

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

JUNE 30, 2006

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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NEWS RELEASE

Nolte, Cornman & Johnson P.C. today released an audit report on the Harmony Community School District in Bonaparte, Iowa.

The District's revenues totaled \$4,884,088 for the year ended June 30, 2006, a 11.5% increase from the prior year. Revenues included \$1,755,786 in local tax, charges for services of \$397,062, operating grants, contributions and restricted interest of \$543,470, capital grants, contributions and restricted interest of \$349,333, unrestricted state grants of \$1,716,911, unrestricted interest of \$68,419 and other general revenues of \$53,107.

Expenses for District operations totaled \$4,930,231, a 1.8% increased from the prior year. Expenses included \$1,695,423 for regular instruction, \$536,209 for other instruction and \$526,974 for administration services.

A copy of the audit report is available for review in the District Secretary's office, the Office of the Auditor of State, and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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Harmony Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 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
Board of Education (After September 2005 Election)		
Burton Mills	President	2006
Dennis Grossman	Vice President	2006
Karen Schlicher	Board Member	2007
David Hellwig	Board Member	2008
Pam Neeley	Board Member	2008
School Officials		
Kelley Rogers	Superintendent	2006
Karen Ruppert	District Secretary	2006
Iris Kerr	District Treasurer	2006
Crystal Cronk	Attorney	2006

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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, 2006, 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, 2006, 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 October 4, 2006 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 36 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of

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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, 2005 (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 years ended June 30, 2003 and June 30, 2005. 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.

October 4, 2006

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, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,375,146 in fiscal 2005 to \$3,490,690 in fiscal 2006, while General Fund expenditures increased from \$3,815,030 in fiscal 2005 to \$3,854,928 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$94,529 in fiscal 2005 to a deficit balance of \$340,235 in fiscal 2006.
- The increase in General Fund revenues was attributable to an increase in local tax and other local sources revenues in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. The expenditures were greater than the revenues, resulting in the decrease in the District's General Fund.

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. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

