

HARMONY COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2011

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Harmony Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
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		
Dennis Phelps	Superintendent	2011
Karen Seager	Business Manager/ District Secretary	2011
Iris Kerr	District Treasurer	2011
Danielle Hainfield	Attorney	2011

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, 2011, 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, 2011, 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 March 28, 2012 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

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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 six years ended June 30, 2010 (which are not presented herein). We expressed unqualified opinions for the years ended June 30, 2005 through June 30, 2010. 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 8, 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.

March 28, 2012

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, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$4,175,249 in fiscal 2010 to \$4,130,182 in fiscal 2011, while General Fund expenditures decreased from \$3,945,124 in fiscal 2010 to \$3,904,975 in fiscal 2011. The resulted in an increase in the District's General Fund balance from \$102,817 in fiscal 2010 to \$328,024 in fiscal 2011.
- The decrease in General Fund revenues was primarily attributable to a decrease in federal source revenues during fiscal 2011. The decrease in expenditures was due to the decrease in expenditures in the support services function.
- The District's solvency ratio (unassigned general fund balance/general fund revenues) increased as compared to fiscal 2010. At June 30, 2010 the District's solvency ratio was a negative 9.43% as compared to negative 8.51% at June 30, 2011.

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 governmental funds.

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

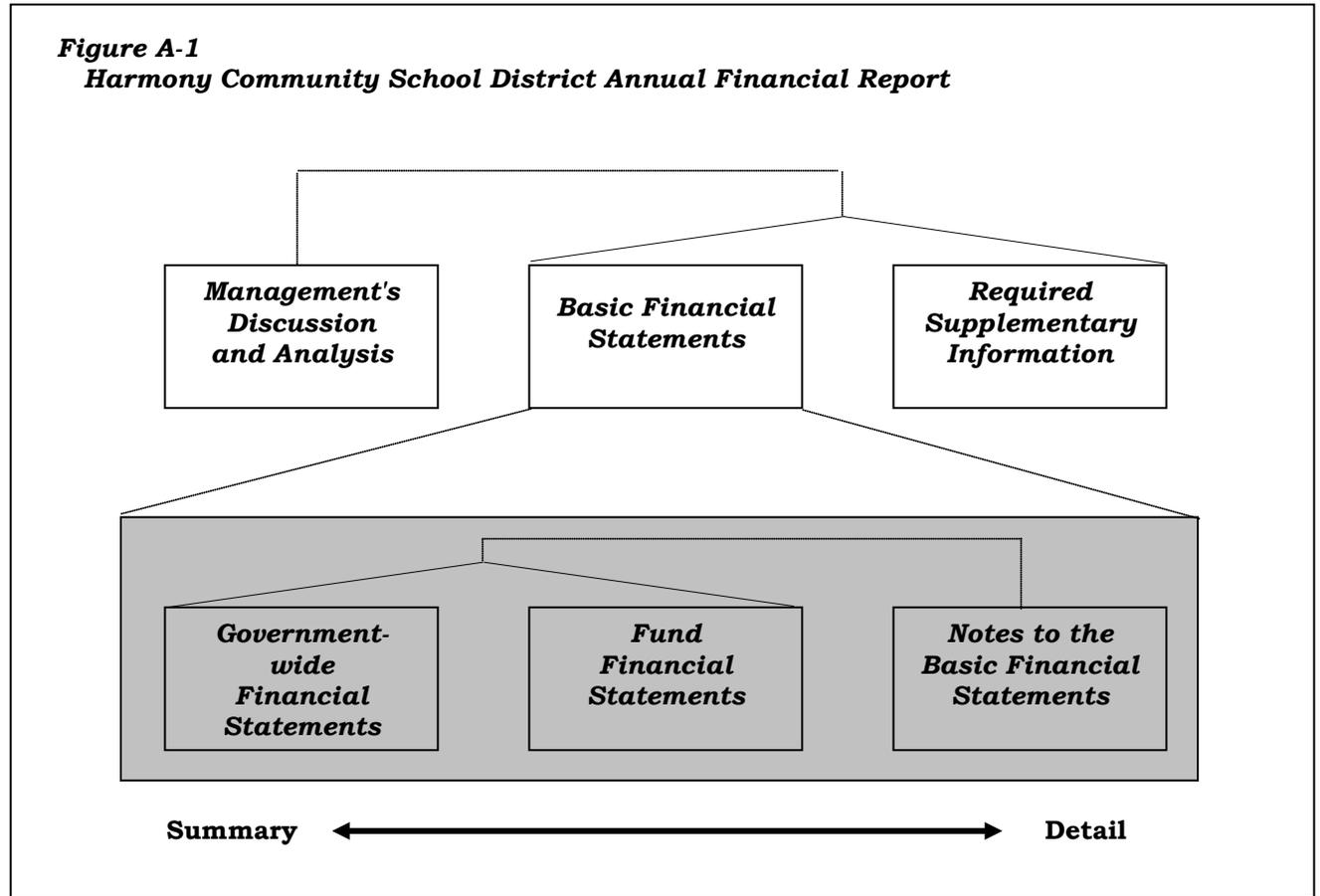


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2011 compared to June 30, 2010.

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2011	2010-11
Current and other assets	\$ 3,779,987	4,992,734	4,649	13,796	3,784,636	5,006,530	-24.41%
Capital assets	4,334,730	4,424,383	15,521	17,713	4,350,251	4,442,096	-2.07%
Total assets	8,114,717	9,417,117	20,170	31,509	8,134,887	9,448,626	-13.90%
Long-term obligations	2,089,280	4,243,800	0	0	2,089,280	4,243,800	-50.77%
Other liabilities	2,323,638	2,155,689	13,264	12,734	2,336,902	2,168,423	7.77%
Total liabilities	4,412,918	6,399,489	13,264	12,734	4,426,182	6,412,223	-30.97%
Net assets:							
Invested in capital assets, net of related debt	2,259,730	1,935,664	15,521	17,713	2,275,251	1,953,377	16.48%
Restricted	1,781,590	1,329,929	0	0	1,781,590	1,329,929	33.96%
Unrestricted	(339,521)	(247,965)	(8,615)	1,062	(348,136)	(246,903)	-41.00%
Total net assets	\$ 3,701,799	3,017,628	6,906	18,775	3,708,705	3,036,403	22.14%

The District's combined net assets increased by \$672,302 or 22.14% 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 \$451,661 or 33.96% over the prior year. This increase is due primarily to increases in the Capital Project Accounts and state 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 - decreased \$101,233 or 41.00%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2011 compared to the year ended June 30, 2010.

