

HARMONY COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2009

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Harmony Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2008 Election)		
Dennis Grossman	President	2009
Burton Mills	Vice President (Resigned)	2008
Steve Adam	Vice President	2008
Tina Denly	Board Member	2010
Tracy Hudson	Board Member (Appointed)	2010
David Hellwig	Board Member	2008
Board of Education (After September 2008 Election)		
Dennis Grossman	President	2009
Tracy Hudson	Vice President	2011*
Tina Denly	Board Member	2009*
Cody Warth	Board Member	2011
Bill Rice	Board Member	2011
School Officials		
Joseph Hundebly	Superintendent (Resigned)	2009
John Sauer	Superintendent (Appointed)	2009
Karen Seager	Business Manager/ District Secretary	2009
Iris Kerr	District Treasurer	2009
Crystal Cronk	Attorney	2009

* Board term extended/shortened per the District's transition plan for changing Board terms from 3 to 4 years in accordance with Chapter 39.24 of the Code of Iowa.

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Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, 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, 2009, 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, 2009, 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 February 19, 2010 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 35 through 36 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 five years ended June 30, 2008 (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, 2005 through June 30, 2008. Other supplementary information included in Schedules 1 through 6 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.

February 19, 2010

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, 2009. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$3,937,403 in fiscal 2008 to \$3,865,003 in fiscal 2009, while General Fund expenditures increased from \$3,691,698 in fiscal 2008 to \$3,845,664 in fiscal 2009. This resulted in an increase in the District's General Fund balance from a deficit \$146,647 in fiscal 2008 to a deficit balance of \$127,308 in fiscal 2009.
- The decrease in General Fund revenues was primarily attributable to a decrease in state source revenues during fiscal 2009. The increase in expenditures was due to increases in several instructional and support services functions. General Fund revenues were greater than fund expenditures thus creating the increase in overall fund balance.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Harmony Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Harmony Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Harmony Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

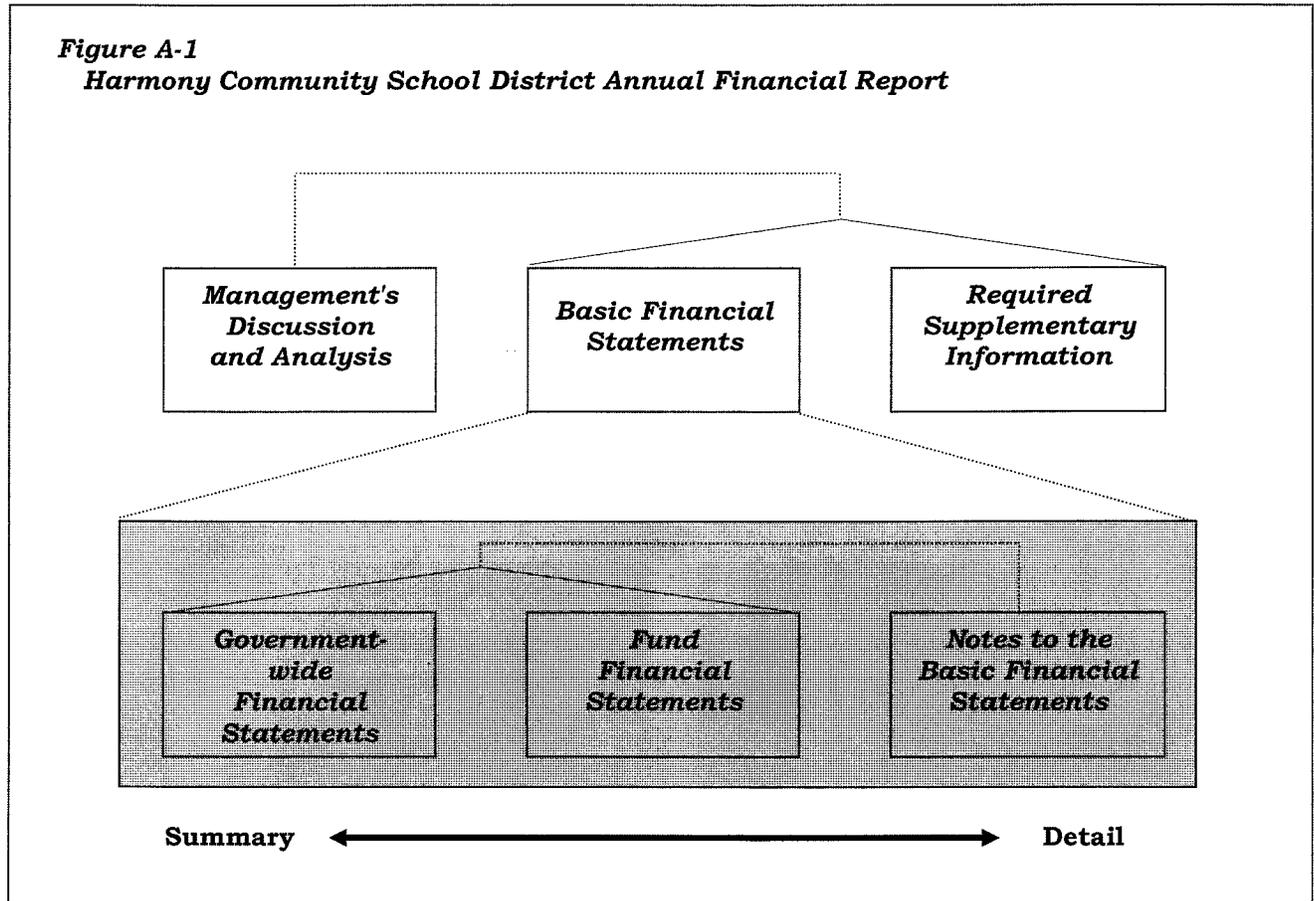


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

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

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

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

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Private Purpose Trust fund.

- Private Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include the statement of fiduciary net assets and the statement of changes in fiduciary net assets.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2009 compared to June 30, 2008.

