

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

JUNE 30, 2010

Contents

	<u>Page</u>	
Officials	3	
Independent Auditor's Report	5-6	
Management's Discussion and Analysis (MD&A)	7-15	
Basic Financial Statements:		<u>Exhibit</u>
Government-wide Financial Statements:		
Statement of Net Assets	18	A
Statement of Activities	19	B
Governmental Fund Financial Statements:		
Balance Sheet	20	C
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	21	D
Statement of Revenues, Expenditures and Changes in Fund Balances	22	E
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	23	F
Proprietary Fund Financial Statements:		
Statement of Net Assets	24	G
Statement of Revenues, Expenses and Changes in Net Assets	25	H
Statement of Cash Flows	26	I
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	27	J
Statement of Changes in Fiduciary Net Assets	28	K
Notes to Basic Financial Statements	29-41	
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	44	
Notes to Required Supplementary Information - Budgetary Reporting	45	
Schedule of Funding Progress for the Retiree Health Plan	46	
Other Supplementary Information:		<u>Schedule</u>
Nonmajor Governmental Funds:		
Combining Balance Sheet	48	1
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	49	2
Schedule of Changes in Special Revenue Funds, Student Activity Accounts	50	3
Fiduciary Fund, Private Purpose Trust Accounts:		
Combining Balance Sheet	51	4
Schedule of Changes in Private Purpose Trust Fund - Scholarship Accounts	52	5
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	53	6
Schedule of Expenditures of Federal Awards	54	7
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 <u>Government Auditing Standards</u>	55-56	
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance	57-58	
Schedule of Findings and Questioned Costs	59-67	

Harmony Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2009 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
Board of Education (After September 2009 Election)		
Bill Rice	President	2011
Dennis Grossman	Vice President	2013
Don Gares	Board Member	2013
Tracy Hudson	Board Member	2011
Cody Warth	Board Member	2011
School Officials		
Kim Johnson	Superintendent	2010
Karen Seager	Business Manager/ District Secretary	2010
Iris Kerr	District Treasurer	2010
Danielle Hainfield	Attorney	2010

HARMONY COMMUNITY SCHOOL DISTRICT

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, 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, 2010, 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, 2010, 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 17, 2011 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 and Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 44 through 46 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 inquiries of management regarding the methods of measurement and presentation of the 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, 2009 (which are not presented herein). We expressed unqualified opinions for the years ended June 30, 2005 through June 30, 2009. We expressed a qualified opinion for the year ended June 30, 2004 for the lack of Capital Assets. Other supplementary information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

February 17, 2011

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, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,865,003 in fiscal 2009 to \$4,175,249 in fiscal 2010, while General Fund expenditures increased from \$3,845,664 in fiscal 2009 to \$3,945,124 in fiscal 2010. The increase in revenues was more than enough to outpace the increase in expenditures, thus resulting in an increase in the District's General Fund balance from a deficit \$127,308 in fiscal 2009 to a positive balance of \$102,817 in fiscal 2010.
- The increase in General Fund revenues was primarily attributable to an increase in federal source revenues during fiscal 2010 due to monies received from the American Recovery and Reinvestment Act. The increase in expenditures was due to the increase in expenditures in the instructional function.
- The District's solvency ratio (unreserved-undesignated fund balance/general fund revenues) decreased as compared to fiscal 2009. At June 30, 2009 the District's solvency ratio was a negative 8.08% as compared to negative 9.43% at June 30, 2010. The State School Budget Review Committee recommends a solvency ratio between 5% - 10%.

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, as well as presenting the schedule of funding progress for the retiree health plan.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

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

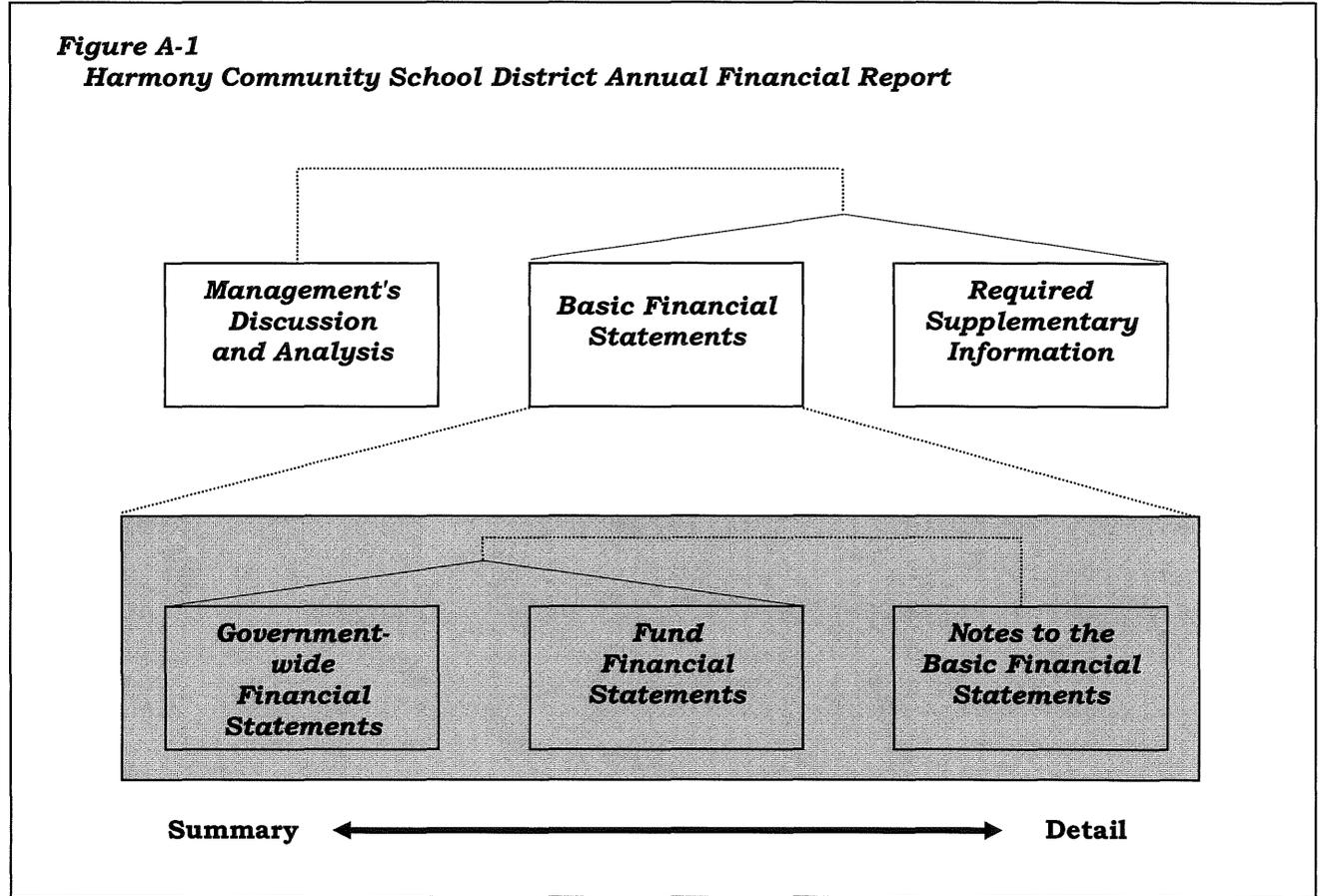


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2010 compared to June 30, 2009.

