

HARMONY COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2012

## Contents

			<u>Page</u>
Officials			3
Independent Auditor's Report			5-6
Management's Discussion and Analysis (MD&A)			7-15
Basic Financial Statements:	<u>Exhibit</u>		
Government-wide Financial Statements:			
Statement of Net Assets	A		18
Statement of Activities	B		19
Governmental Fund Financial Statements:			
Balance Sheet	C		20
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D		21
Statement of Revenues, Expenditures and Changes in Fund Balances	E		22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F		23
Proprietary Fund Financial Statements:			
Statement of Net Assets	G		24
Statement of Revenues, Expenses and Changes in Fund Net Assets	H		25
Statement of Cash Flows	I		26
Fiduciary Fund Financial Statements:			
Statement of Fiduciary Net Assets	J		27
Statement of Changes in Fiduciary Net Assets	K		28
Notes to Financial Statements			29-40
Required Supplementary Information:			
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund			42
Notes to Required Supplementary Information - Budgetary Reporting			43
Schedule of Funding Progress for the Retiree Health Plan			44
Supplementary Information:	<u>Schedule</u>		
Nonmajor Governmental Funds:			
Combining Balance Sheet	1		46
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2		47
Capital Project Accounts:			
Combining Balance Sheet	3		48
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	4		49
Schedule of Changes in Special Revenue Funds, Student Activity Accounts	5		50
Fiduciary Fund, Private Purpose Trust Accounts:			
Combining Statement of Fiduciary Net Assets	6		51
Schedule of Changes in Fiduciary Net Assets	7		52
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	8		53
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>			54-55
Schedule of Findings			56-60

Harmony Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2011 Election)</b>		
Bill Rice	President	2011
Dennis Grossman	Vice President	2013
Don Gares	Board Member	2013
Tracy Hudson	Board Member	2011
Cody Warth	Board Member	2011
<b>(After September 2011 Election)</b>		
Bill Rice	President	2015
Cody Warth	Vice President	2015
Don Gares	Board Member	2013
Tracy Hudson	Board Member	2015
Dennis Grossman	Board Member	2013
<b>School Officials</b>		
Dennis Phelps	Superintendent	2012
Karen Seager	Business Manager/ District Secretary	2012
Iris Kerr	District Treasurer	2012
Danielle Hainfield	Attorney	2012

**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, 2012, 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, 2012, 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 14, 2013 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.

U.S generally accepted accounting principles require Management's Discussion and Analysis and the Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 7

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through 15 and 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 eight years ended June 30, 2011 (which are not presented herein). We expressed unqualified opinions for the years ended June 30, 2005 through June 30, 2011. We expressed a qualified opinion for the year ended June 30, 2004 for the lack of Capital Assets. The 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



NOLTE, CORNMAN & JOHNSON, P.C.

March 14, 2013

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2012 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$4,130,182 in fiscal 2011 to \$4,000,921 in fiscal 2012, while General Fund expenditures decreased from \$3,904,975 in fiscal 2011 to \$3,661,515 in fiscal 2012. The resulted in an increase in the District's General Fund balance from \$328,024 in fiscal 2011 to \$667,430 in fiscal 2012.
- The decrease in General Fund revenues was primarily attributable to a decrease in state source revenues during fiscal 2012. The decrease in expenditures was due to the decrease in expenditures in the instructional function.
- The District's solvency ratio increased as compared to fiscal 2011. At June 30, 2011 the District's solvency ratio was a negative 8.86% as compared to a positive 1.41% at June 30, 2012.

### **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.

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.