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-09
Current and other assets	\$ 4,213,474	3,942,879	19,703	28,286	4,233,177	3,971,165	6.60%
Capital assets	4,443,194	4,496,963	16,646	17,323	4,459,840	4,514,286	-1.21%
Total assets	<u>8,656,668</u>	<u>8,439,842</u>	<u>36,349</u>	<u>45,609</u>	<u>8,693,017</u>	<u>8,485,451</u>	<u>2.45%</u>
Long-term obligations	1,930,606	2,459,920	-	-	1,930,606	2,459,920	-21.52%
Other liabilities	4,016,207	3,432,474	12,413	18,553	4,028,620	3,451,027	16.74%
Total liabilities	<u>5,946,813</u>	<u>5,892,394</u>	<u>12,413</u>	<u>18,553</u>	<u>5,959,226</u>	<u>5,910,947</u>	<u>0.82%</u>
Net assets:							
Invested in capital assets, net of related debt	2,158,194	2,071,963	16,646	17,323	2,174,840	2,089,286	4.09%
Restricted	1,053,474	856,554	-	-	1,053,474	856,554	22.99%
Unrestricted	(501,813)	(381,069)	7,290	9,733	(494,523)	(371,336)	-33.17%
Total net assets	<u>\$ 2,709,855</u>	<u>2,547,448</u>	<u>23,936</u>	<u>27,056</u>	<u>2,733,791</u>	<u>2,574,504</u>	<u>6.19%</u>

The District's combined net assets increased by \$159,287 or 6.19% 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 invested 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 \$196,920 or 22.99% over the prior year. This increase is due primarily to the increase in the Capital Projects 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 \$123,187 or 33.17%. This decrease is primarily due to the decrease in the Debt Service Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2009 compared to the year ended June 30, 2008.

	Figure A-4 Changes in Net Assets						
	Governmental Activities		Business Type Activities		Total School District		Total Change
	2009	2008	2009	2008	2009	2008	2008-09
Revenues:							
Program revenues:							
Charges for services	\$ 226,969	327,807	60,139	62,454	287,108	390,261	-26.43%
Operating grants and contributions and restricted interest	611,234	528,418	103,623	92,298	714,857	620,716	15.17%
General revenues:							
Local tax	1,660,728	1,600,710	-	-	1,660,728	1,600,710	3.75%
Statewide sales and service tax	244,808	250,551	-	-	244,808	250,551	-2.29%
Unrestricted state grants	1,654,922	1,889,114	-	-	1,654,922	1,889,114	-12.40%
Other	171,007	94,846	32	339	171,039	95,185	79.69%
Total revenues	<u>4,569,668</u>	<u>4,691,446</u>	<u>163,794</u>	<u>155,091</u>	<u>4,733,462</u>	<u>4,846,537</u>	<u>-2.33%</u>
Program expenses:							
Governmental activities:							
Instruction	2,548,103	2,598,217	-	-	2,548,103	2,598,217	-1.93%
Support services	1,477,737	1,270,224	-	-	1,477,737	1,270,224	16.34%
Non-instructional programs	-	-	166,914	165,892	166,914	165,892	0.62%
Other expenses	381,421	698,419	-	-	381,421	698,419	-45.39%
Total expenses	<u>4,407,261</u>	<u>4,566,860</u>	<u>166,914</u>	<u>165,892</u>	<u>4,574,175</u>	<u>4,732,752</u>	<u>-3.35%</u>
Change in net assets	162,407	124,586	(3,120)	(10,801)	159,287	113,785	-39.99%
Net assets beginning of year	<u>2,547,448</u>	<u>2,422,862</u>	<u>27,056</u>	<u>37,857</u>	<u>2,574,504</u>	<u>2,460,719</u>	<u>-4.62%</u>
Net assets end of year	<u>\$ 2,709,855</u>	<u>2,547,448</u>	<u>23,936</u>	<u>27,056</u>	<u>2,733,791</u>	<u>2,574,504</u>	<u>6.19%</u>

In fiscal 2009, operating grants and contributions and restricted interest, local tax and unrestricted state grants account for 85.93% 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 were \$4,733,462 of which \$4,569,668 was for governmental activities and \$163,794 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 2.33% decrease in revenues and a 3.35% decrease in expenses. Substantial decreases in charges for services and unrestricted state grants resulted in the decline in revenues. The decrease in expenditures was due to decreases in the instruction and other expenses areas.

Governmental Activities

Revenues for governmental activities were \$4,569,668 and expenses were \$4,407,261.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2009	2008	Change 2008-09	2009	2008	Change 2008-09
Instruction	\$ 2,548,103	2,598,217	-1.93%	1,856,845	1,886,687	-1.58%
Support services	1,477,737	1,270,224	16.34%	1,477,002	1,269,121	16.38%
Other expenses	381,421	698,419	-45.39%	235,211	554,827	-57.61%
Totals	<u>\$ 4,407,261</u>	<u>4,566,860</u>	<u>-3.49%</u>	<u>3,569,058</u>	<u>3,710,635</u>	<u>-3.82%</u>

- The cost financed by users of the District’s programs was \$226,969.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$611,234.
- The net cost of governmental activities was financed with \$1,660,728 in property tax, \$244,808 in statewide sales and services tax, \$1,654,922 in unrestricted state grants, \$40,379 in interest income and \$130,628 in other general revenues.

Business Type Activities

Revenues of the District’s business type activities were \$163,794 and expenses were \$166,914. 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 balances of \$453,335 compared to last year’s ending fund balances of \$370,688. However, the primary reasons for the increase were improvements to the fund balances of the Capital Projects Fund and the General Fund.

Governmental Fund Highlights

- The District’s improving General Fund financial position is the product of many factors. Increases in funding from local tax, federal and other sources during the year resulted in an increase in revenues. The General Fund expenditures were less than the revenues received ensuring the increase in the financial position of the District.
- The Capital Projects fund balance increased during the current year, from \$656,524 to an ending balance of \$801,135.

Proprietary Fund Highlights

- The School Nutrition Fund net assets decreased from \$27,056 at June 30, 2008 to \$23,936 at June 30, 2009, representing a decrease of 11.53%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$513,222 less than budgeted revenues, a variance of 9.8%. The largest monetary difference resulted from the District receiving less in local sources than originally anticipated.

Initially, 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 non-instructional programs expenditures function due to the District's failure to budget expenditures for that functional area and not amending the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the District had invested \$4,459,840, 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 5 to the financial statements. Depreciation expense for the year was \$180,459.

The original cost of the District's capital assets was \$8,419,224. Governmental funds account for \$8,326,723 with the remainder of \$92,501 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. This increase resulted from acquisitions made during the year.

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008	2008-09
Land	\$ 57,000	57,000	-	-	57,000	57,000	0.00%
Buildings	4,233,094	4,334,147	-	-	4,233,094	4,334,147	-2.33%
Land improvements	16,699	18,419	-	-	16,699	18,419	-9.34%
Machinery and equipment	136,401	87,397	16,646	17,323	153,047	104,720	46.15%
Total	\$ 4,443,194	4,496,963	16,646	17,323	4,459,840	4,514,286	-1.21%

Long-Term Debt

At June 30, 2009, the District had long-term debt outstanding of \$2,328,320 in general obligation bonds and other long-term debt outstanding. This represents a 5.35 % decrease from the previous year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds payable of \$2,285,000 at June 30, 2009.