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

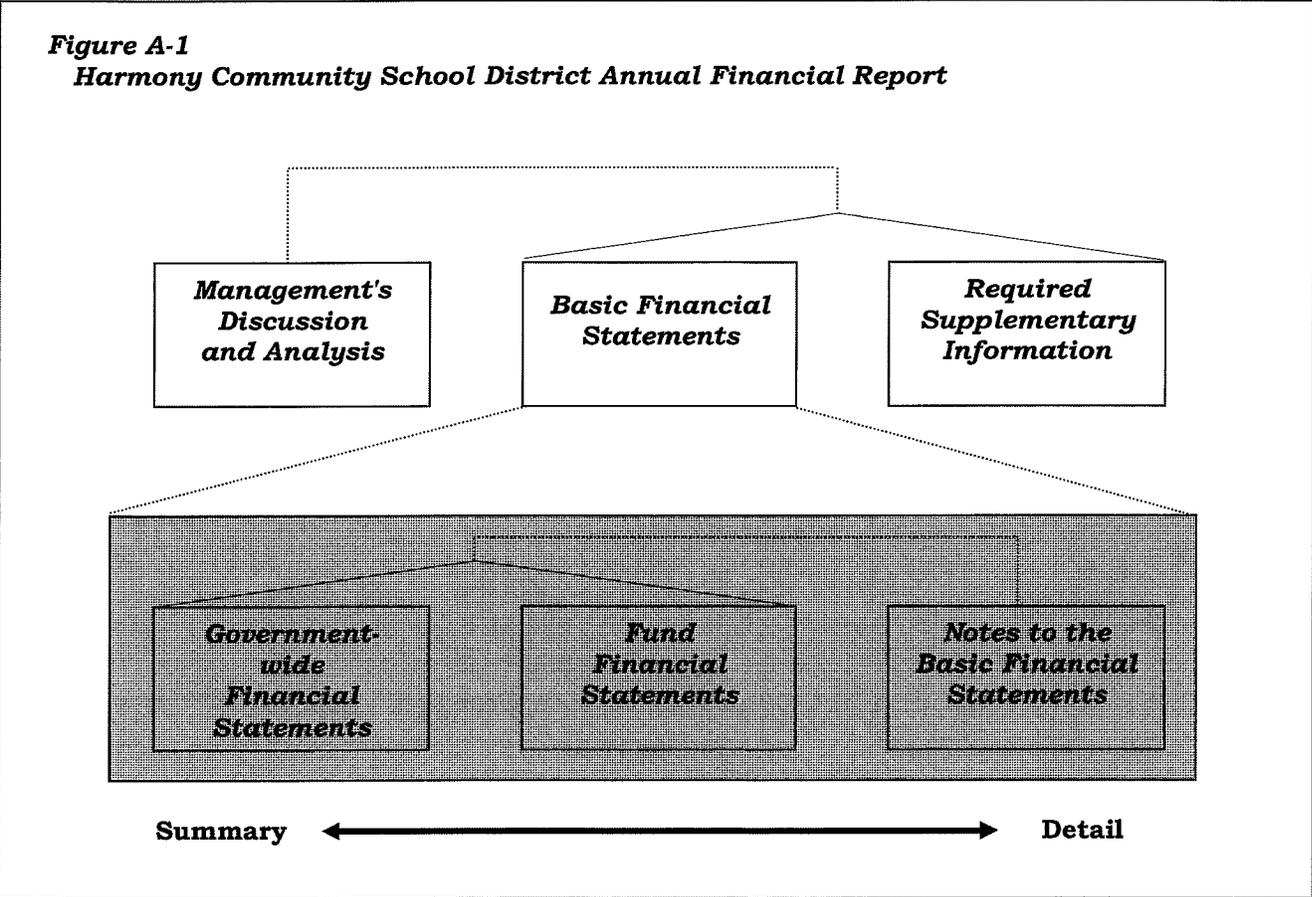


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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 at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 3,230,261	3,074,329	15,635	14,585	3,245,896	3,088,914	5.1%
Capital assets	5,091,969	5,001,876	6,446	8,458	5,098,415	5,010,334	1.8%
Total assets	8,322,230	8,076,205	22,081	23,043	8,344,311	8,099,248	3.0%
Long-term obligations	2,757,252	2,898,149	0	0	2,757,252	2,898,149	-4.9%
Other liabilities	3,228,295	2,796,192	0	0	3,228,295	2,796,192	15.5%
Total liabilities	5,985,547	5,694,341	0	0	5,985,547	5,694,341	5.1%
Net assets:							
Invested in capital assets, net of related debt	2,396,184	2,094,863	6,446	8,458	2,402,630	2,103,321	14.2%
Restricted	437,382	259,960	0	0	437,382	259,960	68.2%
Unrestricted	(496,883)	27,041	15,635	14,585	(481,248)	41,626	-1256.1%
Total net assets	\$ 2,336,683	2,381,864	22,081	23,043	2,358,764	2,404,907	-1.9%

The District's combined net assets decreased by \$46,143 or 1.9% 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 \$177,422 or 68.2% over the prior year. This increase is due primarily to the increase in local option sales and services tax received in the Capital Project Fund.

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 \$522,874 or 1256.1%. This decrease is primarily due to the decrease in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues and transfers:							
Program revenues:							
Charges for services	\$ 329,343	289,736	67,719	64,181	397,062	353,917	12.2%
Operating grants and contributions and restricted interest	457,874	434,511	85,596	81,930	543,470	516,441	5.2%
Capital grants and contributions and restricted interest	349,333	280,261	0	0	349,333	280,261	24.6%
General revenues:							
Property tax	1,485,613	1,411,624	0	0	1,485,613	1,411,624	5.2%
Local option sales and service tax	270,173	49,190	0	0	270,173	49,190	449.2%
Unrestricted state grants	1,716,911	1,753,328	0	0	1,716,911	1,753,328	-2.1%
Other	121,342	15,859	184	182	121,526	16,041	657.6%
Transfers	(60,545)	0	60,545	0	0	0	0.0%
Total revenues and transfers	4,670,044	4,234,509	214,044	146,293	4,884,088	4,380,802	11.5%
Program expenses:							
Governmental activities:							
Instructional	2,705,657	2,620,104	0	0	2,705,657	2,620,104	3.3%
Support services	1,365,816	1,279,769	0	0	1,365,816	1,279,769	6.7%
Non-instructional programs	0	80,108	215,006	147,986	215,006	228,094	-5.7%
Other expenses	643,752	716,698	0	0	643,752	716,698	-10.2%
Total expenses	4,715,225	4,696,679	215,006	147,986	4,930,231	4,844,665	1.8%
Change in net assets	(45,181)	(462,170)	(962)	(1,693)	(46,143)	(463,863)	90.1%
Net assets beginning of year	2,381,864	2,844,034	23,043	24,736	2,404,907	2,868,770	16.2%
Net assets end of year	\$ 2,336,683	2,381,864	22,081	23,043	2,358,764	2,404,907	-1.9%

In fiscal 2006, property tax, local option sales and services tax and unrestricted state grants account for 71.10% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.98% of the revenue from business-type activities.

The District's total revenues net transfers were \$4,884,088 of which \$4,670,044 was for governmental activities and \$214,044 was for business-type activities.

As shown in Figure A-4, the District as a whole experienced a 11.5% increase in revenues and a 8.2% increase in expenses. Property tax increased by \$73,989 to fund increases in expenditures. The increases in expenses were related to increases in negotiated salary and benefits.

Governmental Activities

Revenues and transfers for governmental activities were \$4,670,044 and expenses were \$4,715,225.

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		
	2006	2005	Change	2006	2005	Change
			2005-06			2005-06
Instruction	\$ 2,705,657	2,620,104	3.27%	2,052,347	2,032,266	0.99%
Support services	1,365,816	1,279,769	6.72%	1,365,816	1,278,517	6.83%
Non- instructional programs	0	80,108	-100.00%	0	80,108	-100.00%
Other expenses	643,752	716,698	-10.18%	160,512	301,280	-46.72%
Totals	\$ 4,715,225	4,696,679	0.39%	3,578,675	3,692,171	-3.07%

- The cost financed by users of the District's programs was \$329,343.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$807,207.
- The net cost of governmental activities was financed with \$1,485,613 in property tax, \$270,173 in local option sales tax, \$1,716,911 in unrestricted state grants, \$68,419 in interest income and \$53,107 in other general revenues.

Business-Type Activities

Revenues and transfers of the District's business-type activities were \$214,044 and expenses were \$215,006. 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 a deficit balance of \$131,841 compared to last year's ending fund balances of \$143,922. 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. Increases in funding from local tax, tuition and other local sources during the year resulted in an increase in revenues. The General Fund expenditures were more than the revenues received ensuring the decrease in the financial position of the District.
- The Capital Projects fund balance increased during the current year, from \$152,352 to a balance of \$292,861. This was a result of the increase in local option sales and services tax revenues.

Proprietary Fund Highlights

- The School Nutrition Fund net assets decreased from \$23,043 at June 30, 2005 to \$22,081 at June 30, 2006, representing a decrease of 4.2%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$595,793 more than budgeted revenues, a variance of 13.9%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction and support services functions due to increased expenditures without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$5,098,415, 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 \$239,768.