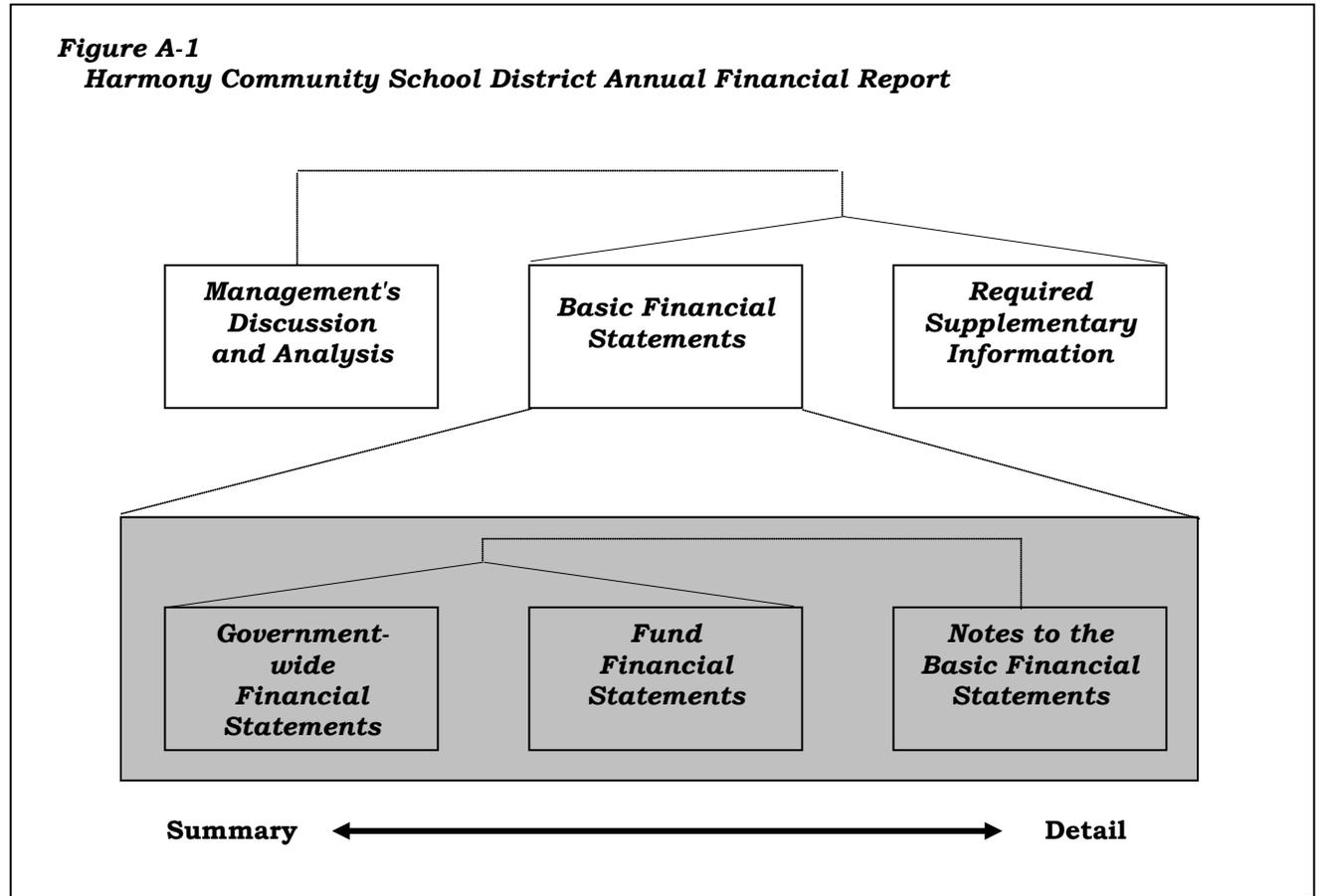


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-Wide and Fund Financial Statements</b>				
	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"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
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.

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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 net assets, statement of revenues, expenses and changes in fund 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, 2012 compared to June 30, 2011.