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Current and other assets	\$ 4,992,734	4,213,474	13,796	19,703	5,006,530	4,233,177	18.27%
Capital assets	4,424,383	4,443,194	17,713	16,646	4,442,096	4,459,840	-0.40%
Total assets	<u>9,417,117</u>	<u>8,656,668</u>	<u>31,509</u>	<u>36,349</u>	<u>9,448,626</u>	<u>8,693,017</u>	<u>8.69%</u>
Long-term obligations	4,243,800	1,930,606	0	0	4,243,800	1,930,606	119.82%
Other liabilities	2,155,689	4,016,207	12,734	12,413	2,168,423	4,028,620	-46.17%
Total liabilities	<u>6,399,489</u>	<u>5,946,813</u>	<u>12,734</u>	<u>12,413</u>	<u>6,412,223</u>	<u>5,959,226</u>	<u>7.60%</u>
Net assets:							
Invested in capital assets, net of related debt	1,935,664	2,158,194	17,713	16,646	1,953,377	2,174,840	-10.18%
Restricted	1,329,929	1,053,474	0	0	1,329,929	1,053,474	26.24%
Unrestricted	(247,965)	(501,813)	1,062	7,290	(246,903)	(494,523)	50.07%
Total net assets	<u>\$ 3,017,628</u>	<u>2,709,855</u>	<u>18,775</u>	<u>23,936</u>	<u>3,036,403</u>	<u>2,733,791</u>	<u>11.07%</u>

The District's combined net assets increased by \$302,612 or 11.07% 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 \$276,455 or 26.24% over the prior year. This increase is due primarily to increases in the Management Levy Fund and categorical funding carryovers.

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 - increased \$247,620 or 50.07%. The increase in unrestricted net assets is due in part to the increase in fund balance of the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2010 compared to the year ended June 30, 2009.

	Figure A-4 Changes in Net Assets						
	Governmental Activities		Business Type Activities		Total School District		Total Change
	2010	2009	2010	2009	2010	2009	2009-10
Revenues:							
Program revenues:							
Charges for services	\$ 554,988	226,969	53,884	60,139	608,872	287,108	112.07%
Operating grants and contributions and restricted interest	995,075	611,234	110,827	103,623	1,105,902	714,857	54.70%
General revenues:							
Property tax	1,587,785	1,498,503	0	0	1,587,785	1,498,503	5.96%
Income surtax	159,116	162,225	0	0	159,116	162,225	-1.92%
Statewide sales, service and use tax	227,152	244,808	0	0	227,152	244,808	-7.21%
Unrestricted state grants	1,510,181	1,654,922	0	0	1,510,181	1,654,922	-8.75%
Other	94,510	171,007	587	32	95,097	171,039	-44.40%
Total revenues	<u>5,128,807</u>	<u>4,569,668</u>	<u>165,298</u>	<u>163,794</u>	<u>5,294,105</u>	<u>4,733,462</u>	<u>11.84%</u>
Program expenses:							
Governmental activities:							
Instruction	2,980,309	2,548,103	0	0	2,980,309	2,548,103	16.96%
Support services	1,332,293	1,477,737	0	0	1,332,293	1,477,737	-9.84%
Non-instructional programs	0	0	170,459	166,914	170,459	166,914	2.12%
Other expenses	508,432	381,421	0	0	508,432	381,421	33.30%
Total expenses	<u>4,821,034</u>	<u>4,407,261</u>	<u>170,459</u>	<u>166,914</u>	<u>4,991,493</u>	<u>4,574,175</u>	<u>9.12%</u>
Change in net assets	307,773	162,407	(5,161)	(3,120)	302,612	159,287	-89.98%
Net assets beginning 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>
Net assets end of year	<u>\$ 3,017,628</u>	<u>2,709,855</u>	<u>18,775</u>	<u>23,936</u>	<u>3,036,403</u>	<u>2,733,791</u>	<u>11.07%</u>

In fiscal 2010, operating grants and contributions and restricted interest, local tax and unrestricted state grants account for 87.33% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.64% of the revenue from business type activities.

The District's total revenues were \$5.29 million of which \$5.13 million was for governmental activities and \$0.16 was for business type activities.

As shown in Figure A-4, the District as a whole experienced an 11.84% increase in revenues and a 9.12% increase in expenses. Property tax increased by \$89,282 and charges for services increased \$321,764 to fund the increase in expenses. The increase in expenses can be attributed to the increase in negotiated salaries and benefits received by District employees.

Governmental Activities

Revenues for governmental activities were \$5,128,807 and expenses were \$4,821,034.

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		
	2010	2009	Change 2009-10	2010	2009	Change 2009-10
Instruction	\$ 2,980,309	2,548,103	16.96%	1,595,495	1,856,845	-14.07%
Support services	1,332,293	1,477,737	-9.84%	1,331,910	1,477,002	-9.82%
Other expenses	508,432	381,421	33.30%	343,566	235,211	46.07%
Totals	<u>\$ 4,821,034</u>	<u>4,407,261</u>	<u>9.39%</u>	<u>3,270,971</u>	<u>3,569,058</u>	<u>-8.35%</u>

- The cost financed by users of the District's programs was \$554,988.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$995,075.
- The net cost of governmental activities was financed with \$1,587,785 in property tax, \$159,116 in income surtax, \$227,152 in statewide sales, services and use tax, \$1,510,181 in unrestricted state grants, \$41,771 in interest income and \$52,739 in other general revenues.

Business Type Activities

Revenues of the District's business type activities were \$165,298 and expenses were \$170,459. 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 \$2,675,386 compared to last year's ending fund balances of \$453,335. However, the primary reason for the increase in combined fund balance is due the issuance of \$2,075,000 of crossover refunding bonds to refund the July 1, 2001 general obligation bond issuance during fiscal 2011.

Governmental Fund Highlights

- The District's increase in the General Fund financial position is the result of many factors. The General Fund balance increased from a deficit \$127,308 in fiscal 2009 to a positive \$102,817 in fiscal 2010. General Fund revenues increased primarily because of the increase in funding received through the American Recovery and Reinvestment Act. The increase in expenditures was mainly due to the increase in expenditures in the instructional function. The increase in General Fund revenues was more than enough to offset the increase in General Fund expenditures thus creating the increase in fund balance.
- The Capital Projects fund balance decreased during the current year, from \$801,135 in 2009 to an ending balance of \$779,703 in 2010. The amount of statewide sales, services and use tax declined approximately \$17,600 as compared to the previous year. The decline in revenue coupled with the increase in fund expenditures as compared to the previous year ensured the decline in fund balance.