	Figure A-4							Total Change 2010-11
	Changes in Net Assets							
	Governmental Activities		Business Type Activities		Total School District			
2011	2010	2011	2010	2011	2011			
Revenues:								
Program revenues:								
Charges for services	\$ 604,490	554,988	46,739	53,884	651,229	608,872		6.96%
Operating grants, contributions and restricted interest	484,988	995,075	125,988	110,827	610,976	1,105,902		-44.75%
Capital grants, contributions and restricted interest	169,000	0	0	0	169,000	0		100.00%
General revenues:								
Property tax	1,762,505	1,587,785	0	0	1,762,505	1,587,785		11.00%
Income surtax	163,268	159,116	0	0	163,268	159,116		2.61%
Statewide sales, service and use tax	281,968	227,152	0	0	281,968	227,152		24.13%
Unrestricted state grants	1,797,507	1,510,181	0	0	1,797,507	1,510,181		19.03%
Nonspecific programs federal grants	41,048	0	0	0	41,048	0		100.00%
Other	238,263	94,510	4,987	587	243,250	95,097		155.79%
Total revenues	<u>5,543,037</u>	<u>5,128,807</u>	<u>177,714</u>	<u>165,298</u>	<u>5,720,751</u>	<u>5,294,105</u>		<u>8.06%</u>
Program expenses:								
Governmental activities:								
Instruction	3,108,378	2,980,309	0	0	3,108,378	2,980,309		4.30%
Support services	1,323,299	1,332,293	0	0	1,323,299	1,332,293		-0.68%
Non-instructional programs	0	0	189,583	170,459	189,583	170,459		11.22%
Other expenses	427,189	508,432	0	0	427,189	508,432		-15.98%
Total expenses	<u>4,858,866</u>	<u>4,821,034</u>	<u>189,583</u>	<u>170,459</u>	<u>5,048,449</u>	<u>4,991,493</u>		<u>1.14%</u>
Change in net assets	684,171	307,773	(11,869)	(5,161)	672,302	302,612		-122.17%
Net assets beginning 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>
Net assets end of year	<u>\$ 3,701,799</u>	<u>3,017,628</u>	<u>6,906</u>	<u>18,775</u>	<u>3,708,705</u>	<u>3,036,403</u>		<u>22.14%</u>

In fiscal 2011, operating grants and contributions and restricted interest, local tax and unrestricted state grants account for 81.01% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 97.19% of the revenue from business type activities.

The District's total revenues were approximately \$5.72 million of which approximately \$5.54 million was for governmental activities and approximately \$0.18 was for business type activities.

As shown in Figure A-4, the District as a whole experienced an 8.06% increase in revenues and a 1.14% increase in expenses. Property tax increased by \$174,720 and charges for services increased \$42,357 to fund the increase in expenses. The increase in expenses can be attributed to the increase in the instructional functional area.

Governmental Activities

Revenues for governmental activities were \$5,543,037 and expenses were \$4,858,866.

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		
	2011	2010	Change 2010-11	2011	2010	Change 2010-11
Instruction	\$ 3,108,378	2,980,309	4.30%	2,184,379	1,595,495	36.91%
Support services	1,323,299	1,332,293	-0.68%	1,153,414	1,331,910	-13.40%
Other expenses	427,189	508,432	-15.98%	262,595	343,566	-23.57%
Totals	<u>\$ 4,858,866</u>	<u>4,821,034</u>	<u>0.78%</u>	<u>3,600,388</u>	<u>3,270,971</u>	<u>10.07%</u>

- The cost financed by users of the District's programs was \$604,490.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$653,988.
- The net cost of governmental activities was financed with \$1,762,505 in property tax, \$163,268 in income surtax, \$281,968 in statewide sales, services and use tax, \$1,797,507 in unrestricted state grants, \$41,048 in nonspecific program federal grants, \$15,767 in interest income and \$222,496 in other general revenues.

Business Type Activities

Revenues of the District's business type activities were \$177,714 and expenses were \$189,583. 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 \$1,260,578 compared to last year's ending fund balances of \$2,675,386. However, the primary reason for the decrease in combined fund balance is due the repayment of crossover refunding bonds.

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 \$102,817 in fiscal 2010 to \$328,024 in fiscal 2011. General Fund revenues decreased primarily because of the decrease in funding received through the American Recovery and Reinvestment Act. The decrease in expenditures was mainly due to the decrease in expenditures in the support services function.
- The Capital Projects Account balance increased from a restated balance of \$763,757 at the beginning of the fiscal year 2011 to \$974,984 at the end of fiscal 2011. The beginning balance was restated as a result of the Physical Plant and Equipment Levy Fund reclassification as a Capital Projects Fund account in accordance with GASB Statement No. 54. The increase in fund balance was due to an increase in sales tax revenues as compared to the previous year.

- The Debt Service Fund balance decreased during the year from a positive fund balance of \$1,726,281 in 2010 to a deficit fund balance of \$179,906 in 2011. The main reason for the dramatic decrease in fund balance was due to the repayment of crossover refunding bonds during fiscal 2011.

Proprietary Fund Highlights

- The School Nutrition Fund net assets decreased from \$18,775 at June 30, 2010 to \$6,906 at June 30, 2011, representing a decrease of 63.22%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$46,129 more than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving more from local sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures functional area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had invested \$4,350,251, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$166,128.

The original cost of the District's capital assets was \$8,449,383. Governmental funds account for \$8,353,314 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 land improvement category. The District's land improvement totaled \$15,074 at June 30, 2010, compared to \$13,355 reported at June 30, 2011. The decrease in land improvements was due to depreciation expensed during the year.

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
Land	\$ 57,000	57,000	0	0	57,000	57,000	0.00%
Buildings	4,005,578	4,114,820	0	0	4,005,578	4,114,820	-2.65%
Land improvements	13,355	15,074	0	0	13,355	15,074	-11.40%
Machinery and equipment	258,797	237,489	15,521	17,713	274,318	255,202	7.49%
Total	\$ 4,334,730	4,424,383	15,521	17,713	4,350,251	4,442,096	-2.07%

Long-Term Debt

At June 30, 2011, the District had long-term debt outstanding of \$2,089,280 in general obligation bonds and other long-term debt outstanding. This represents a 50.77% decrease from the previous year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds payable of \$2,075,000 at June 30, 2011.