The District also had outstanding early retirement payable from the Special Revenue, Management Levy Fund of \$43,320 at June 30, 2009.

Figure A-7			
Outstanding Long-Term Obligations			
	Total School District		Total Change
	June 30,		June 30,
	2009	2008	2008-09
General obligation bonds	\$ 2,285,000	2,425,000	-5.77%
Early retirement	43,320	34,920	24.05%
Total	<u>\$ 2,328,320</u>	<u>2,459,920</u>	<u>-5.35%</u>

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 Seager, District Board Secretary/Treasurer, Harmony Community School District, 601 First Street, Harmony, Iowa, 52620.

BASIC FINANCIAL STATEMENTS

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP	\$ 1,552,695	-	1,552,695
Other	711,989	28,203	740,192
Receivables:			
Property tax:			
Delinquent	39,894	-	39,894
Succeeding year	1,599,715	-	1,599,715
Income surtax	150,889	-	150,889
Interfund	10,223	(10,223)	-
Accounts	22,416	780	23,196
Accrued ISCAP interest	4,887	-	4,887
Due from other governments	120,766	-	120,766
Inventories	-	943	943
Capital assets, net of accumulated depreciation	4,443,194	16,646	4,459,840
TOTAL ASSETS	8,656,668	36,349	8,693,017
LIABILITIES			
Accounts payable	58,437	-	58,437
Salaries and benefits payable	329,983	12,413	342,396
Interest payable	9,243	-	9,243
ISCAP warrants payable	1,530,000	-	1,530,000
ISCAP accrued interest payable	7,031	-	7,031
ISCAP premiums payable	25,326	-	25,326
Deferred revenue:			
Succeeding year property tax	1,599,715	-	1,599,715
Other	58,758	-	58,758
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	145,000	-	145,000
Early retirement payable	14,520	-	14,520
Portion due after one year:			
General obligation bonds payable	2,140,000	-	2,140,000
Early retirement payable	28,800	-	28,800
TOTAL LIABILITIES	5,946,813	12,413	5,959,226
NET ASSETS			
Invested in capital assets, net of related debt	2,158,194	16,646	2,174,840
Restricted for:			
Categorical funding	184,829	-	184,829
Capital projects	801,135	-	801,135
Physical plant & equipment levy	2,564	-	2,564
Other special revenue purposes	64,946	-	64,946
Unrestricted	(501,813)	7,290	(494,523)
TOTAL NET ASSETS	\$ 2,709,855	23,936	2,733,791

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 1,674,494	107,973	442,323	(1,124,198)	-	(1,124,198)
Special	433,181	-	21,966	(411,215)	-	(411,215)
Other	440,428	118,996	-	(321,432)	-	(321,432)
	<u>2,548,103</u>	<u>226,969</u>	<u>464,289</u>	<u>(1,856,845)</u>	<u>-</u>	<u>(1,856,845)</u>
Support services:						
Student	50,474	-	-	(50,474)	-	(50,474)
Instructional staff	140,973	-	-	(140,973)	-	(140,973)
Administration	585,073	-	-	(585,073)	-	(585,073)
Operation and maintenance of plant	430,213	-	-	(430,213)	-	(430,213)
Transportation	271,004	-	735	(270,269)	-	(270,269)
	<u>1,477,737</u>	<u>-</u>	<u>735</u>	<u>(1,477,002)</u>	<u>-</u>	<u>(1,477,002)</u>
Other expenditures:						
Long-term debt interest	116,852	-	-	(116,852)	-	(116,852)
AEA flowthrough	146,210	-	146,210	-	-	-
Depreciation (unallocated) *	118,359	-	-	(118,359)	-	(118,359)
	<u>381,421</u>	<u>-</u>	<u>146,210</u>	<u>(235,211)</u>	<u>-</u>	<u>(235,211)</u>
Total governmental activities	4,407,261	226,969	611,234	(3,569,058)	-	(3,569,058)
Business Type activities:						
Non-instructional programs:						
Nutrition services	166,914	60,139	103,623	-	(3,152)	(3,152)
Total business type activities	<u>166,914</u>	<u>60,139</u>	<u>103,623</u>	<u>-</u>	<u>(3,152)</u>	<u>(3,152)</u>
Total	\$ 4,574,175	287,108	714,857	(3,569,058)	(3,152)	(3,572,210)
General Revenues :						
Local tax for:						
General purposes				\$ 1,420,233	-	1,420,233
Debt services				167,320	-	167,320
Capital outlay				73,175	-	73,175
Statewide sales and services tax				244,808	-	244,808
Unrestricted state grants				1,654,922	-	1,654,922
Unrestricted investment earnings				40,379	32	40,411
Other general revenues				130,628	-	130,628
Total general revenues				<u>3,731,465</u>	<u>32</u>	<u>3,731,497</u>
Changes in net assets				162,407	(3,120)	159,287
Net assets beginning of year				<u>2,547,448</u>	<u>27,056</u>	<u>2,574,504</u>
Net assets end of year				<u>\$ 2,709,855</u>	<u>23,936</u>	<u>2,733,791</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, 2009

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
ASSETS					
Cash and pooled investments:					
ISCAP	\$ 1,552,695	-	-	-	1,552,695
Other	215,148	639,770	-	167,992	1,022,910
Receivables:					
Property tax:					
Delinquent	30,664	-	4,430	4,800	39,894
Succeeding year	1,292,169	-	130,918	176,628	1,599,715
Income surtax	150,889	-	-	-	150,889
Interfund	10,223	86,793	-	-	97,016
Accounts	22,416	-	-	-	22,416
Accrued ISCAP interest	4,887	-	-	-	4,887
Due from other governments	46,194	74,572	-	-	120,766
TOTAL ASSETS	\$ 3,325,285	801,135	135,348	349,420	4,611,188
LIABILITIES AND FUND BALANCES					
Liabilities:					
Excess of warrants issued over bank balance	\$ -	-	310,921	-	310,921
Interfund payable	-	-	-	86,793	86,793
Accounts payable	58,437	-	-	-	58,437
Salaries and benefits payable	329,983	-	-	-	329,983
ISCAP warrants payable	1,530,000	-	-	-	1,530,000
ISCAP accrued interest payable	7,031	-	-	-	7,031
ISCAP premiums payable	25,326	-	-	-	25,326
Deferred revenue:					
Succeeding year property tax	1,292,169	-	130,918	176,628	1,599,715
Income surtax	150,889	-	-	-	150,889
Other	58,758	-	-	-	58,758
Total liabilities	3,452,593	-	441,839	263,421	4,157,853
Fund balances:					
Reserved for:					
Categorical Funding	184,829	-	-	-	184,829
Unreserved	(312,137)	801,135	(306,491)	85,999	268,506
Total fund balances	(127,308)	801,135	(306,491)	85,999	453,335
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,325,285	801,135	135,348	349,420	4,611,188

