

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

JUNE 30, 2005

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	13
Statement of Activities	B	14-15
Governmental Fund Financial Statements:		
Balance Sheet	C	16
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	17
Statement of Revenues, Expenditures and Changes in Fund Balances	E	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	19
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	20
Statement of Revenues, Expenses and Changes in Net Assets	H	21
Statement of Cash Flows	I	22
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Assets and Liabilities	J	23
Statement of Changes in Fiduciary Net Assets	K	24
Notes to Financial Statements		25-36
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual(Cash Basis) - All Governmental Funds and Proprietary Fund		37-38
Budgetary Comparison Schedule- Budget to GAAP Reconciliation		39
Notes to Required Supplementary Information - Budgetary Reporting		40
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	41
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	42
Schedule of Changes in Special Revenue Funds, Student Activity Accounts	3	43
Fiduciary Fund, Private-Purpose Trust Accounts:		
Combining Balance Sheet	4	44
Schedule of Changes in Private-Purpose Trust Fund - Scholarship Accounts	5	45
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	6	46
Schedule of Expenditures of Federal Awards	7	47
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards		48-49
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		50-51
Schedule of Findings and Questioned Costs		52-57

Harmony Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 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
Board of Education (After September 2004 Election)		
Matt Mitchell	President	2005
Burton Mills	Vice President	2006
Barb Wellman	Board Member	2005
Dennis Grossman	Board Member	2006
Karen Schlicher	Board Member	2007
School Officials		
Alan Marshall	Superintendent	2005
Karen Ruppert	District Secretary	2005
Iris Kerr	District Treasurer	2005
Crystal Cronk	Attorney	2005

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
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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, the business-type activities, each major fund and the aggregate remaining fund information of the Harmony Community School District, Bonaparte, Iowa as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Harmony Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated July 26, 2005 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing 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

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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, 2004 (which are not presented herein). We expressed a qualified opinion for the year ended June 30, 2004 for the lack of Capital Assets. We expressed unqualified opinions for the two years ended June 30, 2003. Other supplementary information included in Schedules 1 through 7, including the accompanying Schedule of Expenditures of federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, 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, P.C.

July 26, 2005

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, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$3,474,146 in fiscal 2004 to \$3,375,146 in fiscal 2005, while General Fund expenditures increased from \$3,651,916 in fiscal 2004 to \$3,815,030 in fiscal 2005. This resulted in a decrease in the District's General Fund balance from \$507,776 in fiscal 2004 to a balance of \$94,529 in fiscal 2005.
- The decrease in General Fund revenues was attributable to a decrease in state and federal revenues in fiscal 2005. 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.
- Less cash available to be invested resulted in interest earnings in the General Fund alone to decrease from \$8,443 in fiscal year 2004 to \$4,512 in fiscal year 2005.

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.