- The Debt Service Fund balance increased during the year from a deficit fund balance of \$306,491 in 2009 to a positive fund balance of \$1,726,281 in 2010. The main reason for the dramatic increase in fund balance was due to the issuance of crossover refunding bonds during fiscal 2010.

Proprietary Fund Highlights

- The School Nutrition Fund net assets decreased from \$23,936 at June 30, 2009 to \$18,775 at June 30, 2010, representing a decrease of 21.56%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$403,540 less than budgeted revenues, a variance of approximately 7.1%. Even though local tax revenue increased in fiscal 2010, a reduction in state resources caused the total amount received to be less 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested \$4,442,096, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$163,124.

The original cost of the District's capital assets was \$8,564,604. Governmental funds account for \$8,468,535 with the remainder of \$96,069 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$153,047 at June 30, 2009, compared to \$255,202 reported at June 30, 2010. The increase in machinery and equipment was due mainly to the acquisition of two new buses purchased from the Capital Projects Fund.

Figure A-6
Capital Assets, net of Depreciation

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Land	\$ 57,000	57,000	0	0	57,000	57,000	0.00%
Buildings	4,114,820	4,233,094	0	0	4,114,820	4,233,094	-2.79%
Land improvements	15,074	16,699	0	0	15,074	16,699	-9.73%
Machinery and equipment	237,489	136,401	17,713	16,646	255,202	153,047	66.75%
Total	\$ 4,424,383	4,443,194	17,713	16,646	4,442,096	4,459,840	-0.40%

Long-Term Debt

At June 30, 2010, the District had long-term debt outstanding of \$4,243,800 in general obligation bonds and other long-term debt outstanding. This represents an 82.27% increase from the previous year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had outstanding general obligation bonds payable of \$4,215,000 at June 30, 2010. The District issued \$2.075 million of crossover refunding bonds to call the remaining \$1.985 million of the July 1, 2001 bond issue that will be called in June of the next fiscal year.

The District also had outstanding early retirement payable from the Special Revenue, Management Levy Fund of \$28,800 at June 30, 2010.

	Figure A-7 Outstanding Long-Term Obligations		
	Total School District		Total Change
	June 30,		June 30,
	2010	2009	2009-10
General obligation bonds	\$ 4,215,000	2,285,000	84.46%
Early retirement	28,800	43,320	-33.52%
Total	<u>\$ 4,243,800</u>	<u>2,328,320</u>	<u>82.27%</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.
- The national recession that has adversely impacted the state of Iowa's budget has translated into reduced levels of state aid funding for education. Future increases in state aid (allowable growth) to schools will be based on the condition of the state and national economies. Given the current financial status of the State of Iowa, there is a possibility that the state aid rate will be reduced for the fiscal 2011 year.

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 Business Manager/District Secretary, Harmony Community School District, 601 First Street, Harmony, Iowa, 52620.

HARMONY COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities	Business Type Activities	Total
ASSETS			
U.S. Treasury Securities on deposit with escrow agent	\$ 2,040,375	0	2,040,375
Cash and pooled investments	918,487	12,742	931,229
Receivables:			
Property tax:			
Delinquent	48,111	0	48,111
Succeeding year	1,599,715	0	1,599,715
Income surtax	150,889	0	150,889
Interfund	100	(100)	0
Accounts	419	562	981
Due from other governments	215,184	0	215,184
Inventories	0	592	592
Capital assets, net of accumulated depreciation	4,424,383	17,713	4,442,096
Net OPEB asset	19,454	0	19,454
TOTAL ASSETS	9,417,117	31,509	9,448,626
LIABILITIES			
Accounts payable	163,598	0	163,598
Salaries and benefits payable	319,002	12,734	331,736
Interest payable	8,684	0	8,684
Deferred revenue:			
Succeeding year property tax	1,599,715	0	1,599,715
Other	64,690	0	64,690
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	2,140,000	0	2,140,000
Early retirement payable	14,520	0	14,520
Portion due after one year:			
General obligation bonds payable	2,075,000	0	2,075,000
Early retirement payable	14,280	0	14,280
TOTAL LIABILITIES	6,399,489	12,734	6,412,223
NET ASSETS			
Invested in capital assets, net of related debt	1,935,664	17,713	1,953,377
Restricted for:			
Categorical funding	496,495	0	496,495
Capital projects	779,703	0	779,703
Management levy	2,364	0	2,364
Other special revenue purposes	51,367	0	51,367
Unrestricted	(247,965)	1,062	(246,903)
TOTAL NET ASSETS	\$ 3,017,628	18,775	3,036,403

