981	5,291,559
Changes in net assets	(484,613)	763	(483,850)
Net assets beginning of year	(1,895,719)	23,973	(1,871,746)
Net assets end of year	(2,380,332)	24,736	(2,355,596)

Property tax and unrestricted state grants account for 68% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 69% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,649,965 and expenses were \$5,134,578.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,414,004	1,818,692
Support services	1,220,467	1,218,438
Non- instructional	59,276	59,276
Other expenses	1,440,831	680,790
Totals	\$ 5,134,578	3,777,196

-
- The cost financed by users of the District's programs was \$245,157.
 - Federal and state governments subsidized certain programs with grants and contributions totaling \$1,112,225.
 - The net cost of governmental activities was financed with \$1,456,167 in local tax, \$1,793,853 in unrestricted state grants, and \$12,957 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$157,744 and expenses were \$156,981. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Harmony 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 balance of \$478,969, compared to last year's ending fund balances of \$1,082,668. However, the primary reason for the decrease was the decrease in the fund balance of the Capital Projects Fund.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. Decrease in local tax revenue during the year resulted in a decrease in revenues. The increase in revenues, along with the increase in General Fund expenditures ensured the decrease in the financial position of the District.
- The Physical Plant and Equipment Levy (PPEL) fund balance increased from \$136,965 to \$182,383, due to a increase in total revenues for the year.
- The Capital Projects fund balance decreased during the current year, from \$299,838 to a deficit balance of \$176,438. This was a result of an increase in expenditures.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$23,973 at June 30, 2003 to \$24,736 at June 30, 2004, representing an increase of approximately 3%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$228,462 less than budgeted revenues, a variance of 4.5%. The most significant variance resulted from the District receiving less in federal sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget exceeded in the other expenditures functional area due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District did not include capital assets for the governmental activities for reporting purposes. At June 30, 2004, the business-type capital assets totaled \$11,294 net of accumulated depreciation, which included machinery and equipment. (See Figure A-6) This amount represents a net decrease of 19.6% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$2,752.

The original cost of the capital assets was \$63,689 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. This decrease resulted from depreciation during the current year.

Figure A-6
Capital Assets, Net of Depreciation

	Business-type Activities 2004
Machinery and equipment	\$ 11,294
Total	\$ 11,294

Long-Term Debt

At June 30, 2004, the District had long-term debt outstanding of \$2,999,253 in general obligation bonds and early retirement. This represents a decrease of approximately 3.9% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding general obligation bonds payable of \$2,920,000 at June 30, 2004.

The District also had total outstanding early retirement payable of \$79,253 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General obligation bonds	\$ 2,920,000	3,030,000	-3.6%
Early retirement	79,253	92,546	-14.4%
Total	\$ 2,999,253	3,122,546	-3.9%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

-
- Although the District has experienced declining enrollment for a few years, the District expects a slight increase in enrollment.
 - The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period beginning in fiscal year 2005.
 - Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
 - Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

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 Karen Ruppert, District Board Secretary, Harmony Community School District, 601 First Street, Harmony, Iowa, 52620.

BASIC FINANCIAL STATEMENTS

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
ISCAP(Note 4)	\$ 993,916	0	993,916
Other	738,229	11,624	749,853
Receivables:			
Property tax:			
Delinquent	35,928	0	35,928
Succeeding year	1,282,489	0	1,282,489
Income surtax	151,643	0	151,643
Accounts	2,467	585	3,052
Accrued interest			
ISCAP(Note 4)	1,205	0	1,205
Due from other governments	83,313	0	83,313
Inventories	0	1,233	1,233
Capital assets, net of accumulated depreciation(Note 5)	0	11,294	11,294
TOTAL ASSETS	3,289,190	24,736	3,313,926
LIABILITIES			
Excess of warrants issued over bank balance	362,158	0	362,158
Accounts payable	12,044	0	12,044
Interest payable	11,691	0	11,691
ISCAP warrants payable(Note 4)	999,000	0	999,000
ISCAP accrued interest payable(Note 4)	1,827	0	1,827
ISCAP premiums payable	1,060	0	1,060
Deferred revenue:			
Succeeding year property tax	1,282,489	0	1,282,489
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds	115,000	0	115,000
Early retirement	13,917	0	13,917
Portion due after one year:			
General obligation bonds	2,805,000	0	2,805,000
Early retirement	65,336	0	65,336
TOTAL LIABILITIES	5,669,522	0	5,669,522
NET ASSETS			
Investment in capital assets, net of related debt	0	11,294	11,294
Restricted for:			
Talented and gifted	9,658	0	9,658
Teacher quality	7,489	0	7,489
Physical plant & equipment levy	182,383	0	182,383
Other special revenue purposes	59,972	0	59,972
Unrestricted	(2,639,834)	13,442	(2,626,392)
TOTAL NET ASSETS	\$ (2,380,332)	24,736	(2,355,596)