The original cost of the District's capital assets was \$8,612,339. Governmental funds account for \$8,552,726 with the remainder of \$59,613 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings category. This increase resulted from the capitalization of bleachers and mechanical building improvements made during the current year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 57,000	57,000	0	0	57,000	57,000	0.0%
Buildings	4,842,824	4,649,848	0	0	4,842,824	4,649,848	4.2%
Land improvements	21,860	23,580	0	0	21,860	23,580	-7.3%
Machinery and equipment	170,285	271,448	6,446	8,458	176,731	279,906	-36.9%
Total	\$ 5,091,969	5,001,876	6,446	8,458	5,098,415	5,010,334	1.8%

Long-Term Debt

At June 30, 2006, the District had long-term debt outstanding of \$2,757,252 in general obligation bonds and other long-term debt outstanding. This represents a 4.9% decrease 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.

The District had outstanding general obligation bonds payable of \$2,685,000 at June 30, 2006.

The District had an outstanding suburban lease payable from the General Fund of \$18,084 at June 30, 2006.

The District had outstanding early retirement payable from the Special Revenue, Management Fund of \$54,168 at June 30, 2006.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2005	
General obligation bonds	\$ 2,685,000	2,805,000	-4.3%
Suburban lease	18,084	26,767	-32.4%
Early retirement	54,168	66,382	-18.4%
Total	\$ 2,757,252	2,898,149	-4.9%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- 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, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP (Note 5)	\$ 1,501,136	0	1,501,136
Other	115,266	13,651	128,917
Receivables:			
Property tax:			
Delinquent	36,291	0	36,291
Succeeding year	1,302,601	0	1,302,601
Income surtax	144,635	0	144,635
Accounts	1,425	977	2,402
Accrued ISCAP interest (Note 5)	13,682	0	13,682
Due from other governments	115,225	0	115,225
Inventories	0	1,007	1,007
Capital assets, net of accumulated depreciation (Note 6)	5,091,969	6,446	5,098,415
TOTAL ASSETS	8,322,230	22,081	8,344,311
LIABILITIES			
Excess of warrants issued over bank balance	380,012	0	380,012
Accounts payable	8,101	0	8,101
Interest payable	10,828	0	10,828
ISCAP warrants payable (Note 5)	1,500,000	0	1,500,000
ISCAP accrued interest payable (Note 5)	11,848	0	11,848
ISCAP premiums payable	10,514	0	10,514
Deferred revenue:			
Succeeding year property tax	1,302,601	0	1,302,601
Other	4,391	0	4,391
Long-term liabilities (Note 7):			
Portion due within one year:			
General obligation bonds payable	125,000	0	125,000
Early retirement payable	9,624	0	9,624
Suburban lease payable	9,190	0	9,190
Portion due after one year:			
General obligation bonds payable	2,560,000	0	2,560,000
Early retirement payable	44,544	0	44,544
Suburban lease payable	8,894	0	8,894
TOTAL LIABILITIES	5,985,547	0	5,985,547
NET ASSETS			
Investment in capital assets, net of related debt	2,396,184	6,446	2,402,630
Restricted for:			
Talented and gifted	63,714	0	63,714
Salary improvement program	1,528	0	1,528
Additional teacher contract day	27	0	27
Additional salary, professional development	6,647	0	6,647
Capital projects	292,861	0	292,861
Other special revenue purposes	72,605	0	72,605
Unrestricted	(496,883)	15,635	(481,248)
TOTAL NET ASSETS	\$ 2,336,683	22,081	2,358,764

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Operating Grants, Capital Grants, Contributions		Governmental Activities	Business-Type Activities	Total	
Charges for Services		and Restricted Interest	and Restricted Interest				
Functions/Programs							
Governmental activities:							
Instruction:							
Regular instruction	\$ 1,695,423	139,106	300,800	0	(1,255,517)	0	(1,255,517)
Special instruction	474,025	0	23,167	0	(450,858)	0	(450,858)
Other instruction	536,209	190,237	0	0	(345,972)	0	(345,972)
	<u>2,705,657</u>	<u>329,343</u>	<u>323,967</u>	<u>0</u>	<u>(2,052,347)</u>	<u>0</u>	<u>(2,052,347)</u>
Support services:							
Student services	60,444	0	0	0	(60,444)	0	(60,444)
Instructional staff services	115,268	0	0	0	(115,268)	0	(115,268)
Administration services	526,974	0	0	0	(526,974)	0	(526,974)
Operation and maintenance of plant services	352,742	0	0	0	(352,742)	0	(352,742)
Transportation services	310,388	0	0	0	(310,388)	0	(310,388)
	<u>1,365,816</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,365,816)</u>	<u>0</u>	<u>(1,365,816)</u>
Other expenditures:							
Facilities acquisitions	232,759	0	0	349,333	116,574	0	116,574
Long-term debt interest	136,191	0	0	0	(136,191)	0	(136,191)
AEA flowthrough	133,907	0	133,907	0	0	0	0
Depreciation(unallocated)*	140,895	0	0	0	(140,895)	0	(140,895)
	<u>643,752</u>	<u>0</u>	<u>133,907</u>	<u>349,333</u>	<u>(160,512)</u>	<u>0</u>	<u>(160,512)</u>
Total governmental activities	4,715,225	329,343	457,874	349,333	(3,578,675)	0	(3,578,675)
Business-Type activities:							
Non-instructional programs:							
Nutrition services	215,006	67,719	85,596	0	0	(61,691)	(61,691)
Total business-type activities	<u>215,006</u>	<u>67,719</u>	<u>85,596</u>	<u>0</u>	<u>0</u>	<u>(61,691)</u>	<u>(61,691)</u>
Total	\$ 4,930,231	397,062	543,470	349,333	(3,578,675)	(61,691)	(3,640,366)
General Revenues and Transfers:							
General revenues:							
Property tax levied for:							
General purposes				\$ 1,160,010	0		1,160,010
Debt services				254,954	0		254,954
Capital outlay				70,649	0		70,649
Local option sales and services				270,173	0		270,173
Unrestricted state grants				1,716,911	0		1,716,911
Unrestricted investment earnings				68,235	184		68,419
Other general revenues				53,107	0		53,107
Transfers				(60,545)	60,545		0
Total general revenues and transfers				<u>3,533,494</u>	<u>60,729</u>		<u>3,594,223</u>
Changes in net assets				(45,181)	(962)		(46,143)
Net assets beginning of year				<u>2,381,864</u>	<u>23,043</u>		<u>2,404,907</u>
Net assets end of year				\$ <u>2,336,683</u>	<u>22,081</u>		<u>2,358,764</u>