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, 2009

Total fund balances of governmental funds (page 15)	\$	453,335
 <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.		4,443,194
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.		(9,243)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		150,889
Long-term liabilities, including bonds 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>(2,328,320)</u>
Net assets of governmental activities (page 13)	\$	<u>2,709,855</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, 2009

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 1,318,887	244,808	167,320	173,132	1,904,147
Tuition	107,973	-	-	-	107,973
Other	172,313	-	-	117,690	290,003
State sources	2,094,894	-	160	166	2,095,220
Federal sources	170,936	-	-	-	170,936
Total revenues	<u>3,865,003</u>	<u>244,808</u>	<u>167,480</u>	<u>290,988</u>	<u>4,568,279</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular	1,682,039	-	-	-	1,682,039
Special	433,181	-	-	-	433,181
Other	313,815	-	-	126,613	440,428
	<u>2,429,035</u>	<u>-</u>	<u>-</u>	<u>126,613</u>	<u>2,555,648</u>
Support services:					
Student	50,474	-	-	-	50,474
Instructional staff	140,973	-	-	-	140,973
Administration	513,842	-	-	57,845	571,687
Operation and maintenance of plant	365,489	-	-	70,773	436,262
Transportation	199,641	100,197	-	13,361	313,199
	<u>1,270,419</u>	<u>100,197</u>	<u>-</u>	<u>141,979</u>	<u>1,512,595</u>
Other expenditures:					
Facilities acquisitions	-	-	-	13,787	13,787
Long-term debt:					
Principal	-	-	140,000	-	140,000
Interest and fiscal charges	-	-	117,392	-	117,392
AEA flowthrough	146,210	-	-	-	146,210
	<u>146,210</u>	<u>-</u>	<u>257,392</u>	<u>13,787</u>	<u>417,389</u>
Total expenditures	<u>3,845,664</u>	<u>100,197</u>	<u>257,392</u>	<u>282,379</u>	<u>4,485,632</u>
Net change in fund balances	19,339	144,611	(89,912)	8,609	82,647
Fund balance beginning of year	(146,647)	656,524	(216,579)	77,390	370,688
Fund balance end of year	<u>\$ (127,308)</u>	<u>801,135</u>	<u>(306,491)</u>	<u>85,999</u>	<u>453,335</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, 2009

Net change in fund balances - total governmental funds (page 17) \$ 82,647

*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 for capital outlays, depreciation expense and loss on disposal of assets are as follows:

Capital outlays	\$ 129,463	
Depreciation expense	(179,782)	
Loss on disposal of capital assets	<u>(3,450)</u>	(53,769)

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. 140,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 540

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 1,389

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 (8,400)

Changes in net assets of governmental activities (page 14) \$ 162,407

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2009

	School Nutrition
ASSETS	
Cash and cash equivalents	\$ 28,203
Accounts receivable	780
Inventories	943
Capital assets, net of accumulated depreciation	16,646
TOTAL ASSETS	46,572
 LIABILITIES	
Interfund payable	10,223
Salaries and benefits payable	12,413
TOTAL LIABILITIES	22,636
 NET ASSETS	
Invested in capital assets	16,646
Unrestricted	7,290
TOTAL NET ASSETS	\$ 23,936

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, 2009

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for service	\$ 60,139
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	61,034
Benefits	11,987
Services	2,756
Supplies	90,389
Depreciation	677
Other	71
TOTAL OPERATING EXPENSES	166,914
OPERATING LOSS	(106,775)
NON-OPERATING REVENUES:	
Interest income	32
State sources	2,220
Federal sources	101,403
TOTAL NON-OPERATING REVENUES	103,655
Change in net assets	(3,120)
Net assets at beginning of year	27,056
Net assets end of year	\$ 23,936

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2009

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 58,931
Cash received from miscellaneous operating activities	667
Cash payments to employees for services	(72,480)
Cash payments to suppliers for goods or services	(74,771)
Net cash used in operating activities	(87,653)
Cash flows from non-capital financing activities:	
Borrowings from the General Fund	3,542
State grants received	2,220
Federal grants received	83,523
Net cash provided by non-capital financing activities	89,285
Cash flows from investing activities:	
Interest on investments	32
Net increase in cash and cash equivalents	1,664
Cash and cash equivalents at beginning of year	26,539
Cash and cash equivalents at end of year	\$ 28,203
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (106,775)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	17,898
Depreciation	677
Decrease in inventories	547
Increase in accounts receivables	(541)
Increase in salaries and benefits payable	541
Net cash used in operating activities	\$ (87,653)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 28,203
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
During the year ended June 30, 2009, the District received Federal commodities valued at \$17,898.	
SEE NOTES TO BASIC FINANCIAL STATEMENTS.	

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2009

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
ASSETS	
Cash and pooled investments	<u>\$ 372,039</u>
LIABILITIES	<u>-</u>
NET ASSETS	
Reserved for scholarships	360,036
Unreserved	<u>12,003</u>
TOTAL NET ASSETS	<u>\$ 372,039</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2009

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
ADDITIONS:	
Interest income	<u>\$ 15,420</u>
DEDUCTIONS:	
Scholarships awarded	<u>7,000</u>
Change in net assets	8,420
Net assets beginning of year	<u>363,619</u>
Net assets end of year	<u>\$ 372,039</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(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:

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

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

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

The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt.

The District reports the following 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 Balances

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

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested.

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, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2008.

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

Capital assets are depreciated using the straight line method 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

Salaries and benefits payable - Payroll and related expenditures for contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

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

receivables and other receivables not collected within sixty days after year end.