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 1,612,444	89,798	350,155	0
Special instruction	441,702	0	0	0
Other instruction	359,858	155,359	0	0
	<u>2,414,004</u>	<u>245,157</u>	<u>350,155</u>	<u>0</u>
Support services:				
Student services	57,131	0	0	0
Instructional staff services	90,565	0	0	0
Administration services	474,511	0	0	0
Operation and maintenance of plant services	315,636	0	0	0
Transportation services	282,624	0	2,029	0
	<u>1,220,467</u>	<u>0</u>	<u>2,029</u>	<u>0</u>
Non-instructional:				
Food service operations	59,276	0	0	0
Other expenditures:				
Facilities acquisitions	1,156,803	0	0	621,264
Long-term debt interest	145,251	0	0	0
AEA flowthrough	138,777	0	138,777	0
	<u>1,440,831</u>	<u>0</u>	<u>138,777</u>	<u>621,264</u>
Total governmental activities	5,134,578	245,157	490,961	621,264
Business-Type activities:				
Non-instructional programs:				
Nutrition services	156,981	72,718	84,918	0
Total business-type activities	<u>156,981</u>	<u>72,718</u>	<u>84,918</u>	<u>0</u>
Total	\$ 5,291,559	317,875	575,879	621,264
General Revenues:				
Property tax levied for:				
General purposes				
Debt services				
Capital outlay				
Local option sales and service tax				
Unrestricted state grants				
Unrestricted investment earnings				
Sale of materials				
Total general revenues				
Changes in net assets				
Net assets beginning of year, as restated Note 10				
Net assets end of year				

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,172,491)	0	(1,172,491)
(441,702)	0	(441,702)
(204,499)	0	(204,499)
(1,818,692)	0	(1,818,692)
(57,131)	0	(57,131)
(90,565)	0	(90,565)
(474,511)	0	(474,511)
(315,636)	0	(315,636)
(280,595)	0	(280,595)
(1,218,438)	0	(1,218,438)
(59,276)	0	(59,276)
(535,539)	0	(535,539)
(145,251)	0	(145,251)
0	0	0
(680,790)	0	(680,790)
(3,777,196)	0	(3,777,196)
0	655	655
0	655	655
(3,777,196)	655	(3,776,541)
\$ 1,123,582	0	1,123,582
253,154	0	253,154
79,431	0	79,431
29,406	0	29,406
1,793,853	0	1,793,853
12,957	108	13,065
200	0	200
3,292,583	108	3,292,691
(484,613)	763	(483,850)
(1,895,719)	23,973	(1,871,746)
\$ (2,380,332)	24,736	(2,355,596)