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

	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	\$ 1,852,239	134,506	622,557		(1,095,176)	0	(1,095,176)
Special	343,311	0	83,354		(259,957)	0	(259,957)
Other	784,759	420,482	123,915		(240,362)	0	(240,362)
	<u>2,980,309</u>	<u>554,988</u>	<u>829,826</u>		<u>(1,595,495)</u>	<u>0</u>	<u>(1,595,495)</u>
Support services:							
Student	22,880	0	0		(22,880)	0	(22,880)
Instructional staff	93,997	0	0		(93,997)	0	(93,997)
Administration	547,225	0	0		(547,225)	0	(547,225)
Operation and maintenance of plant	404,268	0	0		(404,268)	0	(404,268)
Transportation	263,923	0	383		(263,540)	0	(263,540)
	<u>1,332,293</u>	<u>0</u>	<u>383</u>		<u>(1,331,910)</u>	<u>0</u>	<u>(1,331,910)</u>
Other expenditures:							
Facilities acquisitions	71,484	0	0		(71,484)	0	(71,484)
Long-term debt interest	152,183	0	0		(152,183)	0	(152,183)
AEA flowthrough	164,866	0	164,866		0	0	0
Depreciation(unallocated)*	119,899	0	0		(119,899)	0	(119,899)
	<u>508,432</u>	<u>0</u>	<u>164,866</u>		<u>(343,566)</u>	<u>0</u>	<u>(343,566)</u>
Total governmental activities	4,821,034	554,988	995,075		(3,270,971)	0	(3,270,971)
Business Type activities:							
Non-instructional programs:							
Nutrition services	170,459	53,884	110,827		0	(5,748)	(5,748)
Total business type activities	<u>170,459</u>	<u>53,884</u>	<u>110,827</u>		<u>0</u>	<u>(5,748)</u>	<u>(5,748)</u>
Total	\$ 4,991,493	608,872	1,105,902		(3,270,971)	(5,748)	(3,276,719)
General Revenues :							
Local tax for:							
General purposes				\$ 1,405,901	0		1,405,901
Debt services				130,399	0		130,399
Capital outlay				51,485	0		51,485
Income surtax				159,116	0		159,116
Statewide sales, services and use tax				227,152	0		227,152
Unrestricted state grants				1,510,181	0		1,510,181
Unrestricted investment earnings				41,771	160		41,931
Other revenues				52,739	427		53,166
Total general revenues				<u>3,578,744</u>	<u>587</u>		<u>3,579,331</u>
Changes in net assets				307,773	(5,161)		302,612
Net assets beginning of year				<u>2,709,855</u>	<u>23,936</u>		<u>2,733,791</u>
Net assets end of year				<u>\$ 3,017,628</u>	<u>18,775</u>		<u>3,036,403</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
ASSETS					
U.S. Treasury Securities on deposit with escrow agent	\$ 0	0	2,040,375	0	2,040,375
Cash and pooled investments	435,292	646,416	0	148,034	1,229,742
Receivables:					
Property tax:					
Delinquent	38,806	0	3,961	5,344	48,111
Succeeding year	1,292,169	0	130,918	176,628	1,599,715
Income surtax	150,889	0	0	0	150,889
Interfund	100	86,793	0	0	86,893
Accounts	419	0	0	0	419
Due from other governments	114,735	100,449	0	0	215,184
TOTAL ASSETS	\$ 2,032,410	833,658	2,175,254	330,006	5,371,328
LIABILITIES AND FUND BALANCES					
Liabilities:					
Excess of warrants issued over bank balance	\$ 0	0	311,255	0	311,255
Interfund payable	0	0	0	86,793	86,793
Accounts payable	102,843	53,955	6,800	0	163,598
Salaries and benefits payable	319,002	0	0	0	319,002
Deferred revenue:					
Succeeding year property tax	1,292,169	0	130,918	176,628	1,599,715
Income surtax	150,889	0	0	0	150,889
Other	64,690	0	0	0	64,690
Total liabilities	1,929,593	53,955	448,973	263,421	2,695,942
Fund balances:					
Reserved for:					
Debt service	0	0	1,726,281	0	1,726,281
Categorical funding	496,495	0	0	0	496,495
Unreserved	(393,678)	779,703	0	66,585	452,610
Total fund balances	102,817	779,703	1,726,281	66,585	2,675,386
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,032,410	833,658	2,175,254	330,006	5,371,328

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, 2010

Total fund balances of governmental funds (page 20)		\$ 2,675,386
 <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.		4,424,383
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.		(8,684)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		150,889
Other postemployment benefits are not yet available to finance expenditures of the current fiscal period.		19,454
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>(4,243,800)</u>
Net assets of governmental activities (page 18)		<u><u>\$ 3,017,628</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 1,440,380	227,152	130,399	176,122	1,974,053
Tuition	128,506	0	0	0	128,506
Other	104,779	0	0	419,615	524,394
State sources	2,023,997	0	115	155	2,024,267
Federal sources	477,219	0	0	0	477,219
Total revenues	<u>4,174,881</u>	<u>227,152</u>	<u>130,514</u>	<u>595,892</u>	<u>5,128,439</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular	1,882,194	0	0	0	1,882,194
Special	343,311	0	0	0	343,311
Other	362,006	0	0	432,834	794,840
	<u>2,587,511</u>	<u>0</u>	<u>0</u>	<u>432,834</u>	<u>3,020,345</u>
Support services:					
Student	23,567	0	0	0	23,567
Instructional staff	94,049	0	0	0	94,049
Administration	481,229	0	0	71,825	553,054
Operation and maintenance of plant	375,386	0	0	29,551	404,937
Transportation	218,516	60,500	0	72,696	351,712
	<u>1,192,747</u>	<u>60,500</u>	<u>0</u>	<u>174,072</u>	<u>1,427,319</u>
Other expenditures:					
Facilities acquisitions	0	63,084	0	8,400	71,484
Long-term debt:					
Principal	0	0	145,000	0	145,000
Interest and fiscal charges	0	0	111,317	0	111,317
AEA flowthrough	164,866	0	0	0	164,866
	<u>164,866</u>	<u>63,084</u>	<u>256,317</u>	<u>8,400</u>	<u>492,667</u>
Total expenditures	<u>3,945,124</u>	<u>123,584</u>	<u>256,317</u>	<u>615,306</u>	<u>4,940,331</u>
Excess(deficiency) of revenues over(under) expenditures	<u>229,757</u>	<u>103,568</u>	<u>(125,803)</u>	<u>(19,414)</u>	<u>188,108</u>
Other financing sources(uses):					
Transfer in	0	0	125,000	0	125,000
Transfer out	0	(125,000)	0	0	(125,000)
Sale of equipment	368	0	0	0	368
Crossover refunding bond issuance	0	0	2,075,000	0	2,075,000
Discount on bond issuance	0	0	(31,125)	0	(31,125)
Issuance costs on bonds	0	0	(10,300)	0	(10,300)
Total other financing sources(uses)	<u>368</u>	<u>(125,000)</u>	<u>2,158,575</u>	<u>0</u>	<u>2,033,943</u>
Net change in fund balances	230,125	(21,432)	2,032,772	(19,414)	2,222,051
Fund balance beginning of year	(127,308)	801,135	(306,491)	85,999	453,335
Fund balance end of year	<u>\$ 102,817</u>	<u>779,703</u>	<u>1,726,281</u>	<u>66,585</u>	<u>2,675,386</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, 2010

Net change in fund balances - total governmental funds (page 22) \$ 2,222,051

**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	\$ 141,812	
Depreciation expense	(160,623)	(18,811)

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

Issued	(2,075,000)	
Repaid	145,000	(1,930,000)

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.

559

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	\$ 14,520	
Other postemployment benefits	19,454	33,974

Changes in net assets of governmental activities (page 19) \$ 307,773

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2010

	School Nutrition
ASSETS	
Cash and cash equivalents	\$ 12,742
Accounts receivable	562
Inventories	592
Capital assets, net of accumulated depreciation	17,713
TOTAL ASSETS	31,609
 LIABILITIES	
Interfund payable	100
Salaries and benefits payable	12,734
TOTAL LIABILITIES	12,834
 NET ASSETS	
Invested in capital assets	17,713
Unrestricted	1,062
TOTAL NET ASSETS	\$ 18,775

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, 2010

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for service	\$ 53,884
Miscellaneous	427
TOTAL OPERATING REVENUES	54,311
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	70,482
Benefits	8,778
Services	922
Supplies	87,730
Depreciation	2,501
Other	46
TOTAL OPERATING EXPENSES	170,459
OPERATING LOSS	(116,148)
NON-OPERATING REVENUES:	
Interest income	160
State sources	1,788
Federal sources	109,039
TOTAL NON-OPERATING REVENUES	110,987
Change in net assets	(5,161)
Net assets at beginning of year	23,936
Net assets end of year	\$ 18,775