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	\$ 4,165,275	3,779,987	24,181	4,649	4,189,456	3,784,636	10.70%
Capital assets	4,282,657	4,334,730	17,424	15,521	4,300,081	4,350,251	-1.15%
Total assets	8,447,932	8,114,717	41,605	20,170	8,489,537	8,134,887	4.36%
Long-term obligations	1,890,460	2,089,280	0	0	1,890,460	2,089,280	-9.52%
Other liabilities	2,116,365	2,323,638	28,598	13,264	2,144,963	2,336,902	-8.21%
Total liabilities	4,006,825	4,412,918	28,598	13,264	4,035,423	4,426,182	-8.83%
Net assets:							
Invested in capital assets, net of related debt	2,397,657	2,259,730	17,424	15,521	2,415,081	2,275,251	6.15%
Restricted	1,782,330	1,781,590	0	0	1,782,330	1,781,590	0.04%
Unrestricted	261,120	(339,521)	(4,417)	(8,615)	256,703	(348,136)	173.74%
Total net assets	\$ 4,441,107	3,701,799	13,007	6,906	4,454,114	3,708,705	20.10%

The District's combined net assets increased by \$745,409 or 20.10% 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 \$740 or .04% over the prior year. This increase is due primarily to an increase in the Management Levy Fund balance.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased \$604,839 or 173.74%. This was a result of the increase in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2012 compared to the year ended June 30, 2011.

	Figure A-4 Changes in Net Assets						
	Governmental Activities		Business Type Activities		Total School District		Total Change
	2012	2011	2012	2011	2012	2011	2011-12
Revenues:							
Program revenues:							
Charges for services	\$ 181,927	604,490	56,152	46,739	238,079	651,229	-63.44%
Operating grants, contributions and restricted interest	402,515	484,988	139,892	125,988	542,407	610,976	-11.22%
Capital grants, contributions and restricted interest	0	169,000	5,190	0	5,190	169,000	-96.93%
General revenues:							
Property tax	1,870,391	1,762,505	0	0	1,870,391	1,762,505	6.12%
Income surtax	165,687	163,268	0	0	165,687	163,268	1.48%
Statewide sales, services and use tax	282,023	281,968	0	0	282,023	281,968	0.02%
Unrestricted state grants	1,768,216	1,797,507	0	0	1,768,216	1,797,507	-1.63%
Nonspecific programs federal grants	80,709	41,048	0	0	80,709	41,048	96.62%
Unrestricted investment earnings	12,209	15,767	0	41	12,209	15,808	-22.77%
Other	27,175	222,496	328	4,946	27,503	227,442	-87.91%
Total revenues	<u>4,790,852</u>	<u>5,543,037</u>	<u>201,562</u>	<u>177,714</u>	<u>4,992,414</u>	<u>5,720,751</u>	<u>-12.73%</u>
Program expenses:							
Instruction	2,589,048	3,108,378	0	0	2,589,048	3,108,378	-16.71%
Support services	1,104,048	1,323,299	0	0	1,104,048	1,323,299	-16.57%
Non-instructional programs	0	0	195,461	189,583	195,461	189,583	3.10%
Other expenses	358,448	427,189	0	0	358,448	427,189	-16.09%
Total expenses	<u>4,051,544</u>	<u>4,858,866</u>	<u>195,461</u>	<u>189,583</u>	<u>4,247,005</u>	<u>5,048,449</u>	<u>-15.88%</u>
Change in net assets	739,308	684,171	6,101	(11,869)	745,409	672,302	-10.87%
Net assets beginning 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>
Net assets end of year	<u>\$ 4,441,107</u>	<u>3,701,799</u>	<u>13,007</u>	<u>6,906</u>	<u>4,454,114</u>	<u>3,708,705</u>	<u>20.10%</u>

In fiscal 2012, property tax and unrestricted state grants account for 75.95% of the revenue from governmental activities while charges for service and operating grants and contributions account for 97.26% of the revenue from business type activities.

The District's total revenues were approximately \$4.99 million of which approximately \$4.79 million was for governmental activities and approximately \$0.20 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 12.73% decrease in revenues and a 15.88% decrease in expenses. The decrease in expenses can primarily be attributed to the decrease in the instructional and support services functional areas.

## Governmental Activities

Revenues for governmental activities were \$4,790,852 and expenses were \$4,051,544.