* This amount excludes the depreciation that is included in the direct expense of various programs.
SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments:				
ISCAP(Note 5)	\$ 1,501,136	0	0	1,501,136
Other	0	86,394	28,872	115,266
Receivables:				
Property tax				
Delinquent	24,970	0	11,321	36,291
Succeeding year	1,019,277	0	283,324	1,302,601
Income surtax	144,635	0	0	144,635
Interfund	7,720	141,414	18,000	167,134
Accounts	771	0	654	1,425
Accrued ISCAP interest(Note 5)	13,682	0	0	13,682
Due from other governments	43,435	71,790	0	115,225
TOTAL ASSETS	\$ 2,755,626	299,598	342,171	3,397,395
LIABILITIES AND FUND BALANCES				
Liabilities:				
Excess of warrants issued over bank balance	\$ 380,012	0	0	380,012
Interfund payable	18,000	6,737	142,397	167,134
Accounts payable	7,184	0	917	8,101
ISCAP warrants payable(Note 5)	1,500,000	0	0	1,500,000
ISCAP accrued interest payable(Note 5)	11,848	0	0	11,848
ISCAP premiums payable	10,514	0	0	10,514
Deferred revenue:				
Succeeding year property tax	1,019,277	0	283,324	1,302,601
Income surtax	144,635	0	0	144,635
Other	4,391	0	0	4,391
Total liabilities	<u>3,095,861</u>	<u>6,737</u>	<u>426,638</u>	<u>3,529,236</u>
Fund balances:				
Reserved for:				
Talented and gifted	63,714	0	0	63,714
Salary improvement program	1,528	0	0	1,528
Additional teacher contract day	27	0	0	27
Additional salary, professional development	6,647	0	0	6,647
Unreserved:				
Undesignated	(412,151)	292,861	(84,467)	(203,757)
Total fund balances	<u>(340,235)</u>	<u>292,861</u>	<u>(84,467)</u>	<u>(131,841)</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,755,626	299,598	342,171	3,397,395

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2006

Total fund balances of governmental funds (page 15)	\$ (131,841)
 <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.	5,091,969
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.	(10,828)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	144,635
Long-term liabilities, including bonds payable, suburban lease payable and early retirement payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(2,757,252)</u>
Net assets of governmental activites (page 13)	<u><u>\$ 2,336,683</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,071,005	270,173	415,490	1,756,668
Tuition	132,135	0	0	132,135
Other	112,765	100,000	205,785	418,550
State sources	2,031,504	0	0	2,031,504
Federal sources	143,281	249,333	0	392,614
Total revenues	<u>3,490,690</u>	<u>619,506</u>	<u>621,275</u>	<u>4,731,471</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,625,998	0	16,214	1,642,212
Special instruction	474,025	0	0	474,025
Other instruction	357,897	0	182,752	540,649
	<u>2,457,920</u>	<u>0</u>	<u>198,966</u>	<u>2,656,886</u>
Support services:				
Student services	60,444	0	0	60,444
Instructional staff services	115,268	0	0	115,268
Administration services	518,146	0	336	518,482
Operation and maintenance of plant services	303,242	0	49,500	352,742
Transportation services	266,001	0	14,852	280,853
	<u>1,263,101</u>	<u>0</u>	<u>64,688</u>	<u>1,327,789</u>
Other expenditures:				
Facilities acquisitions	0	533,468	29,291	562,759
Long-term debt:				
Principal	0	0	128,683	128,683
Interest and fiscal charges	0	0	136,665	136,665
AEA flowthrough	133,907	0	0	133,907
	<u>133,907</u>	<u>533,468</u>	<u>294,639</u>	<u>962,014</u>
Total expenditures	<u>3,854,928</u>	<u>533,468</u>	<u>558,293</u>	<u>4,946,689</u>
Excess(deficiency) of revenues over(under) expenditures	(364,238)	86,038	62,982	(215,218)
Other financing sources(uses):				
Transfer in	0	54,471	9,981	64,452
Transfer out	(70,526)	0	(54,471)	(124,997)
Total other financing sources(uses)	<u>(70,526)</u>	<u>54,471</u>	<u>(44,490)</u>	<u>(60,545)</u>
Net change in fund balances	(434,764)	140,509	18,492	(275,763)
Fund balance beginning of year	94,529	152,352	(102,959)	143,922
Fund balance end of year	<u>\$ (340,235)</u>	<u>292,861</u>	<u>(84,467)</u>	<u>(131,841)</u>

SEE NOTES TO BASIC 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, 2006

Net change in fund balances - total governmental funds (page 17) \$ (275,763)

*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 exceeded depreciation expense and loss on disposal of capital assets in the year are as follows:

Capital outlays	\$ 330,000	
Depreciation expense	(237,756)	
Loss on disposal of capital assets	<u>(2,151)</u>	90,093