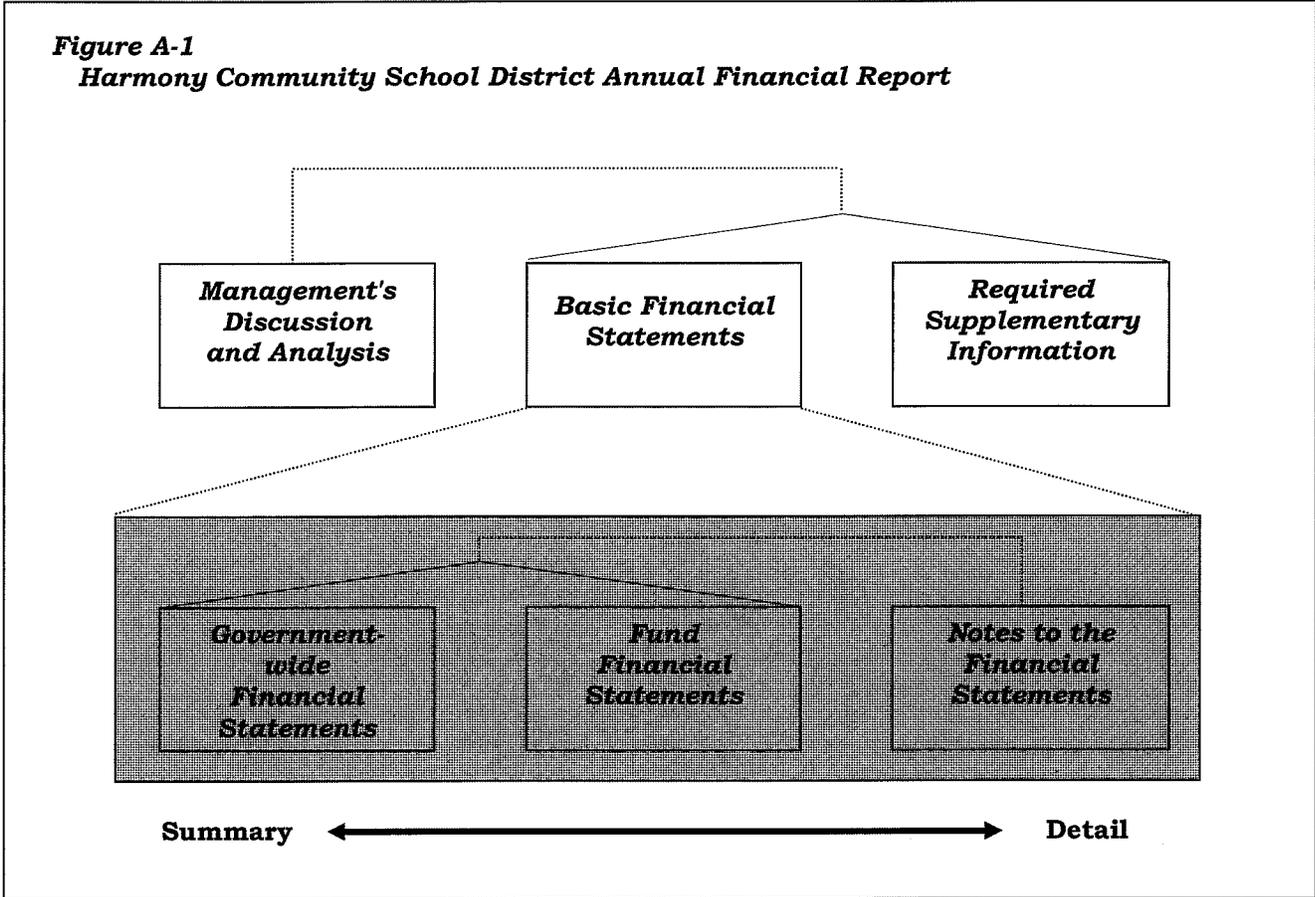


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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, 2005 compared to June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	\$ 3,074,329	3,289,190	14,585	13,442	3,088,914	3,302,632	-6.5%
Capital assets, as restated(Note 12)	5,001,876	5,224,366	8,458	11,294	5,010,334	5,235,660	-4.3%
Total assets	8,076,205	8,513,556	23,043	24,736	8,099,248	8,538,292	-5.1%
Long-term obligations	2,898,149	2,999,253	0	0	2,898,149	2,999,253	-3.4%
Other liabilities	2,796,192	2,670,269	0	0	2,796,192	2,670,269	4.7%
Total liabilities	5,694,341	5,669,522	0	0	5,694,341	5,669,522	0.4%
Net assets:							
Invested in capital assets, net of related debt	2,094,863	2,203,411	8,458	11,294	2,103,321	2,214,705	-5.0%
Restricted	259,960	259,502	0	0	259,960	259,502	0.2%
Unrestricted	27,041	381,121	14,585	13,442	41,626	394,563	-89.5%
Total net assets	\$ 2,381,864	2,844,034	23,043	24,736	2,404,907	2,868,770	-16.2%

The District's combined net assets decreased by \$463,863 or 16.2% over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$458 or 0.18% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day –to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$352,937 or 89.5%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-4
Changes of Net Assets

	Governmental		Business-type		Total		Total Change 2004-05
	Activities		Activities		School District		
	2005	2004	2005	2004	2005	2004	
Revenues:							
Program revenues:							
Charges for services	\$ 289,736	245,157	64,181	72,718	353,917	317,875	11.3%
Operating grants and contributions and restricted interest	434,511	490,961	81,930	84,918	516,441	575,879	-10.3%
Capital grants and contributions and restricted interest	280,261	621,264	0	0	280,261	621,264	-54.9%
General revenues:							
Property tax	1,411,624	1,456,167	0	0	1,411,624	1,456,167	-3.1%
Local option sales and service tax	49,190	29,406	0	0	49,190	29,406	67.3%
Unrestricted state grants	1,753,328	1,793,853	0	0	1,753,328	1,793,853	-2.3%
Other	15,859	13,157	182	108	16,041	13,265	20.9%
Total revenues	4,234,509	4,649,965	146,293	157,744	4,380,802	4,807,709	-8.9%
Program expenses:							
Governmental activities:							
Instructional	2,620,104	2,414,004	0	0	2,620,104	2,414,004	8.5%
Support services	1,279,769	1,220,467	0	0	1,279,769	1,220,467	4.9%
Non-instructional programs	80,108	59,276	147,856	156,981	227,964	216,257	5.4%
Other expenses	716,698	1,440,831	0	0	716,698	1,440,831	-50.3%
Total expenses	4,696,679	5,134,578	147,856	156,981	4,844,535	5,291,559	-8.4%
Net income (loss) before restatement and other financing uses	(462,170)	(484,613)	(1,563)	763	(463,733)	(483,850)	4.2%
Capital asset restatement(Note 12)	0	5,224,366	0	0	0	5,224,366	100.0%
Loss on disposal of assets	0	0	(130)	0	(130)	0	-100.0%
	0	5,224,366	(130)	0	(130)	5,224,366	-100.0%
Change in net assets	(462,170)	4,739,753	(1,693)	763	(463,863)	4,740,516	109.8%
Net assets beginning of year, as restated(Note 12)	2,844,034	(1,895,719)	24,736	23,973	2,868,770	(1,871,746)	253.3%
Net assets end of year	\$ 2,381,864	2,844,034	23,043	24,736	2,404,907	2,868,770	-16.2%

Property tax and unrestricted state grants account for 72% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 81% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,234,509 and expenses were \$4,696,679.