HARMONY COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Capital Projects	Physical Plant and Equipment Levy	Other Governmental Funds	Total
ASSETS					
Cash and pooled investments					
ISCAP (Note 4)	\$ 993,916	0	0	0	993,916
Other	409,406	0	267,953	60,870	738,229
Receivables:					
Property tax					
Delinquent	22,782	3,109	1,981	8,056	35,928
Succeeding year	876,676	0	70,527	335,286	1,282,489
Income surtax	151,643	0	0	0	151,643
Interfund	7,720	86,943	0	0	94,663
Accounts	2,467	0	0	0	2,467
Accrued interest					
ISCAP (Note 4)	1,205	0	0	0	1,205
Due from other governments	83,313	0	0	0	83,313
TOTAL ASSETS	\$ 2,549,128	90,052	340,461	404,212	3,383,853
LIABILITIES AND FUND BALANCES					
Liabilities:					
Excess of warrants issued over bank balance	\$ 0	259,753	0	102,405	362,158
Interfund payable	0	6,737	87,551	375	94,663
Accounts payable	11,146	0	0	898	12,044
ISCAP warrants payable (Note 4)	999,000	0	0	0	999,000
ISCAP accrued interest payable (Note 4)	1,827	0	0	0	1,827
ISCAP premiums payable	1,060	0	0	0	1,060
Deferred revenue:					
Succeeding year property tax	876,676	0	70,527	335,286	1,282,489
Income surtax	151,643	0	0	0	151,643
Total liabilities	2,041,352	266,490	158,078	438,964	2,904,884
Fund balances:					
Reserved for:					
Talented and gifted	9,658	0	0	0	9,658
Teacher quality	7,489	0	0	0	7,489
Unreserved:					
Undesignated	490,629	(176,438)	182,383	(34,752)	461,822
Total fund balances	507,776	(176,438)	182,383	(34,752)	478,969
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,549,128	90,052	340,461	404,212	3,383,853

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2004

Total fund balances of governmental funds (page 16)	\$	478,969
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(11,691)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		151,643
Long-term liabilities, including bonds payable, and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(2,999,253)
		<hr/>
Net assets of governmental activites (page 13)	\$	<u>(2,380,332)</u>

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	General	Capital Projects	Physical Plant and Equipment Levy	Other Governmental Funds	Total
REVENUES:					
Local sources:					
Property tax	\$ 1,060,804	0	79,431	320,562	1,460,797
LOSST	0	29,406	0	0	29,406
Tuition	89,798	0	0	0	89,798
Other	39,186	1,940	3,788	123,402	168,316
State sources	2,102,561	0	90	366	2,103,017
Federal sources	181,797	534,314	86,950	0	803,061
Total revenues	3,474,146	565,660	170,259	444,330	4,654,395
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	1,589,264	0	0	32,033	1,621,297
Special instruction	441,702	0	0	0	441,702
Other instruction	255,888	0	0	108,410	364,298
	2,286,854	0	0	140,443	2,427,297
Support services:					
Student services	57,131	0	0	0	57,131
Instructional staff services	90,565	0	0	0	90,565
Administration services	468,855	0	0	5,656	474,511
Operation and maintenance of plant services	284,753	0	9,974	20,909	315,636
Transportation services	265,705	0	0	16,919	282,624
	1,167,009	0	9,974	43,484	1,220,467
Non-instructional:					
Food service operations	59,276	0	0	0	59,276
Other expenditures:					
Facilities acquisitions	0	1,041,936	114,867	0	1,156,803
Long-term debt:					
Principal	0	0	0	110,000	110,000
Interest and fiscal charges	0	0	0	145,674	145,674
AEA flowthrough	138,777	0	0	0	138,777
	138,777	1,041,936	114,867	255,674	1,551,254
Total expenditures	3,651,916	1,041,936	124,841	439,601	5,258,294
Excess (deficiency) of revenues over (under) expenditures	(177,770)	(476,276)	45,418	4,729	(603,899)
Other financing sources:					
Sale of materials	200	0	0	0	200
Net change in fund balances	(177,570)	(476,276)	45,418	4,729	(603,699)
Fund balance beginning of year	685,346	299,838	136,965	(39,481)	1,082,668
Fund balance end of year	\$ 507,776	(176,438)	182,383	(34,752)	478,969

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY 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, 2004

Net change in fund balances - total governmental funds (page 18)	\$	(603,699)
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		110,000
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.		423
Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		(4,630)
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 fund.		
Early retirement		13,293
Changes in net assets of governmental activities (page 15)	\$	(484,613)