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

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

Fund Balances - 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, 2009, expenditures in the non-instructional programs expenditures function exceeded the budgeted amount.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2009, the District had investments in the Iowa Schools Joint Investment Trust, as follows:

	<u>Amortized Cost</u>
Diversified portfolio	<u>\$ 52,081</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk - The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2009 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nutrition	\$ 10,223
Capital Projects	Physical Plant and Equipment Levy	86,793
Total		<u>\$ 97,016</u>

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2009 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued	
				Interest Receivable	Warrants Payable
2008-09B	1/21/2009	1/21/2010	\$ 514,513	4,759	508,000
2009-10A	6/25/2009	6/23/2010	1,038,182	128	1,022,000
Total			<u>\$ 1,552,695</u>	<u>4,887</u>	<u>1,530,000</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISCAP advance activity in the General fund noted for the year ended June 30, 2009.

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
2008-09A	3.500%	3.469%
2008-09B	3.000%	2.110%
2009-10A	2.500%	0.902%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 57,000	-	-	57,000
Total capital assets not being depreciated	<u>57,000</u>	<u>-</u>	<u>-</u>	<u>57,000</u>
Capital assets being depreciated:				
Buildings	6,514,054	15,586	-	6,529,640
Land improvements	312,400	-	-	312,400
Machinery and equipment	1,365,473	113,877	51,667	1,427,683
Total capital assets being depreciated	<u>8,191,927</u>	<u>129,463</u>	<u>51,667</u>	<u>8,269,723</u>
Less accumulated depreciation for:				
Buildings	2,179,907	116,639	-	2,296,546
Land improvements	293,981	1,720	-	295,701
Machinery and equipment	1,278,076	61,423	48,217	1,291,282
Total accumulated depreciation	<u>3,751,964</u>	<u>179,782</u>	<u>48,217</u>	<u>3,883,529</u>
Total capital assets being depreciated, net	<u>4,439,963</u>	<u>(50,319)</u>	<u>3,450</u>	<u>4,386,194</u>
Governmental activities capital assets, net	<u>\$ 4,496,963</u>	<u>(50,319)</u>	<u>3,450</u>	<u>4,443,194</u>
Business Type activities:				
Machinery and equipment	\$ 75,194	-	(17,307)	57,887
Less accumulated depreciation	57,871	677	(17,307)	41,241
Business Type activities capital assets, net	<u>\$ 17,323</u>	<u>(677)</u>	<u>-</u>	<u>16,646</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 1,733
Support services:	
Administration	588
Operation and maintenance of plant	1,100
Transportation	58,002
	<u>61,423</u>
Unallocated depreciation	118,359
Total governmental activities depreciation expense	<u>\$ 179,782</u>
Business Type activities:	
Food services	\$ 677

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 2,425,000	-	140,000	2,285,000	145,000
Early retirement	34,920	22,845	14,445	43,320	14,520
Total	\$ 2,459,920	22,845	154,445	2,328,320	159,520

General Obligation Bonds Payable

Details of the District's June 30, 2009 General Obligation bonded debt is as follows:

Year Ending June 30,	Bond issue March 24, 2003			
	Interest Rate	Principal	Interest	Total
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
2015-2019	4.88-5.00	1,010,000	273,181	1,283,181
2020-2021	5.00	475,000	36,000	511,000
Total		\$ 2,285,000	792,884	3,077,884

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, 2009, totaled \$14,445.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 4.10% of their annual covered salary and the District is required to contribute 6.35% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$137,653, \$133,443 and \$133,072, respectively, equal to the required contributions for each year.

(8) Other Postemployment Benefits

GASB Statement No.45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, issued June 2004, will be effective for the District beginning with its year ending June 30, 2010. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports. The District is in the process of obtaining an actuarial opinion to be in compliance with GASB Statement No.45.

(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, 2009 were \$228,651.

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 \$146,210 for the year ended June 30, 2009 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 General Fund had a deficit fund balance of \$127,308 at June 30, 2009. The Debt Service Fund had a deficit fund balance of \$306,491 at June 30, 2009. The District also had a deficit unrestricted net assets balance in the governmental activities of \$501,813.

(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, 2009, expenditures in the non-instructional programs expenditures function exceeded the budgeted amount.

(13) Categorical Funding

The District's ending balances for categorical funding by project as of June 30, 2009 are as follows:

<u>Project</u>	<u>Amount</u>
Limited english proficient	\$ 2,440
Home school assistance program	87,042
Gifted and talented programs	62,733
Beginning teacher mentoring and induction program	4,071
Salary improvement program	375
Market factor	61
Professional development	24,860
Market factor incentives	3,247
	<hr/>
Total reserved for categorical funding	<u>\$ 184,829</u>

REQUIRED SUPPLEMENTARY INFORMATION

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HARMONY COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2009

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Funds	Fund		Original	Final	Actual
	Actual	Actual				Variance
Revenues:						
Local sources	\$ 2,302,123	60,171	2,362,294	2,714,323	2,714,323	(352,029)
State sources	2,095,220	2,220	2,097,440	2,251,972	2,251,972	(154,532)
Federal sources	170,936	101,403	272,339	279,000	279,000	(6,661)
Total revenues	<u>4,568,279</u>	<u>163,794</u>	<u>4,732,073</u>	<u>5,245,295</u>	<u>5,245,295</u>	<u>(513,222)</u>
Expenditures/Expenses:						
Instruction	2,555,648	-	2,555,648	3,074,269	3,074,269	518,621
Support services	1,512,595	-	1,512,595	1,769,537	1,769,537	256,942
Non-instructional programs	-	166,914	166,914	-	-	(166,914)
Other expenditures	417,389	-	417,389	496,150	496,150	78,761
Total expenditures/expenses	<u>4,485,632</u>	<u>166,914</u>	<u>4,652,546</u>	<u>5,339,956</u>	<u>5,339,956</u>	<u>687,410</u>
Excess(Deficiency) of revenues over(under) expenditures/expenses	82,647	(3,120)	79,527	(94,661)	(94,661)	174,188
Other financing sources, net	-	-	-	(90,000)	(90,000)	90,000
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	82,647	(3,120)	79,527	(184,661)	(184,661)	264,188
Balance beginning of year	370,688	27,056	397,744	386,993	386,993	10,751
Balance end of year	<u>\$ 453,335</u>	<u>23,936</u>	<u>477,271</u>	<u>202,332</u>	<u>202,332</u>	<u>274,939</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2009

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, 2009, District expenditures in the non-instructional programs expenditures function exceeded the budgeted amount.