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	\$ 2,620,104	2,032,266
Support services	1,279,769	1,278,517
Non- instructional	80,108	80,108
Other expenses	716,698	301,280
Totals	<u>\$ 4,696,679</u>	<u>3,692,171</u>

- The cost financed by users of the District's programs was \$289,736.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$714,772.
- The net cost of governmental activities was financed with \$1,411,624 in property tax, \$49,190 in local option sales tax, \$1,753,328 in unrestricted state grants, and \$15,859 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$146,293 and expenses were \$147,856. 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 \$143,922 compared to last year's ending fund balances of \$478,969. However, the primary reason for the decrease was the decrease in the fund balance of the General Fund.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. Decrease in funding from state and federal sources during the year resulted in a decrease in revenues. The decrease 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 decreased from \$182,383 to a deficit \$71,599.
- The Capital Projects fund balance increased during the current year, from a deficit balance of \$176,438 to a positive balance of \$152,352. This was a result of a decrease in expenditures.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$24,736 at June 30, 2004 to \$23,043 at June 30, 2005, representing a decrease of approximately 6.8%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$177,368 less than budgeted revenues, a variance of 3.9%. 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$5,010,334, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$259,727.

The original cost of the District's capital assets was \$8,346,018. Governmental funds account for \$8,283,368 with the remainder of \$62,650 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the improvements other than buildings category. This decrease resulted from depreciation during the current year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Land	\$ 57,000	57,000	0	0	57,000	57,000	0.0%
Buildings	4,649,848	4,775,312	0	0	4,649,848	4,775,312	-2.6%
Improvements other than buildings	23,580	31,475	0	0	23,580	31,475	-25.1%
Machinery and equipment	271,448	360,579	8,458	11,294	279,906	371,873	-24.7%
Total	\$ 5,001,876	5,224,366	8,458	11,294	5,010,334	5,235,660	-4.3%

Long-Term Debt

At June 30, 2005, the District had long-term debt outstanding of \$2,898,149 in general obligation bonds, early retirement, and a suburban lease. Even with the addition of the suburban lease, there was still approximately a 3.4% decrease in debt load from the previous year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

At June 30, 2005, the District had total outstanding general obligation bonds payable of \$2,805,000, as well as, early retirement payable of \$66,382, and the remaining balance of \$26,767 for the suburban lease.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
General obligation bonds	\$ 2,805,000	2,920,000	-3.9%
Early retirement	66,382	79,253	-16.2%
Suburban lease	26,767	0	100.0%
Total	\$ 2,898,149	2,999,253	-3.4%

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:

- 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, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 5)	\$ 1,440,532	0	1,440,532
Other	30,028	13,433	43,461
Receivables:			
Property tax:			
Delinquent	37,535	0	37,535
Succeeding year	1,334,911	0	1,334,911
Income surtax	145,517	0	145,517
Accounts	1,847	590	2,437
Accrued ISCAP interest(Note5)	8,679	0	8,679
Due from other governments	75,280	0	75,280
Inventories	0	562	562
Capital assets, net of accumulated depreciation(Note 6)	5,001,876	8,458	5,010,334
TOTAL ASSETS	8,076,205	23,043	8,099,248
LIABILITIES			
Accounts payable	1,918	0	1,918
Interest payable	11,302	0	11,302
ISCAP warrants payable (Note 5)	1,435,000	0	1,435,000
ISCAP accrued interest payable (Note 5)	9,339	0	9,339
ISCAP premiums payable	3,722	0	3,722
Deferred revenue:			
Succeeding year property tax	1,334,911	0	1,334,911
Long-term liabilities (Note 7):			
Portion due within one year:			
General obligation bonds	120,000	0	120,000
Early retirement	12,214	0	12,214
Suburban lease	8,683	0	8,683
Portion due after one year:			
General obligation bonds	2,685,000	0	2,685,000
Early retirement	54,168	0	54,168
Suburban lease	18,084	0	18,084
TOTAL LIABILITIES	5,694,341	0	5,694,341
NET ASSETS			
Investment in capital assets, net of related debt	2,094,863	8,458	2,103,321
Restricted for:			
Talented and gifted	37,027	0	37,027
Teacher quality	5,427	0	5,427
Capital projects	152,352	0	152,352
Other special revenue purposes	65,154	0	65,154
Unrestricted	27,041	14,585	41,626
TOTAL NET ASSETS	\$ 2,381,864	23,043	2,404,907

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

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	\$ 1,759,880	289,736	298,102	0
Special instruction	485,582	0	0	0
Other instruction	374,642	0	0	0
	<u>2,620,104</u>	<u>289,736</u>	<u>298,102</u>	<u>0</u>
Support services:				
Student services	55,240	0	0	0
Instructional staff services	39,800	0	0	0
Administration services	508,674	0	0	0
Operation and maintenance of plant services	374,414	0	0	0
Transportation services	301,641	0	1,252	0
	<u>1,279,769</u>	<u>0</u>	<u>1,252</u>	<u>0</u>
Non-instructional services:				
Food services	80,108	0	0	0
	<u>80,108</u>	<u>0</u>	<u>0</u>	<u>0</u>
Other expenditures:				
Facilities acquisitions	307,755	0	0	280,261
Long-term debt interest	140,427	0	0	0
AEA flowthrough	135,157	0	135,157	0
Depreciation(unallocated)*	133,359	0	0	0
	<u>716,698</u>	<u>0</u>	<u>135,157</u>	<u>280,261</u>
Total governmental activities	4,696,679	289,736	434,511	280,261
Business-Type activities:				
Non-instructional programs:				
Nutrition services	147,856	64,181	81,930	0
Total business-type activities	147,856	64,181	81,930	0
Total	\$ 4,844,535	353,917	516,441	280,261