The District also had outstanding early retirement payable from the Special Revenue, Management Levy Fund of \$14,280 at June 30, 2011.

	Figure A-7 Outstanding Long-Term Obligations		
	Total School District		Total Change
	June 30,		June 30,
	2011	2010	2010-11
General obligation bonds	\$ 2,075,000	4,215,000	-50.77%
Early retirement	14,280	28,800	-50.42%
Total	<u>\$ 2,089,280</u>	<u>4,243,800</u>	<u>-50.77%</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.
-

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, 2011

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and pooled investments	\$ 1,538,746	971	1,539,717
Receivables:			
Property tax:			
Delinquent	49,869	0	49,869
Succeeding year	1,806,421	0	1,806,421
Income surtax	158,975	0	158,975
Accounts	4,656	102	4,758
Due from other funds	100	0	100
Due from other governments	179,795	0	179,795
Inventories	0	3,576	3,576
Capital assets, net of accumulated depreciation	4,334,730	15,521	4,350,251
Net OPEB asset	41,425	0	41,425
TOTAL ASSETS	8,114,717	20,170	8,134,887
LIABILITIES			
Due to other funds	0	100	100
Accounts payable	49,004	0	49,004
Salaries and benefits payable	347,201	12,734	359,935
Interest payable	4,629	0	4,629
Unearned revenue	0	430	430
Deferred revenue:			
Succeeding year property tax	1,806,421	0	1,806,421
Other	116,383	0	116,383
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	190,000	0	190,000
Early retirement payable	8,820	0	8,820
Portion due after one year:			
General obligation bonds payable	1,885,000	0	1,885,000
Early retirement payable	5,460	0	5,460
TOTAL LIABILITIES	4,412,918	13,264	4,426,182
NET ASSETS			
Invested in capital assets, net of related debt	2,259,730	15,521	2,275,251
Restricted for:			
Categorical funding	679,420	0	679,420
School infrastructure	978,974	0	978,974
Management levy purposes	82,263	0	82,263
Student activities	40,933	0	40,933
Unrestricted	(339,521)	(8,615)	(348,136)
TOTAL NET ASSETS	\$ 3,701,799	6,906	3,708,705

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

	Program Revenues					Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 1,856,608	104,915	88,609	0	(1,663,084)	0	(1,663,084)
Special	351,149	0	21,568	0	(329,581)	0	(329,581)
Other	900,621	499,575	209,332	0	(191,714)	0	(191,714)
	<u>3,108,378</u>	<u>604,490</u>	<u>319,509</u>	<u>0</u>	<u>(2,184,379)</u>	<u>0</u>	<u>(2,184,379)</u>
Support services:							
Student	76,630	0	0	0	(76,630)	0	(76,630)
Instructional staff	93,732	0	0	0	(93,732)	0	(93,732)
Administration	476,327	0	0	0	(476,327)	0	(476,327)
Operation and maintenance of plant	393,654	0	0	169,000	(224,654)	0	(224,654)
Transportation	282,956	0	885	0	(282,071)	0	(282,071)
	<u>1,323,299</u>	<u>0</u>	<u>885</u>	<u>169,000</u>	<u>(1,153,414)</u>	<u>0</u>	<u>(1,153,414)</u>
Other expenses:							
Long-term debt interest	151,634	0	0	0	(151,634)	0	(151,634)
AEA flowthrough	164,594	0	164,594	0	0	0	0
Depreciation(unallocated)*	110,961	0	0	0	(110,961)	0	(110,961)
	<u>427,189</u>	<u>0</u>	<u>164,594</u>	<u>0</u>	<u>(262,595)</u>	<u>0</u>	<u>(262,595)</u>
Total governmental activities	4,858,866	604,490	484,988	169,000	(3,600,388)	0	(3,600,388)
Business type activities:							
Non-instructional programs:							
Nutrition services	189,583	46,739	125,988	0	0	(16,856)	(16,856)
Total business type activities	<u>189,583</u>	<u>46,739</u>	<u>125,988</u>	<u>0</u>	<u>0</u>	<u>(16,856)</u>	<u>(16,856)</u>
Total	\$ 5,048,449	651,229	610,976	169,000	(3,600,388)	(16,856)	(3,617,244)
General Revenues :							
Property tax for:							
General purposes					\$ 1,447,221	0	1,447,221
Debt services					258,549	0	258,549
Capital outlay					56,735	0	56,735
Income surtax					163,268	0	163,268
Statewide sales, services and use tax					281,968	0	281,968
Unrestricted state grants					1,797,507	0	1,797,507
Nonspecific program federal grants					41,048	0	41,048
Unrestricted investment earnings					15,767	41	15,808
Other revenues					222,496	4,946	227,442
Total general revenues					<u>4,284,559</u>	<u>4,987</u>	<u>4,289,546</u>
Changes in net assets					684,171	(11,869)	672,302
Net assets beginning of year					<u>3,017,628</u>	<u>18,775</u>	<u>3,036,403</u>
Net assets end of year					<u>\$ 3,701,799</u>	<u>6,906</u>	<u>3,708,705</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments	\$ 728,011	676,173	500	134,062	1,538,746
Receivables:					
Property tax:					
Delinquent	36,487	1,589	7,742	4,051	49,869
Succeeding year	1,425,987	59,381	121,053	200,000	1,806,421
Income surtax	158,975	0	0	0	158,975
Accounts	4,656	0	0	0	4,656
Due from other funds	0	275,041	0	0	275,041
Due from other governments	69,731	110,064	0	0	179,795
TOTAL ASSETS	\$ 2,423,847	1,122,248	129,295	338,113	4,013,503
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to other funds	\$ 0	86,793	188,148	0	274,941
Accounts payable	47,277	1,090	0	637	49,004
Salaries and benefits payable	347,201	0	0	0	347,201
Deferred revenue:					
Succeeding year property tax	1,425,987	59,381	121,053	200,000	1,806,421
Income surtax	158,975	0	0	0	158,975
Other	116,383	0	0	0	116,383
Total liabilities	2,095,823	147,264	309,201	200,637	2,752,925
Fund balances:					
Restricted for:					
Categorical funding	679,420	0	0	0	679,420
School infrastructure	0	978,974	0	0	978,974
Management levy purposes	0	0	0	96,543	96,543
Student activities	0	0	0	40,933	40,933
Unassigned:					
General	(351,396)	0	0	0	(351,396)
Physical plant and equipment	0	(3,990)	0	0	(3,990)
Debt service	0	0	(179,906)	0	(179,906)
Total fund balances	328,024	974,984	(179,906)	137,476	1,260,578
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,423,847	1,122,248	129,295	338,113	4,013,503