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2004

	School Nutrition
ASSETS	
Cash and cash equivalents	\$ 11,624
Accounts receivable	585
Inventories	1,233
Capital assets, net of accumulated depreciation	11,294
TOTAL ASSETS	24,736
LIABILITIES	
	0
NET ASSETS	
Invested in capital assets, net of related debt	11,294
Unrestricted	13,442
TOTAL NET ASSETS	\$ 24,736

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2004

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Other local sources:	
Sale of lunches and breakfasts:	
Students	\$ 59,604
Adults	12,764
Miscellaneous	350
TOTAL OPERATING REVENUES	72,718
OPERATING EXPENSES:	
Food service operations:	
Salaries	42,225
Services	1,907
Supplies	110,097
Depreciation	2,752
TOTAL OPERATING EXPENSES	156,981
OPERATING LOSS	(84,263)
NON-OPERATING REVENUES:	
Interest	108
State sources	2,938
Federal sources	81,980
TOTAL NON-OPERATING REVENUES	85,026
Net income	763
Net assets at beginning of year	23,973
Net assets end of year	\$ 24,736

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 71,978
Cash received from miscellaneous operating activities	350
Cash payments to employees for services	(42,225)
Cash payments to suppliers for goods or services	(98,473)
Net cash used in operating activities	(68,370)
Cash flows from non-capital financing activities:	
State grants received	2,938
Federal grants received	68,588
Net cash provided by non-capital financing activities	71,526
Cash flows from investing activities:	
Interest on investments	108
Net cash provided by investing activities	108
Net increase in cash and cash equivalents	3,264
Cash and cash equivalents at beginning of year	8,360
Cash and cash equivalents at end of year	\$ 11,624
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (84,263)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	13,392
Depreciation	2,752
Decrease in inventories	139
Increase in accounts receivables	(390)
Net cash used in operating activities	\$ (68,370)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 11,624

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at \$13,392.

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004

	<u>Private-purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
ASSETS	
Cash and pooled investments	<u>\$ 346,180</u>
LIABILITIES	
	<u>0</u>
NET ASSETS	
Reserved for scholarships	<u>\$ 346,180</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2004

	Private-purpose Trust Scholarship
ADDITIONS:	
Local sources:	
Donations	\$ 263,412
DEDUCTIONS:	0
Change in net assets	263,412
Net assets beginning of year	82,768
Net assets end of year	\$ 346,180

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(1) **Summary of Significant Accounting Policies**

The Harmony Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. 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 Cities of Bonaparte, Hillsboro and Farmington, Iowa, and the predominate agricultural territory in Henry, Van Buren and Lee Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's 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, Harmony Community School District has included all funds, organizations, account groups, 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 Harmony Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do 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 Henry, Van Buren and Lee County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

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

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that 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.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

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

The Special Revenue - Physical Plant and Equipment Levy (PPEL) Fund is used to account for resources used in building improvements and equipment purchases.

The District's proprietary fund is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports a fiduciary fund which focus on net assets and changes in net assets. The District's fiduciary fund is as follows:

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.

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the 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 revenue 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 assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

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.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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 machinery and equipment, are reported in the applicable business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Machinery and equipment:	
School Nutrition Fund equipment	\$ 500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Live (In Years)
Machinery and equipment	12 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the support services functional program area exceeded the amount budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$4,903,689 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
Capital Projects	PPEL	\$ 86,943
General	PPEL	608
General	Capital Projects	6,737
General	Debt Service	375
Total		\$ 94,663

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued	
				Interest Receivable	Warrants Payable
2003-04B	1/30/04	1/28/05	221,498	1,205	220,000
2004-05A	6/30/04	6/30/05	772,418	0	779,000
Total			\$ 993,916	1,205	999,000

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. No ISCAP advance activity was noted during the year.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04A	2.000%	1.050%
2003-04B	2.000%	1.310%
2004-05A	3.000%	2.463%

(5) **Capital Assets**

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 63,689	0	0	63,689
Less accumulated depreciation	49,643	2,752	0	52,395
Business-type activities capital assets, net	\$ 14,046	(2,752)	0	11,294

Depreciation expense was charged by the District as follows:

Business-type activities:	
Food services	\$ 2,752

The District has not implemented GASB 34 requirements, management has not recorded certain capital assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require those general capital assets be capitalized and depreciated, which would increase the assets and expenses of the governmental activities. The amount by which this departure would affect the assets and expenses of the governmental activities is not reasonably determinable.