General Revenues:

Property tax levied for:
General purposes
Debt services
Capital outlay
Local option sales and services
Unrestricted state grants
Unrestricted investment earnings
Total general revenues

Changes in net assets before other financing uses

Other financing uses:

Loss on disposal of assets
Total other financing uses

Change in net assets after other financing uses

Net assets beginning of year, as restated(Note 12)

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,172,042)	0	(1,172,042)
(485,582)	0	(485,582)
(374,642)	0	(374,642)
(2,032,266)	0	(2,032,266)
(55,240)	0	(55,240)
(39,800)	0	(39,800)
(508,674)	0	(508,674)
(374,414)	0	(374,414)
(300,389)	0	(300,389)
(1,278,517)	0	(1,278,517)
(80,108)	0	(80,108)
(27,494)	0	(27,494)
(140,427)	0	(140,427)
0	0	0
(133,359)	0	(133,359)
(301,280)	0	(301,280)
(3,692,171)	0	(3,692,171)
0	(1,745)	(1,745)
0	(1,745)	(1,745)
(3,692,171)	(1,745)	(3,693,916)
\$ 1,092,825	0	1,092,825
253,882	0	253,882
64,917	0	64,917
49,190	0	49,190
1,753,328	0	1,753,328
15,859	182	16,041
3,230,001	182	3,230,183
(462,170)	(1,563)	(463,733)
0	(130)	(130)
0	(130)	(130)
(462,170)	(1,693)	(463,863)
2,844,034	24,736	2,868,770
\$ 2,381,864	23,043	2,404,907

HARMONY COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Capital Projects	Other Governmental Funds	Total
ASSETS				
Cash and pooled investments				
ISCAP(Note 5)	\$ 1,440,532	0	0	1,440,532
Other	(11,171)	64,118	(22,919)	30,028
Receivables:				
Property tax				
Delinquent	20,178	8,028	9,329	37,535
Succeeding year	918,908	0	416,003	1,334,911
Income surtax	145,517	0	0	145,517
Interfund	7,720	86,943	0	94,663
Accounts	1,372	0	475	1,847
ISCAP(Note 5)	8,679	0	0	8,679
Due from other governments	75,280	0	0	75,280
TOTAL ASSETS	\$ 2,607,015	159,089	402,888	3,168,992
LIABILITIES AND FUND BALANCES				
Liabilities:				
Interfund payable	\$ 0	6,737	87,926	94,663
Accounts payable	0	0	1,918	1,918
ISCAP warrants payable(Note 5)	1,435,000	0	0	1,435,000
ISCAP accrued interest payable(Note 5)	9,339	0	0	9,339
ISCAP premiums payable	3,722	0	0	3,722
Deferred revenue:				
Succeeding year property tax	918,908	0	416,003	1,334,911
Income surtax	145,517	0	0	145,517
Total liabilities	2,512,486	6,737	505,847	3,025,070
Fund balances:				
Reserved for:				
Talented and gifted	37,027	0	0	37,027
Teacher quality	5,427	0	0	5,427
Unreserved:				
Undesignated	52,075	152,352	(102,959)	101,468
Total fund balances	94,529	152,352	(102,959)	143,922
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,607,015	159,089	402,888	3,168,992

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Total fund balances of governmental funds (page 16)	\$ 143,922
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	5,001,876
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.	(11,302)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	145,517
Long-term liabilities, including bonds payable, suburban lease payable, and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(2,898,149)</u>
Net assets of governmental activities (page 13)	<u><u>\$ 2,381,864</u></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, 2005

	General	Capital Projects	Other Governmental Funds	Total
REVENUES:				
Local sources:				
Property tax	\$ 1,019,392	0	398,358	1,417,750
LOSST	0	49,190	0	49,190
Tuition	113,193	0	0	113,193
Other	55,210	412	136,780	192,402
State sources	2,038,283	0	488	2,038,771
Federal sources	149,068	280,261	0	429,329
Total revenues	<u>3,375,146</u>	<u>329,863</u>	<u>535,626</u>	<u>4,240,635</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,693,049	0	14,917	1,707,966
Special instruction	485,582	0	0	485,582
Other instruction	254,762	0	123,135	377,897
	<u>2,433,393</u>	<u>0</u>	<u>138,052</u>	<u>2,571,445</u>
Support services:				
Student services	55,240	0	0	55,240
Instructional staff services	39,800	0	0	39,800
Administration services	475,444	0	23,729	499,173
Operation and maintenance of plant services	326,732	0	49,919	376,651
Transportation services	269,156	0	12,148	281,304
	<u>1,166,372</u>	<u>0</u>	<u>85,796</u>	<u>1,252,168</u>
Non-instructional:				
Food service operations	80,108	0	0	80,108
Facilities acquisitions	0	297,060	10,695	307,755
Long-term debt:				
Principal	0	0	115,702	115,702
Interest and fiscal charges	0	0	140,816	140,816
AEA flowthrough	135,157	0	0	135,157
	<u>135,157</u>	<u>297,060</u>	<u>267,213</u>	<u>699,430</u>
Total expenditures	<u>3,815,030</u>	<u>297,060</u>	<u>491,061</u>	<u>4,603,151</u>
Excess (deficiency) of revenues over (under) expenditures	(439,884)	32,803	44,565	(362,516)
Other financing sources (uses):				
Transfer in	0	295,987	832	296,819
Transfer out	(832)	0	(295,987)	(296,819)
Proceeds from loan	27,469	0	0	27,469
Total other financing sources (uses)	<u>26,637</u>	<u>295,987</u>	<u>(295,155)</u>	<u>27,469</u>
Net change in fund balances	(413,247)	328,790	(250,590)	(335,047)
Fund balance beginning of year	507,776	(176,438)	147,631	478,969
Fund balance end of year	<u>\$ 94,529</u>	<u>152,352</u>	<u>(102,959)</u>	<u>143,922</u>