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 128,683

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. 474

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (882)

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>12,214</u>
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Changes in net assets of governmental activities (page 14) \$ (45,181)

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	<u>School</u> <u>Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 13,651
Accounts receivable	977
Inventories	1,007
Capital assets, net of accumulated depreciation (Note 6)	6,446
TOTAL ASSETS	<u>22,081</u>
LIABILITIES	<u>0</u>
NET ASSETS	
Investment in capital assets, net of related debt	6,446
Unrestricted	15,635
TOTAL NET ASSETS	<u>\$ 22,081</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2006

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for service	\$ 67,719
TOTAL OPERATING REVENUES	67,719
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	86,442
Benefits	12,443
Services	1,575
Supplies	112,534
Depreciation	2,012
TOTAL OPERATING EXPENSES	215,006
OPERATING LOSS	(147,287)
NON-OPERATING REVENUES:	
Interest income	184
State sources	2,647
Federal sources	82,949
TOTAL NON-OPERATING REVENUES	85,780
Change in net assets before other financing sources	(61,507)
OTHER FINANCING SOURCES:	
Transfer in	60,545
Change in net assets	(962)
Net assets at beginning of year	23,043
Net assets end of year	\$ 22,081

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 67,332
Cash payments to employees for services	(98,885)
Cash payments to suppliers for goods or services	(101,620)
Net cash used in operating activities	(133,173)
Cash flows from non-capital financing activities:	
Transfer in from the General Fund	60,545
State grants received	2,647
Federal grants received	70,015
Net cash provided by non-capital financing activities	133,207
Cash flows from investing activities:	
Interest on investments	184
Net cash provided by investing activities	184
Net increase in cash and cash equivalents	218
Cash and cash equivalents at beginning of year	13,433
Cash and cash equivalents at end of year	\$ 13,651
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (147,287)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	12,934
Depreciation	2,012
Increase in inventories	(445)
Increase in accounts receivables	(387)
Net cash used in operating activities	\$ (133,173)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 13,651

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$12,934.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2006

	<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 NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2006

	<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 NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

(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, 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:

Investment 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 reports the following major proprietary fund:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

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.

Unearned Revenue - Unearned revenues are monies collected for student fees and lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the balance sheet in the Enterprise, School Nutrition Fund.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the instruction and support services functions exceeded the amounts budgeted.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The District had no investments at June 30, 2006.

(3) Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue, Physical Plant and Equipment Levy	General	\$ 18,000
General	Special Revenue, Physical Plant and Equipment Levy	608
Capital Projects	Special Revenue, Physical Plant and Equipment Levy	141,414
General	Capital Projects	6,737
General	Debt Service	375
Total		<u>\$ 167,134</u>

(4) Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Capital Projects	Special Revenue, Physical Plant and Equipment Levy	\$ 54,471
School Nutrition	General	60,545
Debt Service	General	9,981
Total		<u>\$ 124,997</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, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06B	1/26/2006	1/26/2007	\$ 662,303	13,421	660,000	11,634
2006-07A	6/28/2006	6/28/2007	838,833	261	840,000	214
Total			\$ 1,501,136	13,682	1,500,000	11,848

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, 2006 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2005-06A	\$ 0	350,000	350,000	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
2005-06A	4.000%	3.900%
2005-06B	4.500%	4.772%
2006-07A	4.500%	5.676%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 62,650	0	3,037	59,613
Less accumulated depreciation	54,192	2,012	3,037	53,167
Business-type activities capital assets, net	\$ 8,458	(2,012)	0	6,446

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
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	330,000	0	6,805,846
Land improvements	312,400	0	0	312,400
Machinery and equipment	1,438,122	0	60,642	1,377,480
Total capital assets being depreciated	8,226,368	330,000	60,642	8,495,726
Less accumulated depreciation for:				
Buildings	1,825,998	137,024	0	1,963,022
Land improvements	288,820	1,720	0	290,540
Machinery and equipment	1,166,674	99,012	58,491	1,207,195
Total accumulated depreciation	3,281,492	237,756	58,491	3,460,757
Total capital assets being depreciated, net	4,944,876	92,244	2,151	5,034,969
Governmental activities capital assets, net	\$ 5,001,876	92,244	2,151	5,091,969

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 60,985
Support services:		
Administration services		8,492
Transportation		29,535
		99,012
Unallocated depreciation		138,744
Total governmental activities depreciation expense		\$ 237,756
Business-type activities:		
Food services		\$ 2,012

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 2,805,000	0	120,000	2,685,000	125,000
Suburban lease	26,767	0	8,683	18,084	9,190
Early retirement	66,382	0	12,214	54,168	9,624
Total	\$ 2,898,149	0	140,897	2,757,252	143,814

General Obligation Bonds Payable

Details of the District's June 30, 2006 General Obligation bonded debt is as follows:

Year	Bond issue March 24, 2003				
Ending June 30,	Interest Rate	Principal	Interest	Total	
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		\$ 2,685,000	1,163,870	3,848,870	

Suburban Lease Payable

Details of the District's June 30, 2006 indebtedness from the lease of a new suburban, which is paid from the General Fund, is as follows:

Year	Lease dated May 24, 2005				
Ending June 30,	Interest Rate	Principal	Interest	Total	
2007	5.75 %	\$ 9,190	791	9,981	
2008	5.75	8,895	255	9,149	
Total		\$ 18,084	1,046	19,130	

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, 2006, totaled \$12,214.

(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 covered payroll for the year ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$134,543, \$128,724 and \$123,914, 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.

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, 2006 were \$223,755.