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 54,102
Cash received from miscellaneous operating activities	427
Cash payments to employees for services	(78,939)
Cash payments to suppliers for goods or services	(69,774)
Net cash used in operating activities	(94,184)
Cash flows from non-capital financing activities:	
Repayments to General Fund	(10,123)
State grants received	1,788
Federal grants received	90,466
Net cash provided by non-capital financing activities	82,131
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(3,568)
Cash flows from investing activities:	
Interest on investments	160
Net decrease in cash and cash equivalents	(15,461)
Cash and cash equivalents at beginning of year	28,203
Cash and cash equivalents at end of year	\$ 12,742
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (116,148)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	18,573
Depreciation	2,501
Decrease in inventories	351
Decrease in accounts receivables	218
Increase in salaries and benefits payable	321
Net cash used in operating activities	\$ (94,184)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2010, the District received Federal commodities valued at \$18,573.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2010

	<u>Private Purpose Trust Scholarship</u>
ASSETS	
Cash and pooled investments	\$ 362,915
LIABILITIES	-
NET ASSETS	
Reserved for scholarships	353,775
Unreserved	9,140
TOTAL NET ASSETS	<u>\$ 362,915</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2010

	<u>Private Purpose</u> <u>Trust</u> <u>Scholarship</u>
ADDITIONS:	
Interest income	\$ 3,375
Contributions	200
TOTAL ADDITIONS	<u>3,575</u>
DEDUCTIONS:	
Scholarships awarded	<u>12,699</u>
Change in net assets	(9,124)
Net assets beginning of year	<u>372,039</u>
Net assets end of year	<u>\$ 362,915</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(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, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment and intangibles, 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
Intangibles	25,000
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
Intangibles	5-10 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.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2010 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.

Securities are stated at fair value. Securities traded on a national or international exchange are valued the last reported sales price at current exchange rates. At June 30, 2010, the District had investments in U.S. Treasury Securities of \$2,040,375.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2010 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nutrition	\$ 100
Capital Projects	Physical Plant and Equipment Levy	86,793
Total		<u>\$ 86,893</u>

(4) Transfers

The detail of transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	<u>\$ 125,000</u>

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

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2010 is as follows:

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. The District must make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the 2009-10A warrants was 2.50% The interest rate on the Series 2009-10B warrants is a variable rate, calculated daily based upon the Bankers Trust Co. NA prime rate plus 50 basis points with a minimum interest rate of 4.50% During the year ended June 30, 2010, the District had no borrowings or repayments for the ISCAP program. During the year ended June 30, 2010, the District paid \$33,618 of interest on the ISCAP warrants.

(6) Capital Assets

Capital assets activity for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 57,000	0	0	57,000
Total capital assets not being depreciated	57,000	0	0	57,000
Capital assets being depreciated:				
Buildings	6,529,640	0	0	6,529,640
Land improvements	312,400	0	0	312,400
Machinery and equipment	1,427,683	141,812	0	1,569,495
Total capital assets being depreciated	8,269,723	141,812	0	8,411,535
Less accumulated depreciation for:				
Buildings	2,296,546	118,274	0	2,414,820
Land improvements	295,701	1,625	0	297,326
Machinery and equipment	1,291,282	40,724	0	1,332,006
Total accumulated depreciation	3,883,529	160,623	0	4,044,152
Total capital assets being depreciated, net	4,386,194	(18,811)	0	4,367,383
Governmental activities capital assets, net	\$ 4,443,194	(18,811)	0	4,424,383

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business Type activities:				
Machinery and equipment	\$ 57,887	3,568	34,614	96,069
Less accumulated depreciation	41,241	2,501	34,614	78,356
Business Type activities capital assets, net	\$ 16,646	1,067	0	17,713

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 2,718
Other		1,190
Support services:		
Administration		421
Operation and maintenance of plant		1,100
Transportation		35,295
		40,724
Unallocated depreciation		119,899
Total governmental activities depreciation expense		\$ 160,623
Business Type activities:		
Food services		\$ 2,501

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 2,285,000	2,075,000	145,000	4,215,000	2,140,000
Early retirement	43,320	-	14,520	28,800	14,520
Total	\$ 2,328,320	2,075,000	159,520	4,243,800	2,154,520

General Obligation Bonds Payable

On June 1, 2010, the District issued \$2,075,000 of general obligation refunding bonds, with interest rates ranging from 1.25% to 3.65%, for a crossover refunding of a portion of the general obligation bonds issued July 1, 2001. The District entered into an escrow agreement whereby the proceeds from general obligation refunding bonds were converted into U.S. Securities. These securities along with additional cash were placed in an escrow account for the express purpose of paying the \$1,985,000 principal of the refunded general obligation bonds when they become callable on June 1, 2011 and the interest from July 1, 2010 to and including June 1, 2011 on the refunding bonds. After the principal and interest on all of the outstanding bonds have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the District. The transactions, balances and liabilities of the escrow account are recorded by the District since the refunded debt is not considered extinguished. The expected net present value of savings from the crossover refunding bond issue is \$107,890.

Details of the District's June 30, 2010 General Obligation bonded debt is as follows:

Year Ending June 30,	Bond issue July 1, 2001			
	Interest Rate	Principal	Interest	Total
2011	4.625	% \$ 155,000	104,211	259,211
2012	4.625	160,000	97,043	257,043
2013	4.700	165,000	89,643	254,643
2014	4.750	175,000	81,888	256,888
2015	4.875	185,000	73,575	258,575
2015-2020	4.875-5.000	1,055,000	223,356	1,278,356
2021	5.000	245,000	12,250	257,250
Subtotal		\$ 2,140,000	681,966	2,821,966

Year Ending June 30,	Bond issue June 1, 2010			
	Interest Rate	Principal	Interest	Total
2011	-	% \$ -	51,077	51,077
2012	1.250	190,000	55,553	245,553
2013	1.600	190,000	53,178	243,178
2014	1.900	195,000	50,138	245,138
2015	2.250	200,000	46,433	246,433
2015-2020	2.650-3.500	1,065,000	149,219	1,214,219
2021	1.900	235,000	8,577	243,577
Subtotal		\$ 2,075,000	414,175	2,489,175
Total		\$ 4,215,000	1,096,141	5,311,141

During the year ended June 30, 2010, the District made principal interest payments of \$140,000 and \$110,918 respectively.

Early Retirement

In prior years, the District offered a voluntary early retirement plan to its certified employees. As of June 30, 2010, there were three former employees on the voluntary early retirement plan. Under terms of that plan, eligible employees must have been at least age fifty-five and have completed twenty years of continuous service to the District. Employees had to complete an application which was subject to approval by the Board of Education. The early retirement incentives for each eligible employee was 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, 2010, totaled \$14,520.