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, 2005

Net change in fund balances - total governmental funds (page 18) \$ (335,047)

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 34,531	
Depreciation expense	<u>(257,021)</u>	(222,490)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the 'Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Issued	\$ (27,469)	
Repaid	<u>115,702</u>	88,233

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. 389

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (6,126)

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		<u>12,871</u>
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Changes in net assets of governmental activities (page 15) \$ (462,170)

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

	School Nutrition
ASSETS	
Cash and cash equivalents	\$ 13,433
Accounts receivable	590
Inventories	562
Capital assets, net of accumulated depreciation	8,458
TOTAL ASSETS	23,043
LIABILITIES	0
NET ASSETS	
Invested in capital assets, net of related debt	8,458
Unrestricted	14,585
TOTAL NET ASSETS	\$ 23,043

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, 2005

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Other local sources:	
Sale of lunches and breakfasts:	
Students	\$ 53,050
Adults	10,457
Miscellaneous	674
TOTAL OPERATING REVENUES	64,181
OPERATING EXPENSES:	
Food service operations:	
Salaries	30,490
Services	2,041
Supplies	112,619
Depreciation	2,706
TOTAL OPERATING EXPENSES	147,856
OPERATING LOSS	(83,675)
NON-OPERATING REVENUES:	
Interest	182
State sources	2,596
Federal sources	79,334
TOTAL NON-OPERATING REVENUES	82,112
Change in net assets before other financing uses	(1,563)
OTHER FINANCING USES:	
Loss on asset disposal	(130)
Change in net assets	(1,693)
Net assets at beginning of year	24,736
Net assets end of year	\$ 23,043

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 63,502
Cash received from miscellaneous operating activities	674
Cash payments to employees for services	(30,490)
Cash payments to suppliers for goods or services	(100,936)
Net cash used in operating activities	(67,250)
Cash flows from non-capital financing activities:	
State grants received	2,596
Federal grants received	66,281
Net cash provided by non-capital financing activities	68,877
Cash flows from investing activities:	
Interest on investments	182
Net cash provided by investing activities	182
Net increase in cash and cash equivalents	1,809
Cash and cash equivalents at beginning of year	11,624
Cash and cash equivalents at end of year	\$ 13,433
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (83,675)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	13,053
Depreciation	2,706
Decrease in inventories	671
Increase in accounts receivables	(5)
Net cash used in operating activities	\$ (67,250)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 13,433
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
During the year ended June 30, 2005, the District received Federal commodities valued at \$13,053.	

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2005

	<u>Private-purpose</u> <u>Trust</u> <u>Scholarship</u>
ASSETS	
Cash and pooled investments	\$ 346,180
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, 2005

	<u>Private-purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
ADDITIONS:	<u>\$ 0</u>
DEDUCTIONS:	<u>0</u>
Change in net assets	0
Net assets beginning of year	<u>346,180</u>
Net assets end of year	<u>\$ 346,180</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(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 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 fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

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

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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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
Land	\$ 1,000
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 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.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2005 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.

(3) **Interfund Receivables and Payables**

The detail of interfund receivables and payables at June 30, 2005 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Projects	Physical Plant and Equipment Levy	\$ 86,943
General	Physical Plant and Equipment Levy	608
General	Capital Projects	6,737
General	Debt Service	<u>375</u>
Total		<u>\$ 94,663</u>

(4) Transfers

The detail of transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Capital Projects	Local Option Sales and Services Tax	\$ 50,000
Capital Projects	Physical Plant and Equipment Levy	295,987
General	Debt Service	832
Total		<u>\$ 346,819</u>

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

(5) 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. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2005 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2004-05A	6/30/2004	6/30/2005	\$ 139	0	0	0
2004-05B	1/28/2005	1/27/2006	627,809	8,505	626,000	9,184
2005-06A	6/28/2005	6/28/2006	812,584	174	809,000	155
Total			<u>\$ 1,440,532</u>	<u>8,679</u>	<u>1,435,000</u>	<u>9,339</u>

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. ISCAP advance activity in the General fund for the year ended June 30, 2005 is as follows:

Series	Balance			Balance End of Year
	Beginning of Year	Advances Received	Advances Repaid	
2004-05A	\$ 0	200,000	200,000	0
Total	\$ 0	200,000	200,000	0