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2011

Total fund balances of governmental funds(page 20)		\$ 1,260,578
 Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		4,334,730
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.		(4,629)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		158,975
Other postemployment benefits are not yet available to finance expenditures of the current fiscal period.		41,425
Long-term liabilities, including bonds payable, and early retirement payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(2,089,280)</u>
Net assets of governmental activities(page 18)		<u><u>\$ 3,701,799</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 1,457,775	338,703	258,549	144,628	2,199,655
Tuition	99,082	0	0	0	99,082
Other	271,368	361	5,746	498,696	776,171
State sources	2,065,630	46	207	116	2,065,999
Federal sources	225,044	169,000	0	0	394,044
Total revenues	<u>4,118,899</u>	<u>508,110</u>	<u>264,502</u>	<u>643,440</u>	<u>5,534,951</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular	1,866,223	31,983	0	0	1,898,206
Special	340,654	0	0	0	340,654
Other	389,758	0	0	509,130	898,888
	<u>2,596,635</u>	<u>31,983</u>	<u>0</u>	<u>509,130</u>	<u>3,137,748</u>
Support services:					
Student	62,769	0	0	0	62,769
Instructional staff	79,155	0	0	0	79,155
Administration	435,574	0	0	42,624	478,198
Operation and maintenance of plant	343,473	11,520	0	24,921	379,914
Transportation	222,775	0	0	11,820	234,595
	<u>1,143,746</u>	<u>11,520</u>	<u>0</u>	<u>79,365</u>	<u>1,234,631</u>
Other expenditures:					
Facilities acquisitions	0	128,380	0	0	128,380
Long-term debt:					
Principal	0	0	2,140,000	0	2,140,000
Interest and fiscal charges	0	0	155,689	0	155,689
AEA flowthrough	164,594	0	0	0	164,594
	<u>164,594</u>	<u>128,380</u>	<u>2,295,689</u>	<u>0</u>	<u>2,588,663</u>
Total expenditures	<u>3,904,975</u>	<u>171,883</u>	<u>2,295,689</u>	<u>588,495</u>	<u>6,961,042</u>
Excess(Deficiency) of revenues over(under) expenditures	<u>213,924</u>	<u>336,227</u>	<u>(2,031,187)</u>	<u>54,945</u>	<u>(1,426,091)</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	11,283	0	0	0	11,283
Total other financing sources(uses)	<u>11,283</u>	<u>(125,000)</u>	<u>125,000</u>	<u>0</u>	<u>11,283</u>
Net change in fund balances	225,207	211,227	(1,906,187)	54,945	(1,414,808)
Fund balance beginning of year, as restated	102,817	763,757	1,726,281	82,531	2,675,386
Fund balance end of year	<u>\$ 328,024</u>	<u>974,984</u>	<u>(179,906)</u>	<u>137,476</u>	<u>1,260,578</u>

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds(page 22) \$ (1,414,808)

**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 and depreciation expense for the current year, are as follows:

Capital outlays	\$ 74,283	
Depreciation expense	(163,936)	(89,653)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 2,140,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 4,055

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 8,086

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	21,971	36,491

Changes in net assets of governmental activities(page 19) \$ 684,171

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2011

	<u>School Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 971
Accounts receivable	102
Inventories	3,576
Capital assets, net of accumulated depreciation	<u>15,521</u>
TOTAL ASSETS	<u>20,170</u>
LIABILITIES	
Due to other funds	100
Salaries and benefits payable	12,734
Unearned revenue	<u>430</u>
TOTAL LIABILITIES	<u>13,264</u>
NET ASSETS	
Invested in capital assets	15,521
Unrestricted	<u>(8,615)</u>
TOTAL NET ASSETS	<u>\$ 6,906</u>

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2011

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for service	\$ 46,739
Miscellaneous	4,946
TOTAL OPERATING REVENUES	51,685
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	78,529
Benefits	11,670
Services	2,017
Supplies	95,065
Depreciation	2,192
Other	110
TOTAL OPERATING EXPENSES	189,583
OPERATING LOSS	(137,898)
NON-OPERATING REVENUES:	
Interest income	41
State sources	1,600
Federal sources	124,388
TOTAL NON-OPERATING REVENUES	126,029
Change in net assets	(11,869)
Net assets at beginning of year	18,775
Net assets end of year	\$ 6,906

SEE NOTES FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2011

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 47,629
Cash received from miscellaneous operating activities	4,946
Cash payments to employees for services	(90,199)
Cash payments to suppliers for goods or services	(76,925)
Net cash used in operating activities	(114,549)
Cash flows from non-capital financing activities:	
State grants received	1,600
Federal grants received	101,137
Net cash provided by non-capital financing activities	102,737
Cash flows from investing activities:	
Interest on investments	41
Net decrease in cash and cash equivalents	(11,771)
Cash and cash equivalents at beginning of year	12,742
Cash and cash equivalents at end of year	\$ 971
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (137,898)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	23,251
Depreciation	2,192
Increase in inventories	(2,984)
Decrease in accounts receivable	460
Increase in unearned revenues	430
Net cash used in operating activities	\$ (114,549)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2011, the District received Federal commodities valued at \$23,251.

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 JUNE 30, 2011

	Private Purpose Trust
	Scholarship
ASSETS	
Cash and pooled investments	\$ 361,602
LIABILITIES	0
NET ASSETS	
Restricted for scholarships	352,102
Unrestricted	9,500
TOTAL NET ASSETS	\$ 361,602

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2011

	Private Purpose Trust
	Scholarship
ADDITIONS:	
Interest income	\$ 7,187
DEDUCTIONS:	
Scholarships awarded	8,500
Change in net assets	(1,313)
Net assets beginning of year	362,915
Net assets end of year	\$ 361,602

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(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. Combining schedules are also included for the Capital Project Fund accounts.

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 and construction of capital facilities and other capital assets.

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

The District reports the following non-major proprietary fund:

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

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

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - assigned and then unassigned fund balances.

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, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2010.