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

	Total Cost of Services			Net Cost of Services		
	2012	2011	Change 2011-12	2012	2011	Change 2011-12
Instruction	\$ 2,589,048	3,108,378	-16.71%	2,147,352	2,184,379	-1.70%
Support services	1,104,048	1,323,299	-16.57%	1,103,872	1,153,414	-4.30%
Other expenses	358,448	427,189	-16.09%	215,878	262,595	-17.79%
Totals	<u>\$ 4,051,544</u>	<u>4,858,866</u>	<u>-16.62%</u>	<u>3,467,102</u>	<u>3,600,388</u>	<u>-3.70%</u>

- The cost financed by users of the District's programs was \$181,927.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$402,515.
- The net cost of governmental activities was financed with \$1,870,391 in property tax, \$165,687 in income surtax, \$282,023 in statewide sales, services and use tax, \$1,768,216 in unrestricted state grants, \$80,709 in nonspecific program federal grants, \$12,209 in interest income and \$27,175 in other general revenues.

## Business Type Activities

Revenues of the District's business type activities were \$201,562 and expenses were \$195,461. 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, capital contributions 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 \$1,842,117 compared to last year's ending fund balances of \$1,260,578. The primary reason for the increase in combined fund balance is the increase in the fund balance of the General Fund.

## Governmental Fund Highlights

- The General Fund balance increased from \$328,024 in fiscal 2011 to \$667,430 in fiscal 2012. General Fund revenues decreased primarily because of the decrease in state source funding. The decrease in expenditures was mainly due to the decrease in expenditures in the instructional function.
- The Capital Projects Fund balance decreased from a balance of \$974,984 at the beginning of the fiscal year 2012 to \$912,663 at the end of fiscal 2012. The decrease in fund balance was due to an increase in the amount transferred to the Debt Service Fund as compared to the previous year.

- The Debt Service Fund balance increased during the year from a deficit fund balance of \$179,906 in 2011 to a positive fund balance of \$8,403 in 2012. This was a result of property tax revenues and transfer in from the Capital Projects: Statewide Sales, Services and Use Tax Fund in excess of debt repayments..

**Proprietary Fund Highlights**

- The School Nutrition Fund net assets increased from \$6,906 at June 30, 2011 to \$13,007 at June 30, 2012, representing an increase of 88.34%.

**BUDGETARY HIGHLIGHTS**

The District’s revenues were \$388,769 less than budgeted revenues, a variance of 7.23%. The most significant variance resulted from the District receiving less from state 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 non-instructional programs and other expenditures functional areas.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At June 30, 2012, the District had invested \$4,300,081, 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 \$216,929.

The original cost of the District’s capital assets was \$8,598,308. Governmental funds account for \$8,497,049 with the remainder of \$101,259 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 \$13,355 at June 30, 2011, compared to \$31,723 reported at June 30, 2012. The increase in land improvements was due to new sidewalks put in during the year.

Figure A-6 Capital Assets, net of Depreciation								
	Governmental Activities		Business Type Activities		Total School District		Total Change	
	June 30,		June 30,		June 30,		June 30,	
	2012	2011	2012	2011	2012	2011	2011-12	
Land	\$ 57,000	57,000	0	0	57,000	57,000	0.00%	
Buildings	3,985,838	4,005,578	0	0	3,985,838	4,005,578	-0.49%	
Land improvements	31,723	13,355	0	0	31,723	13,355	137.54%	
Machinery and equipment	208,096	258,797	17,424	15,521	225,520	274,318	-17.79%	
Total	\$ 4,282,657	4,334,730	17,424	15,521	4,300,081	4,350,251	-1.15%	

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## Long-Term Debt

At June 30, 2012, the District had long-term debt outstanding of \$1,890,460 in general obligation bonds and other long-term debt outstanding. This represents a 9.52% 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 \$1,885,000 at June 30, 2012.

The District also had outstanding early retirement payable from the Special Revenue, Management Levy Fund of \$5,460 at June 30, 2012.