(8) Pension and Retirement Benefits

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

Plan members are required to contribute 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$139,339, \$137,653 and \$133,443, respectively, equal to the required contributions for each year.

(9) Other Postemployment Benefits (OPEB)

The District implemented GASB Statement No.45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions during the year ended June 30, 2010.

Plan Description - The District operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses. There are 29 active and 3 retired members in the plan. Employees must be age 55 or older at retirement and have ten or more years of service to the District.

The medical/prescription drug benefit, which is a self-funded medical plan, is administered by Wellmark Blue Cross Blue Shield. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - the contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution of the District (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 4,995
Interest on net OPEB obligation	0
Adjustment to annual required contribution	<u>0</u>
Annual OPEB cost	4,995
Contributions made	<u>(24,449)</u>
Increase in net OPEB obligation	(19,454)
Net OPEB obligation - beginning of year	<u>0</u>
Net OPEB obligation - end of year	<u><u>\$ (19,454)</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the plans actual contributions for the year ended June 30, 2010.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 4,995	489.47%	\$ (19,454)

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$87,236, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$87,236. The covered payroll (annual payroll of active employees covered by the plan) was \$2.229 million, and the ratio of the UAAL to the covered payroll was 3.9%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual

results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information in the section following the Notes to the Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 3% discount rate based on the District's funding policy. The projected annual medical trend rate is 9%. The ultimate medical trend rate is 5%. The medical trend rate is reduced by a percentage each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement probabilities were developed from the assumption that employees retire at age 62 after 25 years of service.

(10) 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, 2010 were \$265,749.

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.

(11) 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 \$164,866 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(12) Deficit Fund Balance/Net Assets

At June 30, 2010, the General Fund had a deficit unreserved fund balance of \$393,678 and the Physical Plant and Equipment Levy Fund had a deficit unreserved fund balance of \$15,946. The District also had a deficit unrestricted net assets balance in the governmental activities of \$247,965.

(13) Categorical Funding

The District's ending reserved balances for categorical funding as of June 30, 2010 are broken out by the following projects:

<u>Project</u>	<u>Amount</u>
Home school assistance program	\$ 183,578
Drop out and drop out prevention	164,235
Talented and gifted	75,696
Educator quality, professional development	26,923
Educator quality, basic salary	13,173
At-risk supplementary weighting	9,956
Limited english proficiency weighting	8,785
Model core curriculum	5,009
Beginning teacher mentoring	4,332
Market factor incentives	3,247
Beginning administrator mentoring	1,500
Market factor	61
Total	<u>\$ 496,495</u>

HARMONY COMMUNITY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

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, 2010

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds	Fund		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 2,626,953	54,471	2,681,424	2,461,829	2,461,829	219,595
State sources	2,024,267	1,788	2,026,055	2,738,336	2,738,336	(712,281)
Federal sources	477,219	109,039	586,258	497,112	497,112	89,146
Total revenues	<u>5,128,439</u>	<u>165,298</u>	<u>5,293,737</u>	<u>5,697,277</u>	<u>5,697,277</u>	<u>(403,540)</u>
Expenditures/Expenses:						
Instruction	3,020,345	0	3,020,345	3,676,890	3,676,890	656,545
Support services	1,427,319	0	1,427,319	1,523,000	1,523,000	95,681
Non-instructional programs	0	170,459	170,459	224,199	224,199	53,740
Other expenditures	492,667	0	492,667	1,155,548	1,155,548	662,881
Total expenditures/expenses	<u>4,940,331</u>	<u>170,459</u>	<u>5,110,790</u>	<u>6,579,637</u>	<u>6,579,637</u>	<u>1,468,847</u>
Excess(Deficiency) of revenues over(under) expenditures/expenses	188,108	(5,161)	182,947	(882,360)	(882,360)	1,065,307
Other financing sources, net	<u>2,033,943</u>	<u>0</u>	<u>2,033,943</u>	<u>0</u>	<u>0</u>	<u>90,000</u>
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	2,222,051	(5,161)	2,216,890	(882,360)	(882,360)	1,155,307
Balance beginning of year	<u>453,335</u>	<u>23,936</u>	<u>477,271</u>	<u>890,023</u>	<u>890,023</u>	<u>(412,752)</u>
Balance end of year	<u>\$ 2,675,386</u>	<u>18,775</u>	<u>2,694,161</u>	<u>7,663</u>	<u>7,663</u>	<u>742,555</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2010

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.

HARMONY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FUNDING PROGRESS FOR THE
 RETIREE HEALTH PLAN
 (IN THOUSANDS)

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a
			Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)			Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$ 87	\$ 87	0.0%	\$ 2,229	3.9%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

HARMONY COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2010

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
ASSETS				
Cash and pooled investments	\$ 27,382	51,367	69,285	148,034
Receivables:				
Property tax:				
Delinquent	3,782	0	1,562	5,344
Succeeding year property tax	125,000	0	51,628	176,628
TOTAL ASSETS	\$ 156,164	51,367	122,475	330,006
LIABILITIES AND FUND BALANCES				
Liabilities:				
Interfund payable	\$ 0	0	86,793	86,793
Deferred revenue:				
Succeeding year property tax	125,000	0	51,628	176,628
Total liabilities	125,000	0	138,421	263,421
Unreserved fund balances	31,164	51,367	(15,946)	66,585
TOTAL LIABILITIES AND FUND BALANCES	\$ 156,164	51,367	122,475	330,006

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, 2010

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
REVENUES:				
Local sources:				
Local tax	\$ 124,637	0	51,485	176,122
Other	0	419,255	360	419,615
State sources	110	0	45	155
TOTAL REVENUES	124,747	419,255	51,890	595,892
EXPENDITURES:				
Current:				
Instruction:				
Other	0	432,834	0	432,834
Support services:				
Administration	71,825	0	0	71,825
Operation and maintenance of plant	29,551	0	0	29,551
Transportation	10,696	0	62,000	72,696
Other expenditures:				
Facilities acquisitions	0	0	8,400	8,400
TOTAL EXPENDITURES	112,072	432,834	70,400	615,306
Net change in fund balances	12,675	(13,579)	(18,510)	(19,414)
Fund balance beginning of year	18,489	64,946	2,564	85,999
Fund balance end of year	\$ 31,164	51,367	(15,946)	66,585

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND,
 STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2010

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Elementary	\$ 25,220	18,182	18,342	25,060
High School	39,726	401,073	414,492	26,307
Total	<u>\$ 64,946</u>	<u>419,255</u>	<u>432,834</u>	<u>51,367</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 PRIVATE-PURPOSE TRUST FUND, SCHOLARSHIP ACCOUNTS
 JUNE 30, 2010