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.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

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

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, District expenditures in the other expenditures functions exceeded the budgeted amounts.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds. The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2011.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2011 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nutrition	\$ 100
Capital Projects: Statewide Sales, Services and Use Tax	Debt Service	188,148
Capital Projects: Statewide Sales, Services and Use Tax	Capital Projects: Physical Plant and Equipment Levy	86,793
Total		<u>\$ 275,041</u>

(4) Transfers

The detail of transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	<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) Capital Assets

Capital assets activity for the year ended June 30, 2011 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	<u>57,000</u>	<u>0</u>	<u>0</u>	<u>57,000</u>
Capital assets being depreciated:				
Buildings	6,529,640	0	0	6,529,640
Land improvements	312,400	0	0	312,400
Machinery and equipment	1,569,495	74,283	189,504	1,454,274
Total capital assets being depreciated	<u>8,411,535</u>	<u>74,283</u>	<u>189,504</u>	<u>8,296,314</u>
Less accumulated depreciation for:				
Buildings	2,414,820	109,242	0	2,524,062
Land improvements	297,326	1,719	0	299,045
Machinery and equipment	1,332,006	52,975	189,504	1,195,477
Total accumulated depreciation	<u>4,044,152</u>	<u>163,936</u>	<u>189,504</u>	<u>4,018,584</u>
Total capital assets being depreciated, net	<u>4,367,383</u>	<u>(89,653)</u>	<u>0</u>	<u>4,277,730</u>
Governmental activities capital assets, net	<u>\$ 4,424,383</u>	<u>(89,653)</u>	<u>0</u>	<u>4,334,730</u>
Business type activities:				
Machinery and equipment	\$ 96,069	0	0	96,069
Less accumulated depreciation	78,356	2,192	0	80,548
Business type activities capital assets, net	<u>\$ 17,713</u>	<u>(2,192)</u>	<u>0</u>	<u>15,521</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 12,311
Other	2,141
Support services:	
Administration	3,040
Operation and maintenance of plant	1,100
Transportation	34,383
	<u>52,975</u>
Unallocated depreciation	<u>110,961</u>
Total governmental activities depreciation expense	<u>\$ 163,936</u>
Business type activities:	
Food services	<u>\$ 2,192</u>

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2011 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 4,215,000	0	2,140,000	2,075,000	190,000
Early retirement	28,800	0	14,520	14,280	8,820
Total	\$ 4,243,800	0	2,154,520	2,089,280	198,820

General Obligation Bonds Payable

Details of the District's June 30, 2011 General Obligation bonded debt is as follows:

Year Ending June 30,	Interest Rate	Bond issue June 1, 2010		
		Principal	Interest	Total
2012	1.25	% \$ 190,000	55,553	245,553
2013	1.60	190,000	53,178	243,178
2014	1.90	195,000	50,138	245,138
2015	2.25	200,000	46,433	246,433
2016	2.65	200,000	41,932	241,932
2017-2021	3.05-3.65	1,100,000	115,864	1,215,864
Total		\$ 2,075,000	363,098	2,438,098

Early Retirement

In prior years, the District offered a voluntary early retirement plan to its certified employees. As of June 30, 2011, 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, 2011, totaled \$14,520.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 4.50% of their annual covered salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$145,602, \$139,339 and \$137,653, respectively, equal to The required contributions for each year.

(8) Other Postemployment Benefits (OPEB)

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, 2011, 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	(584)
Adjustment to annual required contribution	978
Annual OPEB cost	<u>5,389</u>
Contributions made	<u>(27,360)</u>
Increase in net OPEB obligation	(21,971)
Net OPEB obligation - beginning of year	<u>(19,454)</u>
Net OPEB obligation - end of year	<u>\$ (41,425)</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, 2011.

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, 2011 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 4,995	489.47%	\$ (19,454)
2011	5,389	507.70%	(41,425)

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, 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 \$2,144,847, and the ratio of the UAAL to the covered payroll was 4.1%. As of June 30, 2011, 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.

(9) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members

include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2011 were \$230,637.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior notice may withdraw.

Harmony Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$164,594 for the year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Deficit Unassigned Fund Balances/Net Assets

At June 30, 2011, the General Fund had a deficit unassigned fund balance of \$351,396, the Capital Projects: Physical Plant and Equipment Levy Fund had a deficit unassigned fund balance of \$3,990 and the Debt Service Fund had a deficit unassigned fund balance of \$179,906. The District also had a deficit unrestricted net assets balance in the governmental activities of \$339,521 and the School Nutrition Fund has a deficit unrestricted net asset balance of \$8,615.

(12) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2011, expenditures in the other expenditure function and total expenditures exceeded the amounts budgeted.

(13) Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2011 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
Drop out and drop out prevention	\$ 271,736
Home school assistance program	231,547
Talented and gifted	80,745
Educator quality, professional development	28,209
Educator quality, basic salary	20,476
At-risk supplementary weighting	14,893
Limited english proficiency weighting	12,668
Model core curriculum	9,473
Beginning teacher mentoring	4,339
Market factor incentives	3,247
Beginning administrator mentoring	1,500
Nonpublic transportation	526
Market factor	61
	<hr/>
Total	<u>\$ 679,420</u>

(14) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassification is as follows:

	<u>Capital Projects</u>	<u>Special Revenue, Physical Plant and Equipment Levy</u>
Balances June 30, 2010 as previously reported	\$ 779,703	(15,946)
Change in fund type classification per implementation of GASB Statement No. 54	(15,946)	15,946
	<hr/>	<hr/>
Balance July 1, 2010 as restated	<u>\$ 763,757</u>	<u>0</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, 2011

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Funds	Fund		Original	Final	Actual
	Actual	Actual				Variance
Revenues:						
Local sources	\$ 3,074,908	51,726	3,126,634	2,660,419	2,660,419	466,215
State sources	2,065,999	1,600	2,067,599	2,498,117	2,498,117	(430,518)
Federal sources	394,044	124,388	518,432	508,000	508,000	10,432
Total revenues	5,534,951	177,714	5,712,665	5,666,536	5,666,536	46,129
Expenditures/Expenses:						
Instruction	3,137,748	0	3,137,748	3,629,182	3,629,182	491,434
Support services	1,234,631	0	1,234,631	1,678,746	1,678,746	444,115
Non-instructional programs	0	189,583	189,583	246,129	246,129	56,546
Other expenditures	2,588,663	0	2,588,663	949,276	949,276	(1,639,387)
Total expenditures/expenses	6,961,042	189,583	7,150,625	6,503,333	6,503,333	(647,292)
Deficiency of revenues under expenditures/expenses	(1,426,091)	(11,869)	(1,437,960)	(836,797)	(836,797)	(601,163)
Other financing sources, net	11,283	0	11,283	(259,211)	(259,211)	90,000
Deficiency of revenues and other financing sources under expenditures/expenses	(1,414,808)	(11,869)	(1,426,677)	(1,096,008)	(1,096,008)	(511,163)
Balance beginning of year	2,675,386	18,775	2,694,161	450,637	450,637	2,243,524
Balance end of year	\$ 1,260,578	6,906	1,267,484	(645,371)	(645,371)	1,732,361

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2011

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2011, expenditures in the other expenditure function and total expenditures exceeded the amount budgeted.