	Figure A-7 Outstanding Long-Term Obligations		
	Total School District		Total Change
	June 30,		June 30,
	2012	2011	2011-12
General obligation bonds	\$ 1,885,000	2,075,000	-9.16%
Early retirement	5,460	14,280	-61.76%
Total	<u>\$ 1,890,460</u>	<u>2,089,280</u>	<u>-9.52%</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, 2012

	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 1,970,950	20,713	1,991,663
Receivables:			
Property tax:			
Delinquent	98,122	0	98,122
Succeeding year	1,719,920	0	1,719,920
Income surtax	155,172	0	155,172
Accounts	7,973	0	7,973
Due from other funds	12,835	0	12,835
Due from other governments	144,251	0	144,251
Inventories	0	3,468	3,468
Capital assets, net of accumulated depreciation	4,282,657	17,424	4,300,081
Net OPEB asset	56,052	0	56,052
<b>TOTAL ASSETS</b>	<b>8,447,932</b>	<b>41,605</b>	<b>8,489,537</b>
<b>LIABILITIES</b>			
Due to other funds	0	12,835	12,835
Accounts payable	70,581	0	70,581
Salaries and benefits payable	311,110	14,544	325,654
Interest payable	4,431	0	4,431
Unearned revenue	0	1,219	1,219
Deferred revenue:			
Succeeding year property tax	1,719,920	0	1,719,920
Other	10,323	0	10,323
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	190,000	0	190,000
Early retirement payable	5,040	0	5,040
Portion due after one year:			
General obligation bonds payable	1,695,000	0	1,695,000
Early retirement payable	420	0	420
<b>TOTAL LIABILITIES</b>	<b>4,006,825</b>	<b>28,598</b>	<b>4,035,423</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	2,397,657	17,424	2,415,081
Restricted for:			
Categorical funding	613,103	0	613,103
School infrastructure	861,162	0	861,162
Physical plant & equipment levy	51,501	0	51,501
Debt service	8,403	0	8,403
Management levy purposes	195,354	0	195,354
Student activities	52,807	0	52,807
Unrestricted	261,120	(4,417)	256,703
<b>TOTAL NET ASSETS</b>	<b>\$ 4,441,107</b>	<b>13,007</b>	<b>4,454,114</b>

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2012

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Contributions and Restricted Interest	Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities	
<b>Functions/Programs:</b>							
Governmental activities:							
Instruction:							
Regular	\$ 1,632,328	66,495	40,082	0	(1,525,751)	0	(1,525,751)
Special	368,108	0	19,797	0	(348,311)	0	(348,311)
Other	588,612	115,432	199,890	0	(273,290)	0	(273,290)
	<u>2,589,048</u>	<u>181,927</u>	<u>259,769</u>	<u>0</u>	<u>(2,147,352)</u>	<u>0</u>	<u>(2,147,352)</u>
Support services:							
Student	46,793	0	0	0	(46,793)	0	(46,793)
Instructional staff	91,124	0	0	0	(91,124)	0	(91,124)
Administration	469,613	0	0	0	(469,613)	0	(469,613)
Operation and maintenance of plant	229,755	0	0	0	(229,755)	0	(229,755)
Transportation	266,763	0	176	0	(266,587)	0	(266,587)
	<u>1,104,048</u>	<u>0</u>	<u>176</u>	<u>0</u>	<u>(1,103,872)</u>	<u>0</u>	<u>(1,103,872)</u>
Long-term debt interest	56,355	0	0	0	(56,355)	0	(56,355)
Other expenses:							
AEA flowthrough	142,570	0	142,570	0	0	0	0
Depreciation (unallocated)*	159,523	0	0	0	(159,523)	0	(159,523)
	<u>302,093</u>	<u>0</u>	<u>142,570</u>	<u>0</u>	<u>(159,523)</u>	<u>0</u>	<u>(159,523)</u>
Total governmental activities	<u>4,051,544</u>	<u>181,927</u>	<u>402,515</u>	<u>0</u>	<u>(3,467,102)</u>	<u>0</u>	<u>(3,467,102)</u>
Business type activities:							
Non-instructional programs:							
Food service operations	195,461	56,152	139,892	5,190	0	5,773	5,773
Total	<u>\$ 4,247,005</u>	<u>238,079</u>	<u>542,407</u>	<u>5,190</u>	<u>(3,467,102)</u>	<u>5,773</u>	<u>(3,461,329)</u>
<b>General Revenues :</b>							
Property tax for:							
General purposes					\$ 1,687,058	0	1,687,058
Debt service					121,621	0	121,621
Capital outlay					61,712	0	61,712
Income surtax					165,687	0	165,687
Statewide sales, services and use tax					282,023	0	282,023
Unrestricted state grants					1,768,216	0	1,768,216
Nonspecific program federal grants					80,709	0	80,709
Unrestricted investment earnings					12,209	0	12,209
Other revenues					27,175	328	27,503
Total general revenues					<u>4,206,410</u>	<u>328</u>	<u>4,206,738</u>
Changes in net assets					739,308	6,101	745,409
Net assets beginning of year					3,701,799	6,906	3,708,705
Net assets end of year					<u>\$ 4,441,107</u>	<u>13,007</u>	<u>4,454,114</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, 2012