OTHER SUPPLEMENTARY INFORMATION

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HARMONY COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2009

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
ASSETS				
Cash and pooled investments	\$ 15,842	64,946	87,204	167,992
Receivables:				
Property tax:				
Current year delinquent	2,647	-	2,153	4,800
Succeeding year property tax	125,000	-	51,628	176,628
TOTAL ASSETS	\$ 143,489	64,946	140,985	349,420
LIABILITIES AND FUND BALANCES				
Liabilities:				
Interfund payable	\$ -	-	86,793	86,793
Deferred revenue:				
Succeeding year property tax	125,000	-	51,628	176,628
Total liabilities	125,000	-	138,421	263,421
Unreserved fund balances	18,489	64,946	2,564	85,999
TOTAL LIABILITIES AND FUND BALANCES	\$ 143,489	64,946	140,985	349,420

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2009

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
REVENUES:				
Local sources:				
Local tax	\$ 99,957	-	73,175	173,132
Other	925	115,738	1,027	117,690
State sources	96	-	70	166
TOTAL REVENUES	100,978	115,738	74,272	290,988
EXPENDITURES:				
Current:				
Instruction:				
Other	-	126,613	-	126,613
Support services:				
Administration	57,845	-	-	57,845
Operation and maintenance of plant	32,891	-	37,882	70,773
Transportation	13,361	-	-	13,361
Other expenditures:				
Facilities acquisitions	-	-	13,787	13,787
TOTAL EXPENDITURES	104,097	126,613	51,669	282,379
Net change in fund balances	(3,119)	(10,875)	22,603	8,609
Fund balance beginning of year	21,608	75,821	(20,039)	77,390
Fund balance end of year	\$ 18,489	64,946	2,564	85,999

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND,
 STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2009

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Elementary	\$ 22,946	21,435	19,161	25,220
High School	52,875	94,303	107,452	39,726
Total	<u>\$ 75,821</u>	<u>115,738</u>	<u>126,613</u>	<u>64,946</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 PRIVATE-PURPOSE TRUST FUND, SCHOLARSHIP ACCOUNTS
 JUNE 30, 2009

	Millican Educational Memorial Fund	Reifior Scholarship Fund	Total
ASSETS			
Cash and pooled investments	\$ 85,551	286,488	372,039
LIABILITIES	-	-	-
NET ASSETS			
Reserved for scholarships	85,551	274,485	360,036
Unreserved	-	12,003	12,003
TOTAL NET ASSETS	\$ 85,551	286,488	372,039

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN PRIVATE-PURPOSE TRUST FUND,
 SCHOLARSHIP ACCOUNTS
 YEAR ENDED JUNE 30, 2009

	Millican Educational Memorial Fund	Reifior Scholarship Fund	Total
Additions:			
Interest income	\$ 2,783	12,637	15,420
Deductions:			
Scholarships awarded	-	7,000	7,000
Net change in net assets	2,783	5,637	8,420
Net assets beginning of year	82,768	280,851	363,619
Net assets end of year	\$ 85,551	286,488	372,039

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 SIX YEARS

	Modified Accrual Basis					
	2009	2008	2007	2006	2005	2004
Revenues:						
Local sources:						
Local tax	\$ 1,904,147	1,790,127	1,658,929	1,756,668	1,466,940	1,490,203
Tuition	107,973	118,453	163,993	132,135	113,193	89,798
Other	290,003	304,407	274,874	418,550	192,263	168,316
State sources	2,095,220	2,355,847	2,220,051	2,031,504	2,038,771	2,103,017
Federal sources	170,936	127,321	175,983	392,614	429,329	803,061
Total	\$ 4,568,279	4,696,155	4,493,830	4,731,471	4,240,496	4,654,395
Expenditures:						
Instruction:						
Regular	\$ 1,682,039	1,737,007	1,688,700	1,642,212	1,707,966	1,621,297
Special	433,181	362,510	377,524	474,025	485,582	441,702
Other	440,428	496,310	450,873	540,649	377,897	364,298
Support services:						
Student	50,474	45,895	41,190	60,444	55,240	57,131
Instructional staff	140,973	88,826	109,752	115,268	39,800	90,565
Administration	571,687	484,770	565,493	518,482	499,173	474,511
Operation and maintenance of plant	436,262	395,697	397,313	352,742	376,651	315,636
Transportation	313,199	247,995	268,299	280,853	281,304	282,624
Non-instructional programs	-	-	-	-	80,108	59,276
Other expenditures:						
Facilities acquisitions	13,787	47,354	18,461	562,759	307,755	1,156,803
Long-term debt:						
Principal	140,000	143,623	134,189	128,683	115,702	110,000
Interest and fiscal charges	117,392	124,496	131,241	136,665	140,816	145,674
AEA flow-through	146,210	143,592	139,303	133,907	135,157	138,777
Total	\$ 4,485,632	4,318,075	4,322,338	4,946,689	4,603,151	5,258,294

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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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, 2009, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 19, 2010. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Harmony Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Harmony Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Harmony Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Harmony Community School District's financial statements that is more than inconsequential will not be prevented or detected by Harmony Community School District's internal control. We consider the deficiencies in internal control described in Part I of the Findings Related to the Basic Financial Statements.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Harmony Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items I-A-09 and I-B-09 are material weaknesses.

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 or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2009 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.

Harmony Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Harmony Community School District's responses and, accordingly, we express no opinion on them.

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.

February 19, 2010

HARMONY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

I-A-09 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 realize segregation of duties will never be 100%, but with the addition of another full time secretary at each of the centers, we can better separate duties so the same person is not responsible for all duties.

Conclusion - Response accepted.

I-B-09 Reliable Financial Statements - Iowa School Districts are required to record the financial records on a GAAP Basis of Accounting. The financial records are normally converted at year end, after a year of cash based records. The recognition of receivables, payables, inventory, long-term debt recognition and deprecation of capital assets are all pieces which the accounting personnel is expected to be completing. The individuals performing the accounting function needs to be well trained in all areas to be effective in completing the Certified Annual Report. The Iowa Association of School Business Officials provides training to its members as does the Department of Education and Data Teams. This training helps in providing instruction as well as promotes networking of other accounting personnel. Necessary adjustments to be made for proper recognition of receivables and payables were not being completed. Transactions such as proper recognition of transfers from other funds to pay debt were not being recorded in the general ledger. Also bank reconciliations were being done, but necessary adjustments to reconcile balance sheets to the general ledger were not being completed.

Recommendation - The maintenance of reliable accounting records has and continues to be important in every District. The necessity of the numerous adjustments for the financial statements may indicate that additional training is necessary for the accounting personnel. The District should consider sending their accounting staff to end-of-year training in an effort to provide more reliable financial statements.

Response - We realize that these adjustments and entries need to be made. All of the receivables, etc. were documented, but had not been entered on the books as such at the time of the audit. We will attend training to help in this process.