The District had previously recorded fixed assets within the fixed asset account group. The balance in that account group including land, building and equipment at July 1, 2003, was \$3,807,085.

(6) **Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 3,030,000	0	110,000	2,920,000	115,000
Early retirement	92,546	4,212	17,505	79,253	13,917
Total	\$ 3,122,546	4,212	127,505	2,999,253	128,917

General Obligation Bonds Payable

Details of the District's June 30, 2004 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue March 24, 2003		
		Principal	Interest	Total
2005	4.63 %	\$ 115,000	140,286	255,286
2006	4.63	120,000	134,968	254,968
2007	4.63	125,000	129,418	254,418
2008	4.63	135,000	123,636	258,636
2009	4.63	140,000	117,932	257,932
2010	4.63	145,000	110,918	255,918
2011	4.63	155,000	104,211	259,211
2012	4.63	160,000	97,043	257,043
2013	4.70	165,000	89,643	254,643
2014	4.75	175,000	81,888	256,888
2015	4.88	185,000	73,575	258,575
2016	4.88	195,000	64,556	259,556
2017	4.90	200,000	55,050	255,050
2018	5.00	210,000	45,250	255,250
2019	5.00	220,000	34,750	254,750
2020	5.00	230,000	23,750	253,750
2021	5.00	245,000	12,250	257,250
Total		\$ 2,920,000	1,439,124	4,359,124

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed twenty years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentives for each eligible employee is equal to a percentage of the employee's base salary less any other additional pay and subject to a maximum of \$20,000 for certified staff and \$10,000 for non certified staff. Early retirement benefits paid during the year ended June 30, 2004, totaled \$17,505.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$123,914, \$125,523, and \$126,401, respectively, equal to the required contributions for each year.

(8) Risk Management

Harmony Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

Each member's contributions to ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$152,986.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2003, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

Harmony Community School 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.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$138,777 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Accounting Change and Restatements

Governmental Accounting Standards Board Interpretation No.6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No.38, Certain Financial Statement Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statement create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District's programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund				Total
	General	Physical Plant and		Other Governmental Funds	
Projects		Capital Equipment Levy			
Net assets, June 30, 2003, as previously reported \$	685,346	299,838	136,965	(39,481)	1,082,668
GASB Interpretation 6 adjustments	0	0	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	\$ 685,346	299,838	136,965	(39,481)	1,082,668
GASB 34 adjustments:					
Capital assets, net of accumulated depreciation of \$1,415,088					0
Income surtax					156,273
Long-term liabilities:					
General obligation bonds				3,030,000	
Early retirement				92,546	(3,122,546)
Accrued interest					(12,114)
Net assets July 1, 2003, as restated					\$ (1,895,719)

(11) Deficit Fund Balance

The Special Revenue - Management fund had a deficit undesignated fund balance of \$5,460, the Capital Projects fund had a deficit undesignated fund balance of \$176,438 and the Debt Service fund had a deficit undesignated fund balance of \$89,264 at June, 30 2004.

(12) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2004, disbursements in the support services functional program area exceeded the amount budgeted.