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>					
Cash and pooled investments	\$ 894,226	825,204	4,213	247,307	1,970,950
Receivables:					
Property tax:					
Delinquent	78,789	4,105	4,190	11,038	98,122
Succeeding year	1,402,568	90,763	26,589	200,000	1,719,920
Income surtax	155,172	0	0	0	155,172
Accounts	1,179	6,794	0	0	7,973
Due from other funds	12,835	0	0	0	12,835
Due from other governments	67,691	76,560	0	0	144,251
<b>TOTAL ASSETS</b>	<b>\$ 2,612,460</b>	<b>1,003,426</b>	<b>34,992</b>	<b>458,345</b>	<b>4,109,223</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 65,857	0	0	4,724	70,581
Salaries and benefits payable	311,110	0	0	0	311,110
Deferred revenue:					
Succeeding year property tax	1,402,568	90,763	26,589	200,000	1,719,920
Income surtax	155,172	0	0	0	155,172
Other	10,323	0	0	0	10,323
<b>Total liabilities</b>	<b>1,945,030</b>	<b>90,763</b>	<b>26,589</b>	<b>204,724</b>	<b>2,267,106</b>
Fund balances:					
Restricted for:					
Categorical funding	613,103	0	0	0	613,103
School infrastructure	0	861,162	0	0	861,162
Physical plant and equipment	0	51,501	0	0	51,501
Debt service	0	0	8,403	0	8,403
Management levy purposes	0	0	0	200,814	200,814
Student activities	0	0	0	52,807	52,807
Unassigned	54,327	0	0	0	54,327
<b>Total fund balances</b>	<b>667,430</b>	<b>912,663</b>	<b>8,403</b>	<b>253,621</b>	<b>1,842,117</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,612,460</b>	<b>1,003,426</b>	<b>34,992</b>	<b>458,345</b>	<b>4,109,223</b>

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2012

<b>Total fund balances of governmental funds (page 20)</b>	\$ 1,842,117
 <b>Amounts reported for governmental activities in the statement of net assets are different because:</b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,282,657
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.	(4,431)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	155,172
Other postemployment benefits are not yet available to finance expenditures of the current fiscal period.	56,052
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>(1,890,460)</u>
<b>Net assets of governmental activities (page 18)</b>	<u><u>\$ 4,441,107</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, 2012