Conclusion - Response accepted.

I-C-09 Payroll Procedures - We noted during our audit several discrepancies regarding payroll. Carol Mitchell appears to have been overpaid \$300, receiving the extra-curricular portion of her contract twice. Leroy Pankey appears to have been overpaid \$400, receiving the extra-curricular portion of his salary twice. Micheal Sheerin appears to have been paid \$300 more than the contract amount. Robin Bunker appears to have received an unsupported pay increase beginning in October.

In addition we noted that the Interim Superintendent, John Sauer was paid for commuting miles and this amount was not included in payroll as additional compensation.

Recommendation - The District should review these contracts and payments to ensure the proper amount was distributed. Any overpayments should be repaid by the employees. The District explained some other differences noted by subsequent documentation which altered the original contract, however, the above named people's contracts did not have additional disclosure. Although the changes may have been appropriate, we are unable to determine the properness of the amount, since the contract and extra curriculum contracts do not appear to support the amounts paid. The District may wish to consider modifying payroll procedures, specifically adopting more thorough documentation of lane changes and other pay increases as well as additional pay for extra duties to ensure proper amounts are distributed and supported in the future.

If the District chooses to pay for commuting costs of an employee, that amount is considered additional compensation and should be included on the W-2 as taxable wages. With regard to the Superintendent payments for commuting, the amount of the payment should be added to the W-2 and the appropriate taxes should be paid.

Response - In reviewing, I did pay Carol Mitchell and LeRoy Pankey twice for their extra-curricular pay, and overpaid Michael Sheerin \$300. Robin Bunker was to move up on the salary scale, which I did, but the paperwork was misplaced in the Superintendent's office, and I was not aware the paperwork could not be located to move her back down. As you know, early in the fall we had issues with the Superintendent which placed him on leave, so documentation was very difficult to locate. I will carefully review payroll in the 09-10 year so these errors do not occur again. Currently we have changed procedure on Mr. Sauer's pay. All of these erroneous amounts were included on their W-2 with permission of our current superintendent.

Conclusion - Response acknowledged. If the District chooses to increase those individual's payroll contracts, the Board should approve those contracts retroactively. If approval by the Board is not completed, correction of overpayment should be made on the employee's next payroll check to reimburse the District.

I-D-09 Student Account Balances - We noted during our audit of the Nutrition Fund, that there were significant negative student account balances. Some of these deficit amounts were large enough to represent up to a semester's worth of lunches. The deficits in these accounts do not appear to be monitored for collection purposes. The District does not appear to have formal procedures to limit the negative amount that an individual may carry which results in large balances.

Recommendation - The Board should approve policies and identify the procedures appropriate in dealing with the account balances and then management should implement the policies. The District should as a matter of cash management not allow deficit balances to grow that high without additional approval or special arrangements in place to repay the balances. The Nutrition Fund is an enterprise fund and should be self sustaining, meaning that revenues should cover the cost to operate. Obviously, if the District does not receive the appropriate revenue, it makes it much more difficult to operate the Nutrition Fund.

Response - Letters will be sent out to parents when students have a negative balance or an unpaid contract. We will continue to contact the parents until payment is received.

Conclusion - Response accepted.

- I-E-09 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. The District may maintain subsidiary records for student activities, but all official records of the Student Activity Fund shall be maintained on the District's Uniform Financial Accounting system. If subsidiary records are maintained, these records must be reconciled to the official records monthly. Currently the Elementary Student Activity is maintained in a modified computer spreadsheet and does not include safeguards to prevent out of balance entries.

Recommendation - The District should contact the DataTeam software support and integrate the accounting for individual student activity accounts. Since the certified annual report upload requires the entire accounting software to be uploaded together, the District should maintain all accounting records for the District on one accounting system

Response - We are in the process of adding student activity balances to the current software balance, and will be completed soon.

Conclusion - Response accepted.

- I-F-09 Timely Deposits - We noted during our audit that the receipting process appears to have deficiencies in timeliness of deposits, posting and reconciling.

Recommendation - The District should deposit all receipts when received. In addition the District should post and subsequently reconcile the receipts to deposits made to the bank. The receipting, posting, depositing and reconciling process should be reviewed and necessary changes implemented to ensure that the receipts are deposited timely.

Response - A better effort will be made to ensure that all building secretaries make their deposits daily. Reconciliation will be done in a more timely fashion.

Conclusion - Response accepted.

- I-G-09 Unsupported Disbursements - We noted during our audit instances of checks being issued using purchase orders for supporting documentation. We also noted at least one instance when a check was issued with no support documentation.

Recommendation - Better internal control is achieved if the purchase order is used as an authorization for purchase and then matched to the invoice when received. The invoice should serve as the support document when preparing the check for payment. In addition the invoice should be present for the individuals signing the check, as well as available for the Board. Chapter 279.29 in part states, "The board shall audit and allow all just claims against the corporation, and no order shall be drawn upon the treasury until the claim therefore has been audited and allowed." Logically if an invoice is not available, the Board cannot fulfill the requirement in the process of approving the bill for payment. The District should review the procedures in place and make necessary changes.

Response - Staff members will be expected to return all receipts to accompany the purchase order. All purchase orders will be expected to have an invoice with them as well.

Conclusion - Response accepted.

I-H-09 IASB Dividend - It was noted that a dividend from IASB was received in the General Fund. The Dividend is a return of insurance premium. Logically, the dividend should be recorded in the same fund that the insurance was expended. The insurance costs were originally recorded in the Management Fund.

Recommendation - The District needs to make a corrective transfer from the General Fund to the Management Fund in the amount of \$10,266.55 to reclassify the IASB dividend to the proper fund.

Response - The transfer from the General Fund to the management fund has been made, and in the future, will be deposited in the Management Fund.

Conclusion - Response accepted.

I-I-09 Grant Revenue/Recognition - We noted during our audit that in the General Fund, federal grant monies were being recorded in the miscellaneous revenue account. Federal grants are allocated to a specific source code and should not be coded to miscellaneous income.

Recommendation - The District is required to maintain federal grant reporting in compliance with the Department of Education reporting. The District should review their posting process and make necessary changes to ensure federal grants are properly recorded.

Response - These federal grants will be coded to the proper area in the future.

Conclusion - Response accepted.

HARMONY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part II: Other Findings Related to Required Statutory Reporting

II-A-09 Certified Budget - District expenditures for the year ended June 30, 2009 exceeded the amounts budgeted in the non-instructional programs expenditures function.

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 - 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.

Conclusion - Response accepted.