REQUIRED SUPPLEMENTAL INFORMATION

HARMONY COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 2,283,905	72,435
Intermediate sources	0	0
State sources	2,094,842	2,939
Federal sources	292,382	81,980
Total receipts	4,671,129	157,354
Disbursements:		
Instruction	2,681,306	0
Support services	1,265,291	0
Non-instructional programs	70,971	154,090
Other expenditures	1,551,254	0
Total disbursements	5,568,822	154,090
Excess(deficiency) of receipts over(under) disbursements	(897,693)	3,264
Other financing sources, net	200	0
Excess(deficiency) of receipts and other financing sources over(under) disbursements	(897,493)	3,264
Balance beginning of year	1,273,564	8,360
Balance end of year	\$ 376,071	11,624

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,356,340	1,791,345	1,791,345	564,995
0	1,800	1,800	(1,800)
2,097,781	2,215,900	2,215,900	(118,119)
374,362	1,047,900	1,047,900	(673,538)
4,828,483	5,056,945	5,056,945	(228,462)
2,681,306	2,811,340	2,811,340	130,034
1,265,291	1,031,700	1,031,700	(233,591)
225,061	276,900	276,900	51,839
1,551,254	2,123,851	2,123,851	572,597
5,722,912	6,243,791	6,243,791	520,879
(894,429)	(1,186,846)	(1,186,846)	292,417
200	0	0	200
(894,229)	(1,186,846)	(1,186,846)	292,617
1,281,924	1,626,058	1,626,058	(344,134)
387,695	439,212	439,212	(51,517)

HARMONY COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE-
 BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types		
	Cash Basis	Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 4,671,129	(16,734)	4,654,395
Expenses	5,568,822	(310,528)	5,258,294
Net	(897,693)	293,794	(603,899)
Other financing sources, net	200	0	200
Beginning fund balances	1,273,564	(190,896)	1,082,668
Ending fund balances	\$ 376,071	102,898	478,969

	Proprietary Fund Type		
	Cash Basis	Enterprise Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 157,354	390	157,744
Expenses	154,090	2,891	156,981
Net	3,264	(2,501)	763
Beginning retained earnings	8,360	15,613	23,973
Ending retained earnings	\$ 11,624	13,112	24,736

HARMONY COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2004

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 the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. 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 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 ended June 30, 2004, disbursements in the support services functional program area exceeded the amount budgeted.

OTHER SUPPLEMENTAL INFORMATION

HARMONY COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2004

	Special Revenue					Debt Service	Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Expendable Trust	Special Revenue- Total			
ASSETS							
Cash and pooled investments	\$ 0	59,571	1,299	60,870		0	60,870
Receivables:							
Property tax:							
Current year delinquent	1,694	0	0	1,694		6,362	8,056
Succeeding year	80,000	0	0	80,000		255,286	335,286
TOTAL ASSETS	\$ 81,694	59,571	1,299	142,564		261,648	404,212
LIABILITIES AND FUND EQUITY							
Liabilities:							
Interfund payable	\$ 0	0	0	0		375	375
Accounts payable	0	898	0	898		0	898
Excess of warrants issued over bank balance	7,154	0	0	7,154		95,251	102,405
Deferred revenue:							
Succeeding year property tax	80,000	0	0	80,000		255,286	335,286
	87,154	898	0	88,052		350,912	438,964
Fund equity:							
Fund balances:							
Unreserved:							
Undesignated	(5,460)	58,673	1,299	54,512		(89,264)	(34,752)
Total fund balances	(5,460)	58,673	1,299	54,512		(89,264)	(34,752)
TOTAL LIABILITIES AND FUND EQUITY	\$ 81,694	59,571	1,299	142,564		261,648	404,212

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2004

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Expendable Trust	Special Revenue- Total	Debt Service	
REVENUES:						
Local sources:						
Local tax	\$ 67,408	0	0	67,408	253,154	320,562
Other	0	121,764	1,590	123,354	48	123,402
State sources	77	0	0	77	289	366
TOTAL REVENUES	67,485	121,764	1,590	190,839	253,491	444,330
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	32,033	0	0	32,033	0	32,033
Other instruction	0	105,690	2,720	108,410	0	108,410
	32,033	105,690	2,720	140,443	0	140,443
Support services:						
Administration services	5,656	0	0	5,656	0	5,656
Operation and maintenance of plant services	20,909	0	0	20,909	0	20,909
Transportation services	16,919	0	0	16,919	0	16,919
	43,484	0	0	43,484	0	43,484
Other expenditures:						
Long-term debt:						
Principle	0	0	0	0	110,000	110,000
Interest and fiscal charges	0	0	0	0	145,674	145,674
	0	0	0	0	255,674	255,674
TOTAL EXPENDITURES	75,517	105,690	2,720	183,927	255,674	439,601
Excess (deficiency) of revenues over (under) expenditures	(8,032)	16,074	(1,130)	6,912	(2,183)	4,729
Fund balance beginning of year	2,572	42,599	2,429	47,600	(87,081)	(39,481)
Fund balance end of year	\$ (5,460)	58,673	1,299	54,512	(89,264)	(34,752)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND,
 STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Elementary	\$ 4,560	8,571	5,859	7,272
Middle School	11,010	18,236	17,446	11,800
High School	27,029	94,957	82,385	39,601
Total	\$ 42,599	121,764	105,690	58,673