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
	2004-05A	3.000%
2004-05B	3.500%	3.232%
2005-06A	3.500%	3.903%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance			Balance End of Year
	Beginning of Year	Increases	Decreases	
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 57,000	0	0	57,000
Total capital assets not being depreciated	57,000	0	0	57,000
Capital assets being depreciated:				
Buildings	6,475,846	0	0	6,475,846
Land improvements	312,400	0	0	312,400
Machinery and equipment	1,403,591	34,531	0	1,438,122
Total capital assets being depreciated	8,191,837	34,531	0	8,226,368
Less accumulated depreciation for:				
Buildings	1,700,534	125,464	0	1,825,998
Land improvements	280,925	7,895	0	288,820
Machinery and equipment	1,043,012	123,662	0	1,166,674
Total accumulated depreciation	3,024,471	257,021	0	3,281,492
Total capital assets being depreciated, net	5,167,366	(222,490)	0	4,944,876
Governmental activities capital assets, net	\$ 5,224,366	(222,490)	0	5,001,876

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 62,144
Other		1,185
Support services:		
Administration services		9,501
Operation and maintenance of plant services		763
Transportation		50,069
		<u>123,662</u>
Unallocated depreciation		133,359
		<u>257,021</u>
Total governmental activities depreciation expense		\$ 257,021
Business-type activities:		
Food services		<u>2,706</u>

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 2,920,000	0	115,000	2,805,000	120,000
Early retirement	79,253	1,047	13,918	66,382	12,214
Suburban lease	0	27,469	702	26,767	8,683
Total	<u>\$ 2,999,253</u>	<u>28,516</u>	<u>129,620</u>	<u>2,898,149</u>	<u>140,897</u>

Suburban Lease Payable

Details of the District's June 30, 2005 indebtedness from the lease of a new suburban, which is paid from the General Fund, is as follows:

Year Ending June 30,	Interest Rate	Lease dated May 24, 2005		
		Principal	Interest	Total
2006	5.75 %	\$ 8,683	1,298	9,981
2007	5.75	9,190	791	9,981
2008	5.75	8,895	255	9,149
Total		<u>\$ 26,767</u>	<u>2,344</u>	<u>29,112</u>

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, 2005, totaled \$13,918.

General Obligation Bonds Payable

Details of the District's June 30, 2005 General Obligation bonded Debt is as follows:

Year Ending June 30,	Interest Rate	Bond issue March 24, 2003		
		Principal	Interest	Total
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		\$ 2,805,000	1,298,838	4,103,838

(8) 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, 2005, 2004, and 2003 were \$128,724, \$123,914, and \$125,523, respectively, equal to the required contributions for each year.

(9) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members continuing membership in the Association had their deficit recovery assessment included in their annual premium for the 2004-2005 and 2005-2006 plan years. The deficit recovery is equal to 2% of the annual premium. The total amount of the deficit recoveries of current members is estimated to be \$2.2 million. The District's share of this assessment was \$4,798 paid with the 2004-2005 premiums and 2% of the 2005-2006 premium will be paid along with the 2005-2006 premium, an amount that is unknown at this time. Since the program is now fully insured, there will be no additional assessments due to claims exceeding premiums charged to members.

The District's contributions, which include deficit recovery assessments, 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, 2005 were \$239,884.

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 notice may withdraw.

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.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$135,157 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Deficit Fund Balance

The Special Revenue - Management Fund had a deficit fund balance of \$5,803, the Physical Plant and Equipment Levy Fund had a deficit fund balance of \$71,599 and the Debt Service fund had a deficit fund balance of \$90,711 at June 30, 2005.

(12) Restate Capital Assets/Net Assets Beginning Balances

The District did not report capital assets in fiscal 2004. This restatement is to bring capital assets into the governmental funds for fiscal 2005.

The effect of the adjustments to restate the capital assets results in a change to the previously reported governmental activities net assets as follows:

Net assets, June 30, 2004, as previously reported	\$ (2,380,332)
Capital assets net of accumulated depreciation	<u>5,224,366</u>
Net assets, July 1, 2004, as restated for governmental funds	<u><u>\$ 2,844,034</u></u>

REQUIRED SUPPLEMENTARY 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, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 2,005,922	64,358
State sources	2,058,115	2,596
Federal sources	182,494	79,334
Total receipts	<u>4,246,531</u>	<u>146,288</u>
Disbursements:		
Instruction	2,565,321	0
Support services	1,263,387	0
Non-instructional programs	80,108	144,349
Other expenditures	711,227	0
Total disbursements	<u>4,620,043</u>	<u>144,349</u>
Excess(deficiency) of receipts over(under) disbursements	(373,512)	1,939
Other financing sources, net	<u>27,469</u>	<u>(130)</u>
Excess(deficiency) of receipts and other financing sources over(under) disbursements	(346,043)	1,809
Balance beginning of year	<u>376,071</u>	<u>11,624</u>
Balance end of year	<u>\$ 30,028</u>	<u>13,433</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,070,280	1,917,276	1,917,276	153,004
2,060,711	2,067,911	2,067,911	(7,200)
261,828	585,000	585,000	(323,172)
<u>4,392,819</u>	<u>4,570,187</u>	<u>4,570,187</u>	<u>(177,368)</u>
2,565,321	3,237,832	3,237,832	672,511
1,263,387	1,511,006	1,511,006	247,619
224,457	229,774	229,774	5,317
711,227	1,126,134	1,126,134	414,907
<u>4,764,392</u>	<u>6,104,746</u>	<u>6,104,746</u>	<u>1,340,354</u>
(371,573)	(1,534,559)	(1,534,559)	1,162,986
<u>27,339</u>	<u>6,400</u>	<u>6,400</u>	<u>40,139</u>
(344,234)	(1,528,159)	(1,528,159)	1,203,125
<u>387,695</u>	<u>1,300,735</u>	<u>1,300,735</u>	<u>(913,040)</u>
<u>43,461</u>	<u>(227,424)</u>	<u>(227,424)</u>	<u>290,085</u>