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 \$133,907 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Deficit Fund Balance/Net Assets

The Special Revenue, Physical Plant and Equipment Levy Fund had a deficit fund balance of \$73,130 at June 30, 2006. The Debt Service Fund had a deficit fund balance of \$91,124 at June 30, 2006. The General Fund had a deficit unreserved undesignated fund balance of \$412,151. The District also had a deficit unrestricted net assets in the governmental activities of \$496,883.

(12) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditures in the instruction and support services functions exceeded the amounts budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

HARMONY COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2006

	Governmental		Proprietary	Budgeted Amounts		Final to
	Fund Types		Fund Type	Total		Actual
	Actual	Actual	Actual	Original	Final	Variance - Positive (Negative)
Revenues:						
Local sources	\$ 2,307,353	67,903	2,375,256	1,695,692	1,695,692	679,564
State sources	2,031,504	2,647	2,034,151	2,074,485	2,074,485	(40,334)
Federal sources	392,614	82,949	475,563	519,000	519,000	(43,437)
Total revenues	<u>4,731,471</u>	<u>153,499</u>	<u>4,884,970</u>	<u>4,289,177</u>	<u>4,289,177</u>	<u>595,793</u>
Expenditures:						
Instruction	2,656,886	0	2,656,886	2,516,661	2,516,661	(140,225)
Support services	1,327,789	0	1,327,789	1,172,820	1,172,820	(154,969)
Non-instructional programs	0	215,006	215,006	234,224	234,224	19,218
Other expenditures	962,014	0	962,014	1,110,584	1,110,584	148,570
Total expenditures	<u>4,946,689</u>	<u>215,006</u>	<u>5,161,695</u>	<u>5,034,289</u>	<u>5,034,289</u>	<u>(127,406)</u>
Deficiency of revenues under expenditures	(215,218)	(61,507)	(276,725)	(745,112)	(745,112)	468,387
Other financing sources(uses), net	(60,545)	60,545	0	0	0	0
Deficiency of revenues and other financing sources under expenditures and other financing uses	(275,763)	(962)	(276,725)	(745,112)	(745,112)	468,387
Balance beginning of year	143,922	23,043	166,965	1,062,293	1,062,293	(895,328)
Balance end of year	<u>\$ (131,841)</u>	<u>22,081</u>	<u>(109,760)</u>	<u>317,181</u>	<u>317,181</u>	<u>(426,941)</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison 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 GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. 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 that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures in the instruction and support services functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

HARMONY COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2006

	Nonmajor Special Revenue Funds						Total
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
ASSETS							
Cash and pooled investments	\$ 4,733	60,085	48,895	12,855	126,568	(97,696)	28,872
Receivables:							
Property tax:							
Current year delinquent	2,449	0	1,925	0	4,374	6,947	11,321
Succeeding year property tax	85,000	0	68,906	0	153,906	129,418	283,324
Interfund	0	0	18,000	0	18,000	0	18,000
Accounts	0	582	72	0	654	0	654
TOTAL ASSETS	\$ 92,182	60,667	137,798	12,855	303,502	38,669	342,171
LIABILITIES AND FUND EQUITY							
Liabilities:							
Interfund payable	\$ 0	0	142,022	0	142,022	375	142,397
Accounts payable	0	917	0	0	917	0	917
Deferred revenue:							
Succeeding year property tax	85,000	0	68,906	0	153,906	129,418	283,324
Total liabilities	85,000	917	210,928	0	296,845	129,793	426,638
Fund equity:							
Fund balances:							
Unreserved:							
Undesignated	7,182	59,750	(73,130)	12,855	6,657	(91,124)	(84,467)
Total fund balances	7,182	59,750	(73,130)	12,855	6,657	(91,124)	(84,467)
TOTAL LIABILITIES AND FUND EQUITY	\$ 92,182	60,667	137,798	12,855	303,502	38,669	342,171

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, 2006

	Nonmajor Special Revenue Funds					Debt Service	Total Other Nonmajor Governmental Funds
	Management	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds		
REVENUES:							
Local sources:							
Local tax	\$ 89,887	0	70,649	0	160,536	254,954	415,490
Other	0	186,621	11,582	7,582	205,785	0	205,785
TOTAL REVENUES	89,887	186,621	82,231	7,582	366,321	254,954	621,275
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	12,214	0	0	4,000	16,214	0	16,214
Other instruction	0	182,752	0	0	182,752	0	182,752
	12,214	182,752	0	4,000	198,966	0	198,966
Support services:							
Administration services	336	0	0	0	336	0	336
Operation and maintenance of plant services	49,500	0	0	0	49,500	0	49,500
Transportation services	14,852	0	0	0	14,852	0	14,852
	64,688	0	0	0	64,688	0	64,688
Other expenditures:							
Facilities aquisitions	0	0	29,291	0	29,291	0	29,291
Long-term debt:							
Principal	0	0	0	0	0	128,683	128,683
Interest and fiscal charges	0	0	0	0	0	136,665	136,665
	0	0	29,291	0	0	265,348	265,348
TOTAL EXPENDITURES	76,902	182,752	29,291	4,000	292,945	265,348	558,293
Excess(deficiency) of revenues over(under) expenditures	12,985	3,869	52,940	3,582	73,376	(10,394)	62,982
Other financing sources(uses):							
Transfer in	0	0	0	0	0	9,981	9,981
Transfer out	0	0	(54,471)	0	(54,471)	0	(54,471)
Total other financing sources(uses)	0	0	(54,471)	0	(54,471)	9,981	(44,490)
Net change in fund balances	12,985	3,869	(1,531)	3,582	18,905	(413)	18,492
Fund balance beginning of year	(5,803)	55,881	(71,599)	9,273	(12,248)	(90,711)	(102,959)
Fund balance end of year	\$ 7,182	59,750	(73,130)	12,855	6,657	(91,124)	(84,467)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND,
 STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Elementary	\$ 10,469	16,000	13,014	13,455
Middle School	11,671	12,920	12,514	12,077
High School	33,741	157,701	157,224	34,218
Total	\$ 55,881	186,621	182,752	59,750