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 PRIVATE-PURPOSE TRUST FUND, SCHOLARSHIP ACCOUNTS
 JUNE 30, 2004

	Millican Educational Memorial Fund	Reifior Scholarship Fund	Total
ASSETS			
Cash and pooled investments	\$ 82,768	263,412	346,180
LIABILITIES			
	0	0	0
NET ASSETS			
Reserved for scholarships	\$ 82,768	263,412	346,180

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN PRIVATE-PURPOSE TRUST FUND,
 SCHOLARSHIP ACCOUNTS
 YEAR ENDED JUNE 30, 2004

	Millican Educational Memorial Fund	Reiflor Scholarship Fund	Total
REVENUES:			
Local sources:			
Donations	\$ 0	263,412	263,412
EXPENDITURES:	0	0	0
Excess of revenues over expenditures	0	263,412	263,412
Balance beginning of year	82,768	0	82,768
Balance end of year	\$ 82,768	263,412	346,180

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 1,490,203	1,587,006	1,080,027	1,038,028
Tuition	89,798	94,489	90,042	87,164
Other	168,316	255,660	200,615	238,485
Intermediate sources	0	0	0	2,545
State sources	2,103,017	2,147,702	2,207,751	2,212,422
Federal sources	803,061	229,326	450,988	127,149
Total	\$ 4,654,395	4,314,183	4,029,423	3,705,793
Expenditures:				
Instruction:				
Regular instruction	\$ 1,621,297	1,482,309	1,326,362	1,470,579
Special instruction	441,702	434,404	459,971	464,790
Other instruction	364,298	440,960	358,639	395,784
Support services:				
Student services	57,131	63,441	51,063	46,210
Instructional staff services	90,565	65,430	77,875	74,986
Administration services	474,511	472,321	474,461	434,681
Operation and maintenance of plant services	315,636	409,375	295,953	235,701
Transportation services	282,624	209,802	225,999	261,959
Central services	0	10,523	0	0
Non-instructional	59,276	51,128	48,231	46,014
Other expenditures:				
Facilities acquisitions	1,156,803	1,006,731	2,144,588	460,489
Long Term Debt:				
Principal	110,000	105,000	0	46,666
Interest	145,674	150,530	138,086	1,244
AEA flow-through	138,777	149,830	152,124	158,828
Total	\$ 5,258,294	5,051,784	5,753,352	4,097,931

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 04	\$ 13,392
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 04	15,854
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 04	52,734
			<u>68,588</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES			
	84.010	2834-G	94,287
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM			
	84.367	FY 03	9,015
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM			
	84.367	FY 04	21,539
			<u>30,554</u>
FUND FOR THE IMPROVEMENT OF EDUCATION			
	84.215	FY 02	50,000
FUND FOR THE IMPROVEMENT OF EDUCATION			
	84.215	FY 02	86,943
FUND FOR THE IMPROVEMENT OF EDUCATION			
	84.215	FY 04	534,314
			<u>671,257</u>
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES			
	84.048	FY 04	5,207
SPECIAL EDUCATION - GRANTS TO STATES (PART B)			
	84.027	FY 04	19,648
TOTAL			<u>\$ 902,933</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Harmony Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Board of Education of the
Harmony Community School District:

We have audited the financial statements of Harmony Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 1, 2004, which was qualified because of the lack of fixed assets. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Harmony Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 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. Prior year statutory comments have all been resolved, except IV-K-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harmony Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our

consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have all been resolved, except II-A-04 and II-C-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Harmony Community School District and other parties to whom Harmony Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Harmony 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.