	Millican Educational Memorial Fund	Reifior Scholarship Fund	Total
ASSETS			
Cash and pooled investments	\$ 86,419	276,496	362,915
LIABILITIES	0	0	0
NET ASSETS			
Reserved for scholarships	84,279	269,496	353,775
Unreserved	2,140	7,000	9,140
TOTAL NET ASSETS	\$ 86,419	276,496	362,915

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN PRIVATE-PURPOSE TRUST FUND,
 SCHOLARSHIP ACCOUNTS
 YEAR ENDED JUNE 30, 2010

	Millican Educational Memorial Fund	Reiflor Scholarship Fund	Total
Additions:			
Interest income	\$ 3,370	5	3,375
Donations	200	0	200
TOTAL REVENUES	3,570	5	3,575
Deductions:			
Scholarships awarded	2,702	9,997	12,699
Net change in net assets	868	(9,992)	(9,124)
Net assets beginning of year	85,551	286,488	372,039
Net assets end of year	\$ 86,419	276,496	362,915

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 SEVEN YEARS

	Modified Accrual Basis						
	2010	2009	2008	2007	2006	2005	2004
Revenues:							
Local sources:							
Local tax	\$ 1,974,053	1,904,147	1,790,127	1,658,929	1,756,668	1,466,940	1,490,203
Tuition	128,506	107,973	118,453	163,993	132,135	113,193	89,798
Other	524,394	290,003	304,407	274,874	418,550	192,263	168,316
State sources	2,024,267	2,095,220	2,355,847	2,220,051	2,031,504	2,038,771	2,103,017
Federal sources	477,219	170,936	127,321	175,983	392,614	429,329	803,061
Total	\$ 5,128,439	4,568,279	4,696,155	4,493,830	4,731,471	4,240,496	4,654,395
Expenditures:							
Instruction:							
Regular	\$ 1,882,194	1,682,039	1,737,007	1,688,700	1,642,212	1,707,966	1,621,297
Special	343,311	433,181	362,510	377,524	474,025	485,582	441,702
Other	794,840	440,428	496,310	450,873	540,649	377,897	364,298
Support services:							
Student	23,567	50,474	45,895	41,190	60,444	55,240	57,131
Instructional staff	94,049	140,973	88,826	109,752	115,268	39,800	90,565
Administration	553,054	571,687	484,770	565,493	518,482	499,173	474,511
Operation and maintenance of plant	404,937	436,262	395,697	397,313	352,742	376,651	315,636
Transportation	351,712	313,199	247,995	268,299	280,853	281,304	282,624
Non-instructional programs	0	0	0	0	0	80,108	59,276
Other expenditures:							
Facilities acquisitions	71,484	13,787	47,354	18,461	562,759	307,755	1,156,803
Long-term debt:							
Principal	145,000	140,000	143,623	134,189	128,683	115,702	110,000
Interest and fiscal charges	111,317	117,392	124,496	131,241	136,665	140,816	145,674
AEA flow-through	164,866	146,210	143,592	139,303	133,907	135,157	138,777
Total	\$ 4,940,331	4,485,632	4,318,075	4,322,338	4,946,689	4,603,151	5,258,294

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 10	\$ 22,581
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 10	86,458 *
			<u>109,039</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	2834-G	112,493
ARRA - TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES, RECOVERY ACT	84.389	FY 09	11,422
			<u>123,915</u>
SAFE AND DRUG FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 09	4,026
SAFE AND DRUG FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 10	4,533
			<u>8,559</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 10	23,732
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VIA)	84.369	FY 10	2,568
ARRA - STATE FISCAL STABILIZATION FUND(SFSF) EDUCATION STATE GRANTS, RECOVERY ACT	84.394	FY 09	34,416
ARRA - STATE FISCAL STABILIZATION FUND(SFSF) EDUCATION STATE GRANTS, RECOVERY ACT	84.394	FY 10	195,250
			<u>229,666</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 10	21,806
ARRA - SPECIAL EDUCATION GRANTS TO STATES (PART B), RECOVERY ACT	84.391	FY 09	11,926
ARRA - SPECIAL EDUCATION GRANTS TO STATES (PART B), RECOVERY ACT	84.391	FY 10	49,622
			<u>83,354</u>
CAREER AND TECHNICAL - BASIC GRANTS TO STATES	84.048	FY 09	620
CAREER AND TECHNICAL - BASIC GRANTS TO STATES	84.048	FY 10	4,805
			<u>5,425</u>
TOTAL			<u>\$ 586,258</u>

* - Includes \$18,573 of non-cash awards.

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Harmony Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 17, 2011. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatement on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-10, II-B-10, II-C-10 and II-D-10 to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-E-10 and II-G-10 to be significant deficiencies.

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 IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 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 and Questioned Costs. 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 17, 2011

NOLTE, CORNMAN & JOHNSON P.C.

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

To the Board of Education of
Harmony Community School District:

Compliance

We have audited the compliance of Harmony Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. Harmony Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Harmony Community School District's management. Our responsibility is to express an opinion on Harmony Community School District's compliance based on our audit.

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

In our opinion, Harmony Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Harmony Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Harmony Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harmony Community School District's internal control over compliance.

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Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness and one we considered to be a significant deficiency.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-10 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part III of the accompanying Schedule of Findings and Questioned Costs as item III-B-10 to be significant deficiency.

Harmony Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. 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.


NOLTE, CORNMAN & JOHNSON, P.C.

February 17, 2011

HARMONY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A significant deficiency and a material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
 - CFDA Number 84.389 - ARRA - Title I Grants to Local Educational Agencies, Recovery Act
 - Individual
 - CFDA Number 84.391 - ARRA - State Fiscal Stabilization Fund (SFSF)
Education State Grants, Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Harmony Community School District did not qualify as a low-risk auditee.

HARMONY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-10 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.

II-B-10 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 depreciation 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 Harris Software. 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 - Employees will, if available attend end of year training on procedures for closing out a year on a GAAP basis.

Conclusion - Response accepted.

II-C-10 Bank Reconciliations - We noted during our audit that the District does not reconcile the bank statements of the Nutrition and Student Activity Fund to the general ledger on a timely basis.

Recommendation - The District should reconcile bank statement balances to financial statement balances on a monthly basis. The bank reconciliation when performed timely, and reconciling items adjusted would provide support for the cash position. This would allow the user of the monthly financial statements a higher confidence in the amount of cash reflected on the balance sheet.

If the accounting staff is not comfortable using the accounting software to perform bank reconciliations, the District should consider sending their accounting staff to software training on bank reconciliations.

Response - Training on reconciling bank statements will be held for the Nutrition and Student Activity Fund.

Conclusion - Response accepted.

II-D-10 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 Harris 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 - The District is in the process of adding these accounts to the Fund Accounting Program.

Conclusion - Response accepted.

OTHER MATTERS:

II-E-10 Grant Coding - We noted during our audit, that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

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

Response - The District will be more aware of the coding of bills for grants and code them properly.

Conclusion - Response accepted.