HARMONY COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE-
 BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 4,246,531	(6,035)	4,240,496
Expenses	4,620,043	(16,892)	4,603,151
Net	(373,512)	10,857	(362,655)
Other financing sources, net	27,469	0	27,469
Beginning fund balances	376,071	102,898	478,969
Ending fund balances	\$ 30,028	113,755	143,783

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 146,288	5	146,293
Expenses	144,349	3,507	147,856
Net	1,939	(3,502)	(1,563)
Other financing uses, net	(130)	0	(130)
Beginning net assets	11,624	13,112	24,736
Ending net assets	\$ 13,433	9,610	23,043

HARMONY COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private-Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on 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 functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION

HARMONY COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2005

	Special Revenue						
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Special Revenue- Total	Debt Service	Total Nonmajor Governmental Funds
ASSETS							
Cash and pooled investments	\$ (7,642)	57,324	14,331	9,273	73,286	(96,205)	(22,919)
Receivables:							
Property tax:							
Current year delinquent	1,839	0	1,621	0	3,460	5,869	9,329
Succeeding year property tax	90,000	0	70,735	0	160,735	255,268	416,003
Accounts	0	475	0	0	475	0	475
TOTAL ASSETS	\$ 84,197	57,799	86,687	9,273	237,956	164,932	402,888
LIABILITIES AND FUND EQUITY							
Liabilities:							
Interfund payable	\$ 0	0	87,551	0	87,551	375	87,926
Accounts payable	0	1,918	0	0	1,918	0	1,918
Deferred revenue:							
Succeeding year property tax	90,000	0	70,735	0	160,735	255,268	416,003
Total liabilities	90,000	1,918	158,286	0	250,204	255,643	505,847
Fund equity:							
Fund balances:							
Unreserved:							
Undesignated	(5,803)	55,881	(71,599)	9,273	(12,248)	(90,711)	(102,959)
Total fund balances	(5,803)	55,881	(71,599)	9,273	(12,248)	(90,711)	(102,959)
TOTAL LIABILITIES AND FUND EQUITY	\$ 84,197	57,799	86,687	9,273	237,956	164,932	402,888

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, 2005

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Special Revenue- Total	Debt Service	
REVENUES:							
Local sources:							
Local tax	\$ 79,559	0	64,917	0	144,476	253,882	398,358
Other	0	120,343	7,413	8,974	136,730	50	136,780
State sources	96	0	85	0	181	307	488
TOTAL REVENUES	79,655	120,343	72,415	8,974	281,387	254,239	535,626
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	13,917	0	0	1,000	14,917	0	14,917
Other instruction	0	123,135	0	0	123,135	0	123,135
	13,917	123,135	0	1,000	138,052	0	138,052
Support services:							
Administration services	23,729	0	0	0	23,729	0	23,729
Operation and maintenance of plant services	30,204	0	19,715	0	49,919	0	49,919
Transportation services	12,148	0	0	0	12,148	0	12,148
	66,081	0	19,715	0	85,796	0	85,796
Other expenditures:							
Facilities acquisitions	0	0	10,695	0	10,695	0	10,695
Long-term debt:							
Principle	0	0	0	0	0	115,702	115,702
Interest and fiscal charges	0	0	0	0	0	140,816	140,816
TOTAL EXPENDITURES	79,998	123,135	30,410	1,000	234,543	256,518	491,061
Excess (deficiency) of revenues over (under) expenditures	(343)	(2,792)	42,005	7,974	46,844	(2,279)	44,565
Other financing sources(uses):							
Transfer in	0	0	0	0	0	832	832
Transfer out	0	0	(295,987)	0	(295,987)	0	(295,987)
Total other financing sources(uses)	0	0	(295,987)	0	(295,987)	832	(295,155)
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(343)	(2,792)	(253,982)	7,974	(249,143)	(1,447)	(250,590)
Fund balance beginning of year	(5,460)	58,673	182,383	1,299	236,895	(89,264)	147,631
Fund balance end of year	\$ (5,803)	55,881	(71,599)	9,273	(12,248)	(90,711)	(102,959)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND,
 STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Elementary	\$ 7,272	8,183	4,986	10,469
Middle School	11,800	14,054	14,183	11,671
High School	39,601	98,106	103,966	33,741
Total	\$ 58,673	120,343	123,135	55,881