NOLTE, CORNMAN & JOHNSON, P.C.

September 1, 2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

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117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance

To the Board of Education of
Harmony Community School District

Compliance

We have audited the compliance of Harmony Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Harmony Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Harmony Community School District's management. Our responsibility is to express an opinion on Harmony Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harmony Community School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Harmony Community School District's compliance with those requirements.

In our opinion, Harmony Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Harmony Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Harmony Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Harmony Community School District's ability to administer a major

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federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulation, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be a material weakness. However, of the reportable conditions described above, we believe item III-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Harmony Community School District and other parties to whom Harmony Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

September 1, 2004

HARMONY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) A qualified opinion was issued on the financial statements because of a departure from GAAP - no fixed assets.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - CFDA Number 84.215 - Iowa Demonstration Grant
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Harmony Community School District did not qualify as a low-risk auditee.

HARMONY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

II-B-04 Grants - We noted during our audit, that when expenditures for Success 4, REAP, Drug Free, Title V, Title VIA were posted; it appeared that the expenses were not always properly posted to those projects.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

Response - We are working on coding expenditures to the proper grant or project.

Conclusion - Response accepted.

II-C-04 Early Retirement - The District's early retirement policy stipulates that any employee under the age of 65 who has worked a minimum of twenty years of services as a full-time certified employee or twenty years as a support staff position and held at least an eleven month contract and who is between the ages of 55-64 as of June 30 of that school year can elect to take early retirement. The District's early retirement policy is compliant with Chapter 279.46 of the Code of Iowa; however, the District has allowed Francine Paxton to take early retirement even though she was not fifty-five years of age until the school year had already started. This is a violation of the District's Board approved early retirement policy.

Recommendation - The district may not use management funds to pay for the early retirement benefits of Ms. Paxton as it is not in compliance with Chapter 279.46 of the Code of Iowa. We recommend that the District consult legal counsel to determine legality of the early retirement as well as subsequent action needed.

Response - We have contacted our attorney.

Conclusion - Response accepted.

II-D-04 Fixed Assets - A record of fixed asset acquisitions and disbursements are not kept up to date, therefore the District has not complied with GASB 34 requirements.

Recommendation - Fixed asset updates should be made on a continuous basis to allow the school officials and outsiders an accurate account of the amount of fixed assets at any point in time. This is necessary for both an accurate account of assets and to ensure a proper amount of insurance is carried to cover the assets in case of loss from fire, vandalism, or theft. The District should maintain a complete list of additions, deletions, and current assets, as well as depreciation of those assets to be in compliance with GASB 34 requirements.

Response - An appraisal has been done but is not available for the purpose of this audit.

Conclusion - Response accepted.

HARMONY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 84.215: Iowa Demonstration Grant

Federal Award Year: 2004

U.S. Department of Education

Passed Through the Iowa Department of Education

III-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

HARMONY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Statutory Reporting

IV-A-04 Official Depositories - A resolution naming official depositories has been approved by the Board. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2004.

Recommendation - The district should increase their depository limits.

Response - We will raise them in the future.

Conclusion - Response accepted.

IV-B-04 Certified Budget - District disbursements for the year ended June 30, 2004 exceeded the amount budgeted in the support services functional program area.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

IV-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-E-04 Business Transactions - No business transactions between the District and District officials were noted.

IV-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - We will provide the minutes within the two weeks of the Board meeting, however, we are unable to control the publishing dates.

Conclusion - Response accepted.

IV-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

IV-K-04 Financial Condition - The District had deficit unreserved fund balances of \$176,438 in the Capital Projects fund, \$5,460 in the Management fund and \$89,264 in the Debt Service fund.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

Response - We will monitor these funds and investigate available options to eliminate these deficits.

Conclusion - Response accepted.