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 PRIVATE-PURPOSE TRUST FUND, SCHOLARSHIP ACCOUNTS
 JUNE 30, 2006

	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, 2006

	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,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 1,756,668	1,466,940	1,490,203	1,587,006
Tuition	132,135	113,193	89,798	94,489
Other	418,550	192,263	168,316	255,660
State sources	2,031,504	2,038,771	2,103,017	2,147,702
Federal sources	392,614	429,329	803,061	229,326
Total	\$ 4,731,471	4,240,496	4,654,395	4,314,183
Expenditures:				
Instruction:				
Regular instruction	\$ 1,642,212	1,707,966	1,621,297	1,482,309
Special instruction	474,025	485,582	441,702	434,404
Other instruction	540,649	377,897	364,298	440,960
Support services:				
Student services	60,444	55,240	57,131	63,441
Instructional staff services	115,268	39,800	90,565	65,430
Administration services	518,482	499,173	474,511	472,321
Operation and maintenance of plant services	352,742	376,651	315,636	409,375
Transportation services	280,853	281,304	282,624	209,802
Other support services	0	0	0	10,523
Non-instructional programs	0	80,108	59,276	51,128
Other expenditures:				
Facilities acquisitions	562,759	307,755	1,156,803	1,006,731
Long-term debt:				
Principal	128,683	115,702	110,000	105,000
Interest and fiscal charges	136,665	140,816	145,674	150,530
AEA flow-through	133,907	135,157	138,777	149,830
Total	\$ 4,946,689	4,603,151	5,258,294	5,051,784

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION:			
RURAL EDUCATION ACHIEVEMENT			
PROGRAM (REAP)	84.358	FY 06	\$ <u>29,079</u>
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION	10.550	FY 06	<u>12,934</u>
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 06	17,247
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 06	<u>52,768</u>
			<u>70,015</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES			
	84.010	2834-G	86,241
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES			
	84.010	2834-GC	<u>5,051</u>
			<u>91,292</u>
INNOVATIVE EDUCATION PROGRAM			
STRATEGIES (TITLE V)	84.298	FY 04	<u>9,985</u>
SAFE AND DRUG FREE SCHOOLS AND COMMUNITIES - STATE GRANTS			
	84.186	FY 02	2,015
SAFE AND DRUG FREE SCHOOLS AND COMMUNITIES - STATE GRANTS			
	84.186	FY 03	3,735
SAFE AND DRUG FREE SCHOOLS AND COMMUNITIES - STATE GRANTS			
	84.186	FY 04	<u>3,391</u>
			<u>9,141</u>
FUND FOR THE IMPROVEMENT OF EDUCATION			
	84.215	FY 06	<u>249,333</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM			
	84.367	FY 06	<u>22,081</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VIA)			
	84.369	FY 05	2,295
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VIA)			
	84.369	FY 06	<u>2,394</u>
			<u>4,689</u>

HARMONY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC			
GRANTS TO STATES	84.048	FY 06	4,347
SPECIAL EDUCATION - GRANTS TO			
STATES (PART B)	84.027	FY 06	23,167
TOTAL			\$ 526,063

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 basic 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, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 4, 2006. 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-06 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, 2006 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.

October 4, 2006

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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, 2006. 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, 2006.

Internal Control Over Compliance

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

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

federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-06 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-06 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.

October 4, 2006

HARMONY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

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:
 - Individual
 - CFDA Number 84.215 - Fund for the Improvement of Education
 - Cluster Programs
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) 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, 2006

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-06 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-06 Authorized Check Signatures - We noted during our audit that checks were written from the Special Revenue, Student Activity Fund and Enterprise, School Nutrition Fund had the Superintendent and Board Secretary signatures; however, the Superintendent was not designated to sign these checks.

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. The District should review the procedures in place.

Response - The Board President has given authorization to the Superintendent to sign checks for the Student Activity Fund and Enterprise, School Nutrition Fund.

Conclusion - Response accepted.

II-C-06 Supporting Documents for Payments with Credit Cards - Payments made with credit cards do not always have detailed supporting documentation. We also noted a credit card late fee assessed for a late payment.

Recommendation - The District has a policy in place for credit card usage as part of the credit card 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 and the credit card will be paid on time.

Response - We are requiring all purchases made with the school credit card to turn in detailed receipts to accompany the billing.

Conclusion - Response accepted.

II-D-06 Photo Image Checks - We noted during our audit that District receives their checks from the bank as photo images showing only the front of the checks. Per Chapter 544D.114 of the Code of Iowa, the District is required to have retained both the front and back of check images.

Recommendation - The District should contact the bank to rectify the situation. The District should receive the photo images showing both the front and back of the checks or the original issued check.

Response - We have contacted the bank and they will photo image both sides of the checks.

Conclusion - Response accepted.

II-E-06 Travel Reimbursement Policy - We noted during our audit that there were some reimbursements for travel. We noted also that the reimbursement rate was different for three classifications: administration, secretaries and teachers.

Recommendation - The District should review employee travel reimbursements and adopt a detailed board policy as to what is reimbursable. The District may want to have a universal policy including all employees seeking reimbursement for travel at the same rate. The District should also address the usage of school vehicles. Current procedures in place should be reviewed.

Response - We have made travel reimbursement policies to all be equal at \$.30 per mile for all employees.

Conclusion - Response accepted.