II-B-09 Questionable Disbursements - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

II-C-09 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-09 Business Transactions - Business transactions between the District and District officials and employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Teresa Losey, Substitute bus driver	Mowing	\$2,885

In accordance with Attorney's General Opinion dated July 2, 1990, the above transactions with the employee of the District do not appear to represent a conflict of interest.

II-E-09 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-09 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted where the President and Vice-President were elected by secret ballot.

Recommendation - Chapter 21.3 of the Code of Iowa states that "the minutes shall show the results of each vote taken and information sufficient to indicate the vote of each board member present." The District needs to review their procedures to ensure that the vote of each member is included in the minutes.

Response - We will take a roll call vote in the future for president and vice president of the Board.

Conclusion - Response accepted.

II-G-09 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students reported on Line 1 was overstated by 8.5 students, the number of students reported on Line 10 was overstated by 1.2 students and line 12 was overstated by 0.37 students.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - In March or May of 2010 I will be attending a School Budget Review Committee Hearing to correct the over-calculation of student enrollees. I have contacted Su McCurdy with the Department of Education to rectify the situation. I am also requesting that the District be allowed a three year period to repay the over-calculated student enrollment.

Conclusion - Response accepted.

II-H-09 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.

II-I-09 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.

II-J-09 Financial Condition - The District had a deficit unreserved fund balance of \$306,491 in the Debt Service Fund. The District had a deficit fund balance of \$127,308 in the General Fund. The District had seven individual accounts with negative balances in the Student Activity Fund totaling \$1,052. The District also had deficit net assets in the governmental activities of \$501,813.

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

Response - We will monitor these funds and try to resolve the deficits.

Conclusion - Response accepted.

II-K-09 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.

II-L-09 Statewide Sales and Services Tax - No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax. For the year ended June 30, 2009, the District's financial activity and other required information for the statewide sales and services tax are as follows:

Beginning Balance	\$	-
Statewide sales and services tax revenue		244,808
Ependitures/Transfers Out:		
School infrastructure:		
Equipment		100,197
Ending Balance	\$	<u>144,611</u>

II-M-09 Officiating Contracts - We noted during our audit that the Board President was not signing Activity Fund officiating contracts. According to 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts entered into by the District.

Response - All officiating contracts have been revised to include the Board President's signature.

Conclusion - Response accepted.

II-N-09 Check Signatures - We noted during our audit, instances of checks clearing the bank with only one signature. Chapter 291.1 of the Code of Iowa requires the Board President and Board Secretary to sign all checks. Also pursuant to this section, the Board President may designate an individual to sign warrants on his/her behalf. However, the Board Secretary may not designate an individual to sign in their absence.

Recommendation - The District should review their procedures to ensure that the proper signatures are on all checks before sending them out, in order to be in compliance with Chapter 291.1 and 291.8 of the Code of Iowa.

Response - All checks are now signed by the Board President and the Board Secretary.

Conclusion - Response accepted.

II-O-09 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. Per Chapter 9 of the LEA Financial Accounting Manual, "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:

During our audit we noted a Just Eliminate Lies (JEL) account in the Student Activity Fund. JEL is a state agency and is not appropriate to be accounted for as a Student organization within the public school accounts.

We noted accounts in the Student Activity Fund that have been inactive for over a year. Accounts which are inactive or upon dissolution of an organization, such as a graduating class, drama club, etc., should transfer the remaining balance to support other student activities. These accounts should be closed into another account within the Student Activity Fund.

We noted an account in the Student Activity Fund for the Living Skills Program. The Living Skills Program is linked to the special education program. The monies received and expended through this account appear to be instructional in nature and, therefore, more appropriate in the General Fund.

We noted donations from Bentler Memorial are recorded in the Student Activity Fund. The money received in memory of the Bentler Family did not identify the donor's intent, rather it was donated unrestricted to the District, and therefore the monies would appear to be more appropriately receipted in the General Fund. The Board of Directors should designate a purpose for the donation.

During our audit we noted that yearbook advertisement billings were not reconciled to actual published advertisements. The District should implement procedures to reconcile sponsor payments to advertisements for the yearbook prior to publishing the yearbook. In addition, the yearbook advisor should turn the reconciliation into the central office for review and verification by central office staff. The reconciliation should be available at the time of audit.

Upon examination of accounts in the Student Activity Fund, we noted that expenditures from some of these accounts included library supplies, calculators and other items that appear to be instructional in nature. The District should review expenditures and the purpose of these accounts. If these accounts are determined to be more instructional in nature, they should be transferred to the General Fund. The LEA Uniform Administrative Procedures Manual identifies appropriate expenditures from the Student Activity Fund and continues "Inappropriate expenditures would include any expenditure more appropriate to other funds." Logically instructional expenditures are most appropriate from the General 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 - The Student Activity Accounts will be better monitored for proper expenditures and deposits. Accounts that are inactive such as graduating classes etc. will be used to support other student activities within the Activity Fund.

Conclusion - Response accepted.

II-P-09 Payroll Authorization - We noted during our audit, the District does not have written authorization to mail employee's payroll checks. Chapter 91A.3 of the Code of Iowa requires that an employer have a written request from an employee before wages can be sent to an employee by mail.

Recommendation - The District should obtain written authorization from each employee who desires to receive a payroll check by mail.

Response - I will send authorization forms to all employees and substitutes to acquire this authorization.

Conclusion - Response accepted.

II-Q-09 Board Policies - During our audit we noted Board policies which have not been reviewed in excess of 5 years.

Recommendation - The District should review all Board policies periodically to ensure they are relevant to current practices and procedures.

Response - We are in the process of reviewing the Board policies.

Conclusion - Response accepted.

II-R-09 Interfund Loans - We noted during our audit that the District has interfund loans which were on the balance sheets in the prior year and still on the current year balance sheets. As of June 30, 2009, the Physical Plant and Equipment Levy Fund owed the Capital Projects Fund \$86,793 and the Nutrition Fund owed the General Fund \$10,223.

According to a declaratory order issued by the Iowa Department of Education to the Auditor of State dated April 11, 2008, interfund loans on the District's year end financial statements must be repaid to their respective funds on or before October 1st of the following fiscal year or the date of the District's Board of Directors organizational meeting, whichever is later. If the District is unable to repay the interfund loans by that time, the District must issue anticipatory warrants to repay the interfund loans according to Iowa Code Chapter 74.

Recommendation - It appears that to comply with the declaratory ruling that the District should issue anticipatory warrant to repay the interfund loans.

Response - The transfers have occurred.

Conclusion - Response accepted.