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 PRIVATE-PURPOSE TRUST FUND, SCHOLARSHIP ACCOUNTS
 JUNE 30, 2005

	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, 2005

	Millican Educational Memorial Fund	Reifior Scholarship Fund	Total
REVENUES	\$ 0	0	0
EXPENDITURES	0	0	0
Excess of revenues over expenditures	0	0	0
Balance beginning of year	82,768	263,412	346,180
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,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 1,466,940	1,490,203	1,587,006	1,080,027
Tuition	113,193	89,798	94,489	90,042
Other	192,263	168,316	255,660	200,615
State sources	2,038,771	2,103,017	2,147,702	2,207,751
Federal sources	429,329	803,061	229,326	450,988
Total	\$ 4,240,496	4,654,395	4,314,183	4,029,423
Expenditures:				
Instruction:				
Regular instruction	\$ 1,707,966	1,621,297	1,482,309	1,326,362
Special instruction	485,582	441,702	434,404	459,971
Other instruction	377,897	364,298	440,960	358,639
Support services:				
Student services	55,240	57,131	63,441	51,063
Instructional staff services	39,800	90,565	65,430	77,875
Administration services	499,173	474,511	472,321	474,461
Operation and maintenance of plant services	376,651	315,636	409,375	295,953
Transportation services	281,304	282,624	209,802	225,999
Central services	0	0	10,523	0
Non-instructional	80,108	59,276	51,128	48,231
Other expenditures:				
Facilities acquisitions	307,755	1,156,803	1,006,731	2,144,588
Long Term Debt:				
Principal	115,702	110,000	105,000	0
Interest	140,816	145,674	150,530	138,086
AEA flow-through	135,157	138,777	149,830	152,124
Total	\$ 4,603,151	5,258,294	5,051,784	5,753,352

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2005

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURE
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 05	\$ 13,053
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 05	14,910
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 05	51,371
			<u>66,281</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	2834-G	94,684
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 04	22,668
FUND FOR THE IMPROVEMENT OF EDUCATION	84.215	FY 02	25,000
FUND FOR THE IMPROVEMENT OF EDUCATION	84.215	FY 03	32,000
FUND FOR THE IMPROVEMENT OF EDUCATION	84.215	FY 03	223,261
			<u>280,261</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 05	2,309
RURAL EDUCATION ACHEIVEMENT PROGRAM	84.358	FY 04	24,512
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES			
	84.048	FY 04	1,050
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES			
	84.048	FY 05	6,239
			<u>7,289</u>
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 05	23,080
TOTAL			<u>\$ 534,137</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 Internal Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Harmony Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated July 26, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harmony Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable 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-05 is a material weakness.

Compliance and Other Matters

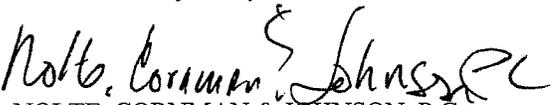
As part of obtaining reasonable assurance about whether Harmony Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not

express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 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.

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, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

July 26, 2005

NOLTE, CORNMAN & JOHNSON P.C.

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Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

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, 2005. 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 grant agreements 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, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether 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, 2005.

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

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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 federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-05 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable 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 grant agreements caused by error or fraud 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-05 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.

July 26, 2005

HARMONY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (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, 2005

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

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-05 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-05 Grants - We noted during our audit, that when expenditures for REAP, Drug Free, and Title V 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-05 Authorized Check Signatures - We noted during our audit that checks were written from the Physical Plant and Equipment Levy that had one signature.

Recommendation - The Board President and Board Secretary are required to sign all checks written by the District in compliance with Chapter 291.1 of the Code of Iowa. The Board President may, however, designate an individual other than him or herself to sign checks on their behalf.

Response - It was merely a mistake these two checks only had one signature. We will watch this more closely in the future.

Conclusion - Response accepted.

II-D-05 Transfers - We noted during our audit that the District has interfund payables and receivables which were on the balance sheets in the prior year and still on the current year balance sheets.

Recommendation - The District should repay the interfund loans. Money borrowed on a short term basis from a fund should be repaid before the year end.

Response – We will make these transactions in a timely manner before the end of the year.

Conclusion – Response accepted.

II-E-05 Supporting Documents for Payments with Credit Cards - Payments made with credit cards do not always have detailed supporting documentation.

Recommendation - The District has a policy in place for credit card usage as part of the Expense Reimbursement policy. The users of the credit cards need to provide detailed receipts for purchases made. The District should review procedures in place to ensure the proper detailed documentation will be available with paid credit card statements.

Response – We will get documentation for all credit card transactions.

Conclusion – Response accepted.

HARMONY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

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: 2005
U.S. Department of Education
Passed Through the Iowa Department of Education

III-A-05 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, 2005

Part IV: Other Findings Related to Statutory Reporting

IV-A-05 Official Depositories - A resolution naming official depositories has been approved by the Board. Although the maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005, we noted that Pilot Grove Savings Bank and First Federal Savings Bank had no official depository limits set by the school board.

Recommendation - The District's board should set depository limits for these banks.

Response - We will see that the school board sets depository limits on all accounts held by the school.

Conclusion - Response accepted.

IV-B-05 Certified Budget - District disbursements for the year ended June 30, 2005, did not exceed budgeted amounts.

IV-C-05 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-05 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-05 Business Transactions - Business transactions between the District and District employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Teresa Losey, Teacher	Middle School Mowing	\$650

In accordance with the Attorney General's opinion dated July 2, 1990, the above transaction with Ms. Losey does not appear to represent a conflict of interest.

IV-F-05 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-05 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-05 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-I-05 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-05 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-05 Financial Condition - The District had deficit unreserved fund balances of \$71,599 in the Physical Plant and Equipment Levy fund, \$5,803 in the Management fund and \$90,711 in the Debt Service fund.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficits.

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

Conclusion - Response accepted.