II-F-06 Supporting Documents for Payments to Officials - Payments made to officials from the Student Activity fund do not always have supporting documentation.

Recommendation - The copy of the contract made for each official should be used as the support for payment.

Response - We will attach a copy of the contract with the official as support for payment.

Conclusion - Response accepted.

II-G-06 Supporting Payroll Contracts - We noted during our audit of the payroll procedures, five contracts were unavailable to verify the amount contracted between the District and the employees.

Recommendation - The District should review payroll procedures in place to ensure proper documentation is maintained and available at the time of audit in the future.

Response - We will see that all contracts are turned in and on file for audit.

Conclusion - Response accepted.

II-H-06 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). More specific examples of these instances of questioned items and recommendations are as follows:

Donations from Target were recorded in the Student Activity Fund. These donations do not specify the purpose, other than instructional supplies; therefore, they should be receipted into the General fund for use in all instructional supplies/services.

There are Interest accounts. These accounts should be allocated among the Student Activity Funds that earned the interest. This allocation should be done at least annually. Interest earned should be distributed to individual accounts within the Student Activity Fund.

There is a Friends of the Library account. These receipts and expenditures appear to be more instructional and administrative in nature; therefore, they should be moved to the General Fund.

There are several accounts without activity during the year. These accounts include Lamination, Nursing, Middle School Softball, Middle School Cheerleading, Middle School Band, High School Spanish Club, High School Economics Class and High School FHA. These accounts should be reviewed and determined if needed to be closed to other accounts or transferred out of the Student Activity Fund.

The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Response - We will place donations in the proper area of the General Fund.

Conclusion - Response accepted.

II-I-06 Employee Purchases from School Vendors - We noted during our audit that there were reimbursements or payments made to vendors from school employees to purchase personal items included on the District's bill.

Recommendation - The District should review procedures in place. The District employees should refrain from purchasing personal items through the District. If employees of the District want to order from vendors used by the school, an individual account should be set up, not run through the District's account.

Response - This practice has been discontinued.

Conclusion - Response accepted.

II-J-06 Rental of School House - We noted during our audit that there was rent monies placed in the Special Revenue, Physical Plant and Equipment Fund.

Recommendation - In accordance with Chapters 297.9 and 297.10 of the Code of Iowa, rental of school rooms and grounds revenue is required to be recorded in the General Fund. The District should review procedures in place and record rent monies in the General Fund.

Response - The Superintendent house rent is being deposited in the General Fund.

Conclusion - Response accepted.

II-K-06 School Accounting Software Integration - We noted during our audit that the Special Revenue, Student Activity Fund accounts were not integrated with the general ledger accounting system.

Recommendation - The District should contact the DataTeam software support and integrate the accounting for individual student activity accounts. Due to the certified annual report upload requirements, the District should maintain all accounting records for the District on one accounting system.

Response - We know that we need to put the activity funds on the main accounting system. We will work towards having these on the main system this year.

Conclusion - Response accepted.

HARMONY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 84.215: Fund for the Improvement of Education
Federal Award Year: 2006
U.S. Department of Education
Passed Through the Iowa Department of Education

CFDA Number 10.553: School Breakfast Program
Federal Award Year: 2006
U.S. Department of Education
Passed Through the Iowa Department of Agriculture

CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2006
U.S. Department of Education
Passed Through the Iowa Department of Agriculture

III-A-06 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.

III-B-06 Free and Reduced Lunch Applications - We noted during our audit that one of the free and reduced lunch applications in our testing were marked as free, but actually should have been marked as reduced.

Recommendation - The District should review the procedures in place for filing free and reduced lunch applications to ensure that the applications are filed correctly. The District should contact the Department of Education to correct the necessary reports.

Response - Free and reduced applications are approved by the Board Secretary and the Superintendent's secretary for accuracy. The District will review procedures to ensure future applications are filed correctly. The District will also contact the Department of Education.

Conclusion - Response accepted.

HARMONY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2006

Part IV: Other Findings Related to Statutory Reporting

IV-A-06 Certified Budget - District expenditures for the year ended June 30, 2006 exceeded the amount budgeted in the instruction and support services functions.

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

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

Conclusion - Response accepted.

IV-B-06 Questionable Disbursements - We noted some disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979. The following are items we questioned: (a) there was an employee picnic paid for by the District and (b) there was an luncheon with the Superintendent and a retiree.

Recommendation - The District should review procedures in place. The District should adopt a public purpose board policy to address the items questioned above. In the future, the District should follow that policy and note public purpose.

Response - These expenses will not occur again.

Conclusion - Response acknowledged.

IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-06 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	Mowing	\$1,988
April Smith, Teacher Spouse did some repairs for the District	Services	\$4,065

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

In accordance with the Attorney General's opinion dated November 9, 1976, the above transaction with the spouse of April Smith does not appear to represent a conflict of interest.

IV-E-06 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-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-06 Certified Enrollment - We noted that the basic enrollment data certified to the Department of Education was not available for audit.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to determine the appropriate actions to take. The District will maintain all enrollment data and make available at the time of audit.

Response - We are not sure what happened to the documentation, but we will see in the future that is always available.

Conclusion - Response acknowledged.

IV-H-06 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-I-06 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-J-06 Financial Condition - The District had deficit unreserved fund balances of \$73,130 in the Special Revenue, Physical Plant and Equipment Levy Fund. The District had deficit unreserved fund balances of \$91,124 in the Debt Service Fund. The District had a deficit undesignated unreserved fund balance of \$412,151 in the General Fund. The District also had deficit net assets in the governmental activities of \$496,883. We also noted during our audit of the Special Revenue, Student Activity Fund there were two accounts with deficit balances at June 30, 2006.

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.