II-F-10 Intangible Asset Policy - Although the District implemented Governmental Accounting Standards Board Statement No. 51 with regard to intangible assets, the District does not have a board policy addressing capitalization of intangible assets.

Recommendation - The District's Board of Directors should to adopt an intangible asset policy addressing the capitalization of intangible assets.

Response - The District is in the process of adopting an intangible asset policy to be in compliance with Governmental Accounting Standards Board Statement No. 51.

Conclusion - Response accepted.

II-G-10 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In compliance with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches, and determine that the wage paid is in compliance with minimum wage requirements as well as any overtime issues.

Response - Non-certified coaches have been given time sheets to keep the district in compliance with minimum wage requirements.

Conclusion - Response accepted.

HARMONY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 84.010: Title I Grants to Local Educational Agencies
Federal Award Year: 2010
CFDA Number 84.389: ARRA - Title I Grants to Local Educational Agencies, Recovery Act
Federal Award Year: 2009
Department of Education
Passed through the Iowa Department of Education

CFDA Number 84.394: ARRA - State Fiscal Stabilization Fund (SFSF) Education State Grants,
Recovery Act
Federal Award Year: 2009 & 2010
Department of Education
Passed through the Iowa Department of Education

III-A-10 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.

III-B-10 Grant Coding - We noted during our audit, when expenditures for specific projects were posted; it appeared expenses were not always properly posted to those projects.

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

Response - The District will be more aware of the coding of bills for grants and code them properly.

Conclusion - Response accepted.

HARMONY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-10 Certified Budget - District disbursements for the year ended June 30, 2010, did not exceed the budgeted amounts.

IV-B-10 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.

IV-C-10 Travel Expense - No travel advances to District officials or employees were noted; however, we noted during our audit that according to District board policy 803.8 employees are to be reimbursed mileage at the rate of 30¢ per mile; however, the District reimbursed one employee at the rate of 33¢ per mile. We also noted that employees were not always turning in detailed meal receipts to the central office for reimbursement which is also required by board policy 803.8.

Recommendation - The District needs to reimburse employees at the current rate per mile stated in board policy 803.8. The District needs to review with employees who are seeking meal reimbursements to turn in detailed meal receipts as required by board policy 803.8

Response - The District will reimburse employees at the current rate per mile, and require a detailed meal receipt for reimbursement.

Conclusion - Response accepted.

IV-D-10 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	\$3,613

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.

IV-E-10 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-10 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

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

Response - We will provide the minutes within the time period required, however, we are unable to control the publishing dates.

Conclusion- Response accepted.

IV-G-10 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students which were reported as resident students on line 1 was overstated by 2.72 students.

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

Response - The District's auditors will contact the Iowa Department of Education and Department of Management on our behalf to resolve this matter.

Conclusion - Response accepted.

IV-H-10 Supplementary Weighting - We noted a variance regarding the supplementary weighting certified to the Iowa Department of Education. Supplementary weighting was understated by .04.

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

Response - The District's auditors will contact the Iowa Department of Education and Department of Management on our behalf to resolve this matter.

Conclusion - Response accepted.

IV-I-10 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-J-10 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-K-10 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

IV-L-10 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, services and use tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax are as follows:

Beginning Balance		\$	144,611
Statewide sales and services tax revenue			227,152
Ependitures/Transfers Out:			
School infrastructure:			
Buildings	\$	49,362	
Equipment		60,500	
Other improvements		13,721	
Debt service for school infrastructure:			
General obligation debt		125,000	248,583
Ending Balance		\$	<u>123,180</u>

As a result of the statewide sales, services and use tax revenue received during the year ended June 30, 2010, the District reduced the following levies:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
Debt service levy	\$ 1.62217	\$ 125,000
Physical plant and equipment levy	\$ 1.32567	\$ 102,152

IV-M-10 Financial Condition - At June 30, 2010, the General Fund had a deficit unreserved fund balance of \$393,678 and the Physical Plant and Equipment Levy Fund had a deficit unreserved fund balance of \$15,946. The District also had a deficit unrestricted net assets balance in the governmental activities of \$247,965. The District had four individual accounts with deficit balances in the Student Activity Fund totaling \$3,671.

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

Response - The District will continue to monitor the deficit funds and try to keep positive balances in all funds.

Conclusion - Response accepted.

IV-N-10 Student Activity Fund - In accordance with 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1), 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 students. More specific examples of these instances of questioned items and recommendations are as follows:

Just Eliminate Lies (JEL) account: JEL is a state agency that informs youth about the truths of tobacco use and attempts to change peoples' attitudes about tobacco use. As such, JEL is not appropriate to be accounted for as a student run organization within the Student Activity Fund.

Recommendation - According to the description of what JEL is trying to accomplish, it would appear that JEL objectives are instructional in nature. Instructional revenues and expenses are more appropriately handled in the General Fund. Remaining monies in the JEL account should be transferred to the General Fund and in the future any transactions associated with JEL should be handled through the General Fund.

Response - In the future any JEL funds will be deposited in the General Fund.

Conclusion - Response accepted.

Living Skills Program account: We noted during our audit that the Student Activity Fund has an individual account called the Living Skills Program. It appears that the revenues and expenses in this account are linked to the District's special education program.

Recommendation - It appears that transactions through this account are instructional in nature. Revenues and expenses for instructional programs are more appropriately handled through the General Fund. Remaining monies in this account should be transferred to the General Fund and in the future transactions regarding this program should be handled in the General Fund.

Response - In the future the Living Skills account will be in the General Fund.

Conclusion - Response accepted.

Bentler Memorial account: We noted during our audit that the District received donations as a memorial to the Bentler family. The money received in memory of the Bentler Family did not identify the donor's intent.

Recommendation - Donations given to a school should be expended according to donor request. Since donors did not identify their intent for their donations, the donations become unrestricted to the District, and therefore the donations would appear to be more appropriately received in the General Fund. The Board of Directors should designate a purpose for the donation and make note of the designation in the board minutes.

Response - All monies in this account have been spent. No future donations from this source are expected.

Conclusion - Response accepted.

IV-O-10 Board Policies - We noted during our audit that Board policies have not been updated in the last five 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 our entire board policy book, and dates recorded when reviewed.

Conclusion - Response accepted.

IV-P-10 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, 2010, the Physical Plant and Equipment Levy Fund owed the Capital Projects Fund \$86,793 and the Nutrition Fund owed the General Fund \$100.

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 the District should issue anticipatory warrants to comply with the declaratory ruling in order to repay the interfund loan.

Response - The District is aware of the declaratory order issued by the Department of Education, but the District feels that with the financial condition of the District that issuing anticipatory warrants for the Physical Plant and Equipment Levy Fund to repay the interfund loan to the Capital Projects Fund would impose unnecessary issuance and origination costs to the District.

Conclusion - Response acknowledged.