HARMONY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)			
2010	July 1, 2009	\$ -	\$ 87,236	\$ 87,236	0.0%	\$ 2,228,745	3.9%
2011	July 1, 2009	-	87,236	87,236	0.0%	2,144,847	4.1%

See Note 8 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.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OTHER SUPPLEMENTARY INFORMATION

HARMONY COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2011

	Manage- ment Levy	Student Activity	Total
ASSETS			
Cash and pooled investments	\$ 93,129	40,933	134,062
Receivables:			
Property tax:			
Delinquent	4,051	0	4,051
Succeeding year property tax	200,000	0	200,000
TOTAL ASSETS	\$ 297,180	40,933	338,113
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 637	0	637
Deferred revenue:			
Succeeding year property tax	200,000	0	200,000
Total liabilities	200,637	0	200,637
Fund balances:			
Restricted for:			
Management levy purposes	96,543	0	96,543
Student activities	0	40,933	40,933
Total fund balances	96,543	40,933	137,476
TOTAL LIABILITIES AND FUND BALANCES	\$ 297,180	40,933	338,113

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2011

	Manage- ment Levy	Student Activity	Total
REVENUES:			
Local sources:			
Local tax	\$ 144,628	0	144,628
Other	0	498,696	498,696
State sources	116	0	116
TOTAL REVENUES	<u>144,744</u>	<u>498,696</u>	<u>643,440</u>
EXPENDITURES:			
Current:			
Instruction:			
Other	0	509,130	509,130
Support services:			
Administration	42,624	0	42,624
Operation and maintenance of plant	24,921	0	24,921
Transportation	11,820	0	11,820
TOTAL EXPENDITURES	<u>79,365</u>	<u>509,130</u>	<u>588,495</u>
Net change in fund balances	65,379	(10,434)	54,945
Fund balance beginning of year, as restated	31,164	51,367	82,531
Fund balance end of year	<u>\$ 96,543</u>	<u>40,933</u>	<u>137,476</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECT ACCOUNTS
 JUNE 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
ASSETS			
Cash and pooled investments	\$ 594,959	81,214	676,173
Receivables:			
Property tax:			
Delinquent	0	1,589	1,589
Succeeding year	0	59,381	59,381
Due from other funds	275,041	0	275,041
Due from other governments	110,064	0	110,064
TOTAL ASSETS	\$ 980,064	142,184	1,122,248
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other funds	\$ 0	86,793	86,793
Accounts payable	1,090	0	1,090
Deferred revenue:			
Succeeding year property tax	0	59,381	59,381
Total liabilities	1,090	146,174	147,264
Fund balances:			
Restricted for:			
School infrastructure	978,974	0	978,974
Unassigned	0	(3,990)	(3,990)
Total fund balances	978,974	(3,990)	974,984
TOTAL LIABILITIES AND FUND BALANCES	\$ 980,064	142,184	1,122,248

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECT ACCOUNTS
 YEAR ENDED JUNE 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ 281,968	56,735	338,703
Other	0	361	361
State sources	0	46	46
Federal sources	169,000	0	169,000
Total revenues	<u>450,968</u>	<u>57,142</u>	<u>508,110</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	31,983	0	31,983
Support services:			
Operation and maintenance of plant	0	11,520	11,520
Other expenditures:			
Facilities acquisitions	94,714	33,666	128,380
Total expenditures	<u>126,697</u>	<u>45,186</u>	<u>171,883</u>
Excess of revenues over expenditures	324,271	11,956	336,227
Other financing uses:			
Transfers out	(125,000)	0	(125,000)
Net change in fund balances	199,271	11,956	211,227
Fund balance beginning of year, as restated	779,703	(15,946)	763,757
Fund balance end of year	<u>\$ 978,974</u>	<u>(3,990)</u>	<u>974,984</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND,
 STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2011

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Elementary	\$ 25,060	15,832	15,683	25,209
High School	26,307	482,864	493,447	15,724
Total	\$ 51,367	498,696	509,130	40,933

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2011

	Millican Educational Memorial Fund	Reifior Scholarship Fund	Total
ASSETS			
Cash and pooled investments	\$ 86,315	275,287	361,602
LIABILITIES	0	0	0
NET ASSETS			
Restricted for scholarships	83,315	268,787	352,102
Unrestricted	3,000	6,500	9,500
TOTAL NET ASSETS	\$ 86,315	275,287	361,602

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2011

	Millican Educational Memorial Fund	Reifior Scholarship Fund	Total
ADDITIONS:			
Interest income	\$ 1,896	5,291	7,187
DEDUCTIONS:			
Scholarships awarded	2,000	6,500	8,500
Net change in net assets	(104)	(1,209)	(1,313)
Net assets beginning of year	86,419	276,496	362,915
Net assets end of year	\$ 86,315	275,287	361,602

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 EIGHT YEARS

	Modified Accrual Basis							
	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:								
Local sources:								
Local tax	\$ 2,199,655	1,974,053	1,904,147	1,790,127	1,658,929	1,756,668	1,466,940	1,490,203
Tuition	99,082	128,506	107,973	118,453	163,993	132,135	113,193	89,798
Other	776,171	524,394	290,003	304,407	274,874	418,550	192,263	168,316
State sources	2,065,999	2,024,267	2,095,220	2,355,847	2,220,051	2,031,504	2,038,771	2,103,017
Federal sources	394,044	477,219	170,936	127,321	175,983	392,614	429,329	803,061
Total	\$ 5,534,951	5,128,439	4,568,279	4,696,155	4,493,830	4,731,471	4,240,496	4,654,395
Expenditures:								
Instruction:								
Regular	\$ 1,898,206	1,882,194	1,682,039	1,737,007	1,688,700	1,642,212	1,707,966	1,621,297
Special	340,654	343,311	433,181	362,510	377,524	474,025	485,582	441,702
Other	898,888	794,840	440,428	496,310	450,873	540,649	377,897	364,298
Support services:								
Student	62,769	23,567	50,474	45,895	41,190	60,444	55,240	57,131
Instructional staff	79,155	94,049	140,973	88,826	109,752	115,268	39,800	90,565
Administration	478,198	553,054	571,687	484,770	565,493	518,482	499,173	474,511
Operation and maintenance of plant	379,914	404,937	436,262	395,697	397,313	352,742	376,651	315,636
Transportation	234,595	351,712	313,199	247,995	268,299	280,853	281,304	282,624
Non-instructional programs	0	0	0	0	0	0	80,108	59,276
Other expenditures:								
Facilities acquisitions	128,380	71,484	13,787	47,354	18,461	562,759	307,755	1,156,803
Long-term debt:								
Principal	2,140,000	145,000	140,000	143,623	134,189	128,683	115,702	110,000
Interest and fiscal charges	155,689	111,317	117,392	124,496	131,241	136,665	140,816	145,674
AEA flow-through	164,594	164,866	146,210	143,592	139,303	133,907	135,157	138,777
Total	\$ 6,961,042	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.

NOLTE, CORNMAN & JOHNSON P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Harmony Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 28, 2012. 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, 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 I of the accompanying Schedule of Findings as items I-A-11 through I-D-11 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 I of the accompanying Schedule of Findings as items I-E-11 through I-H-11 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 II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Harmony Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



NOLTE, CORNMAN & JOHNSON, P.C.

March 28, 2012

HARMONY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-11 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

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

Conclusion - Response accepted.

I-B-11 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. Bank reconciliations were being completed, with the exception of the Student Activity Fund, 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.

I-C-11 Bank Reconciliations - We noted during our audit that the District does not reconcile the bank statements of the 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 - We will be working towards getting the Activity accounts transferred to the accounting software so that all accounts are reconciled to the general balance.

Conclusion - Response accepted.

I-D-11 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.

It was also noted that the Student Activity Fund uses manually prepared checks. The integration of the Student Activity Fund with the District's accounting software preparation provides controls in the preparation such as limiting the vendors used, and ensuring that the vendor's payments are monitored for tax reporting as well as subsequent bank reconciliation process.

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 accounts that would be more appropriate in the General Fund will be moved with direction from the Superintendent and the Board. We will do our best to get the Elementary and High School Activity accounts transferred to the accounting software. We will also do our best so that all checks are computer generated and all accounts are reconciled to the general ledger balance.

Conclusion - Response accepted.

I-E-11 Receipting Process - We noted during our audit that the sales tax receipts for August 2010 and January 2011 as well as other receipts were not being posted to the accounting software system timely or accurately.

Recommendation - The District should review procedures in place to ensure that cash receipts are being posted to the accounting system. Timely and accurate posting of receipts aids in the detection and correction of errors during the bank reconciliation process.

Response - We will try to monitor this better. Much depends on the building secretaries depositing correctly, and then forwarding the deposit records to us to put on the books.

Conclusion - Response acknowledged. Ultimately, it is the responsibility of management and the Board to impress upon its employees the importance of timely deposits and turning in of deposit slips to the main office for recording. Sales tax moneys are wire transferred from the State and are not dependent upon the actions of the building secretaries for timely and accurate recording.

I-F-11 Debt Service Fund - We noted during our audit that the Debt Service Fund has a deficit fund balance of \$179,906 . The deficit fund balance makes it appear that the District does not levy enough tax at a rate to cover the principal and interest on the general obligation bonds. Although the District transferred \$125,000 from Capital Projects: Statewide Sales, Services and Use Tax Fund to help pay for the outstanding bonds, the fund balance is still a deficit.

Recommendation - The District should develop a workout plan with regard to this fund deficit. The District should either levy additional property tax or have the Board approve a transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to eliminate the Debt Service deficit.

Response - When the District discusses the budget for the 2012-2013 year, we will discuss the possibility of transferring \$250,000 from the Capital Projects: Statewide Sales, Services and Use Tax Fund instead of the \$125,000 allocated. The reason for the deficit in Debt Service is that the Board at that time did not want to levy that much in taxes.

Conclusion - Response acknowledged. An additional \$125,000 transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund will not totally eliminate the deficit. Ultimately, over the life of the bonds, the District will either have to levy the property tax or transfer sales tax to eliminate the deficit.

I-G-11 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.

I-H-11 Deficit Student Nutrition Account Balances - We noted during our audit that the District collects money from students for meals to be served through the District's nutrition program. When money is collected, it is shown by the District as a positive balance in each student's individual account. When the amount is exhausted, the student can add money to their account for more meals. It is the District's policy to not serve students meals if their account has a deficit balance; however, the District does extend credit for three days.

After further examination of student account balances and discussions with the District officials, we discovered the following inconsistencies:

- At June 30, 2010, there were student accounts with deficit balances higher than would be the three day amount for meals. These deficit balances did not appear to have been collected during fiscal 2011 and were not on the balances to be collected listing at June 30, 2011. Through discussion with District officials, it was discovered that these balances were no longer being pursued for payment to the District.
- The largest deficit student account balance of \$356 was not pursued by the District because the family applied and received a free meal waiver. The District did not have a valid application for free meals when this balance was accumulated. The approval of the free meal application *does not* retroactively remove the balance owed to the District.
- It appears that District employees involved in the day to day cash receipting process of the nutrition program arbitrarily select which deficit student accounts are no longer going to be pursued for payment to the District. There does not appear to be procedures in place by the District's Board of Directors to determine which accounts are uncollectible.

Recommendation - It is not appropriate for individuals who handle the day to day cash receipting process to decide which deficit student accounts are no longer going to be pursued for payment to the District. The District's Board of Directors should have the vote of determining which deficit student accounts are uncollectible by the District.

The District's Board of Directors should develop a policy or establish guidelines outlining factors in the determination of which deficit student accounts are deemed uncollectible by the District.

Response - The individual buildings are responsible for keeping students at a positive balance in their lunch accounts and should not allow students to eat past the three day point. When a student does go beyond the three day charge and is having difficulty making payment the District Office sends home a letter and a free/reduced application to the family. Subsequent letters continue to go home until the final letter threatens small claims court. We will do our best to monitor these past due balances and keep the Superintendent and the Board informed of all past due balances.

Conclusion - Response accepted.

OTHER MATTERS:

I-I-11 Student Activity Fund Interest - We noted during our audit that the Student Activity Fund earned interest. However, this interest was not allocated out the various accounts at least on an annual basis.

Recommendation- Interest in the Student Activity Fund should be allocated among the various accounts at least on an annual basis. The interest should be recognized by the individual clubs that earned the interest.

Response - The District will allocate interest on an annual basis in the future.

Conclusion - Response accepted.

HARMONY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011

Part II: Other Findings Related to Required Statutory Reporting:

II-A-11 Certified Budget - District expenditures for the year ended June 30, 2011 exceeded the amount budgeted in the other expenditures function.

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

Response - The District will amend its budget if necessary in the future.

Conclusion - Response accepted.

II-B-11 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.

However, we noted during our audit that a construction contract with Hamlin Construction was overpaid by \$6,974.

Recommendation - The District needs to review construction contracts with Hamlin Construction and contact them to request a refund for the overpayment.

Response - The District will review the contract and seek the necessary repayment.

Conclusion - Response accepted.

II-C-11 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-11 Business Transactions - No business transactions between the District and District officials were noted.

II-E-11 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-11 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board

II-G-11 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-H-11 Supplementary Weighting - No variance regarding the supplementary weighting certified to the Iowa Department of Education were noted.

Conclusion - Response accepted.

II-I-11 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-J-11 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-K-11 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

II-L-11 Statewide Sales, Services and Use Tax - We noted during our audit that the District purchased software licenses and computer monitors with statewide sales, services and use tax revenues. These expenditures do not appear to be in compliance with the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa.

Recommendation - The District should review Chapter 423F.3 of the Code of Iowa for purchases that are allowable with statewide sales, services and use tax moneys. The District should make a corrective transfer from the General Fund to the Capital Projects: Statewide Sales, Services and Use Tax Fund of \$9,925.14.

Response - We will make the corrective transfer as requested. We will also review Chapter 9 of the Code of Iowa and follow the guidelines to ensure this does not happen again.

Conclusion - Response accepted.

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 revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2011 audit.

Beginning balance		\$ 779,703
Revenues:		
Sales tax revenues	\$ 281,968	
Federal revenues	169,000	450,968
		<u>1,230,671</u>
Expenditures/transfers out:		
School infrastructure construction	87,091	
Equipment	31,983	
Other	7,623	
Transfers to other funds:		
Debt service fund	125,000	251,697
		<u>251,697</u>
Ending balance		<u><u>\$ 978,974</u></u>

For the year ended June 30, 2011, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	<u>Rate of Levy Reduction Per \$1,000 of Taxable Valuation</u>	<u>Property Tax Dollars Reduced</u>
Debt service levy	<u>\$ 1.47239</u>	<u>\$ 125,000</u>

II-M-11 Financial Condition - At June 30, 2011, the General Fund had a deficit unassigned fund balance of \$351,396, the Capital Projects: Physical Plant and Equipment Levy Fund had a deficit unassigned fund balance of \$3,990 and the Debt Service Fund had a deficit unassigned fund balance of \$179,906. The District also had a deficit unrestricted net assets balance in the governmental activities of \$339,521 and the School Nutrition Fund has a deficit unrestricted net asset balance of \$8,615.

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

Response - We will monitor the funds and we will investigate ways to eliminate these deficits.

Conclusion - Response accepted.

II-N-11 Retention of Supporting Documentation - During our audit we noted that the District made payments to vendors without an invoice or other documentation for the payment. We also noted an instance of a check being written to "Cash" for \$100.00 without supporting documentation.

Recommendation - Chapter 279.29 of the Code of Iowa requires the District's Board to audit and allow all bills prior to payment. Lack of supporting documentation for the payment makes it impossible for the Board to audit and approve the bill. The Board may require alternative documentation when an invoice is not available, however, the Board should make notation on the documents of the approval by the Board.

Additionally, checks made out to 'Cash' are bearer paper and in the event the check would be lost or stolen, anyone could cash the check. In the future, the District should write the check to the custodian/sponsor and the school district.

Response - We will monitor these purchases and not allow payment without supporting documentation. In the future the District will make the check payable to the sponsor.

Conclusion - Response accepted.

II-O-11 Payments to Officials - We noted during our audit that athletic officials were paid the night of an event without a valid contract in place.

Recommendation - Pursuant to a valid contractual agreement between the school board and the officials, which includes terms and conditions for payment and compliance with Chapters 279.29 and 279.30 of the Code of Iowa, officials could be paid the night of the game after the service has been rendered. For non-contract officials or substitute officials, payment should be made after services have been rendered and audited and allowed similar to other vendor payments.

Response - Payments will not be made to officials without a valid contract in place.

Conclusion - Response accepted.

II-P-11 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.

AFS Club Field Trip: We noted during our audit that students in the AFS club were responsible for a portion of their field trip costs based upon their individual fundraising accomplishments. In accordance with Chapter 9 of the LEA Procedural Manual, Student Activity Fund monies cannot be accounted for down to an individual basis.

Recommendation - The District should review the procedures in place to comply with Chapter 9 of the LEA Procedural manual.

Response - All group sponsors will be notified that students cannot be held individually responsible for field trips based upon their fundraising. In the future all fundraising will cover the cost of the entire trip and not individual students.

Conclusion - Response accepted.

Reading Program Fundraisers: We noted during our audit that the Reading Program account within the Student Activity Fund maintains fundraisers; however, these fundraisers do not have a specific purpose.

Recommendation - The District should review its procedures to ensure all fundraising is completed for a specific purpose

Response - In the future no fundraisers will be held without a purpose. Additionally, the Board will approve all fundraisers and there purpose.

Conclusion - Response accepted.

II-Q-11 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, 2011, the Capital Projects: Physical Plant and Equipment Levy Fund owed the Capital Projects: Statewide Sales, Services and Use Tax Fund \$86,793, the Debt Service Fund owes the Statewide Sales, Services and Use Tax Fund \$188,148 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 seek outside funding to repay the interfund loans according to Iowa Code Chapter 74.

Recommendation - It appears the District should seek outside funding to comply with the declaratory ruling in order to repay the interfund loan between the Debt Service Fund and Statewide Sales, Services and Use Tax Fund. It appears that the District has adequate funding to repay the \$86,793 and \$100 interfund loans.

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 seeking outside funding to repay the interfund loans would impose unnecessary issuance and origination costs to the District.

Conclusion - Response acknowledged.