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>					
Local sources:					
Local tax	\$ 1,651,480	343,735	121,621	205,068	2,321,904
Tuition	60,717	0	0	0	60,717
Other	52,227	7,027	0	115,990	175,244
State sources	1,979,951	46	93	154	1,980,244
Federal sources	256,546	0	0	0	256,546
Total revenues	<u>4,000,921</u>	<u>350,808</u>	<u>121,714</u>	<u>321,212</u>	<u>4,794,655</u>
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular	1,573,375	59,975	0	0	1,633,350
Special	369,571	0	0	0	369,571
Other	487,104	0	0	103,449	590,553
	<u>2,430,050</u>	<u>59,975</u>	<u>0</u>	<u>103,449</u>	<u>2,593,474</u>
Support services:					
Student	47,309	0	0	0	47,309
Instructional staff	91,163	0	0	0	91,163
Administration	405,314	0	0	67,899	473,213
Operation and maintenance of plant	316,553	543	0	22,110	339,206
Transportation	218,631	3,696	0	11,609	233,936
	<u>1,078,970</u>	<u>4,239</u>	<u>0</u>	<u>101,618</u>	<u>1,184,827</u>
Capital outlay	0	45,692	0	0	45,692
Long-term debt:					
Principal	0	0	190,000	0	190,000
Interest and fiscal charges	0	0	56,553	0	56,553
	<u>0</u>	<u>0</u>	<u>246,553</u>	<u>0</u>	<u>246,553</u>
Other expenditures:					
AEA flowthrough	142,570	0	0	0	142,570
Total expenditures	<u>3,651,590</u>	<u>109,906</u>	<u>246,553</u>	<u>205,067</u>	<u>4,213,116</u>
Excess(Deficiency) of revenues over(under) expenditures	<u>349,331</u>	<u>240,902</u>	<u>(124,839)</u>	<u>116,145</u>	<u>581,539</u>
Other financing sources(uses):					
Transfer in	0	9,925	313,148	0	323,073
Transfer out	(9,925)	(313,148)	0	0	(323,073)
Total other financing sources(uses)	<u>(9,925)</u>	<u>(303,223)</u>	<u>313,148</u>	<u>0</u>	<u>0</u>
Net change in fund balances	339,406	(62,321)	188,309	116,145	581,539
Fund balance beginning of year	328,024	974,984	(179,906)	137,476	1,260,578
Fund balance end of year	<u>\$ 667,430</u>	<u>912,663</u>	<u>8,403</u>	<u>253,621</u>	<u>1,842,117</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, 2012

**Net change in fund balances - total governmental funds(page 22)** \$ 581,539

**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 not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts for capital outlays, depreciation expense and loss on disposal of capital assets for the current year, are as follows:

Capital outlays	\$ 174,530	
Depreciation expense	(213,642)	
Loss on disposal of capital assets	(12,961)	(52,073)

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. 190,000

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. 198

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (3,803)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Early retirement	8,820	
Other postemployment benefits	14,627	23,447

**Changes in net assets of governmental activities(page 19)** \$ 739,308

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2012

	<u>School Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 20,713
Inventories	3,468
Capital assets, net of accumulated depreciation	<u>17,424</u>
TOTAL ASSETS	<u>41,605</u>
LIABILITIES	
Due to other funds	12,835
Salaries and benefits payable	14,544
Unearned revenue	<u>1,219</u>
TOTAL LIABILITIES	<u>28,598</u>
NET ASSETS	
Invested in capital assets	17,424
Unrestricted	<u>(4,417)</u>
TOTAL NET ASSETS	<u>\$ 13,007</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, 2012

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for service	\$ 56,152
Miscellaneous	328
TOTAL OPERATING REVENUES	56,480
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	80,928
Benefits	13,667
Services	432
Supplies	97,010
Depreciation	3,287
Other	137
TOTAL OPERATING EXPENSES	195,461
OPERATING LOSS	(138,981)
NON-OPERATING REVENUES:	
State sources	1,836
Federal sources	138,056
TOTAL NON-OPERATING REVENUES	139,892
Change in net assets before capital contributions	911
Contributed capital	5,190
Change in net assets	6,101
Net assets at beginning of year	6,906
Net assets end of year	\$ 13,007

SEE NOTES FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2012

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 57,043
Cash received from miscellaneous operating activities	328
Cash payments to employees for services	(92,785)
Cash payments to suppliers for goods or services	(71,990)
Net cash used in operating activities	(107,404)
Cash flows from non-capital financing activities:	
Borrowings from the General Fund	12,735
State grants received	1,836
Federal grants received	112,575
Net cash provided by non-capital financing activities	127,146
Net increase in cash and cash equivalents	19,742
Cash and cash equivalents at beginning of year	971
Cash and cash equivalents at end of year	\$ 20,713
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (138,981)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	25,481
Depreciation	3,287
Decrease in inventories	108
Decrease in accounts receivable	102
Increase in salaries and benefits payable	1,810
Increase in unearned revenues	789
Net cash used in operating activities	\$ (107,404)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2012, the District received Federal commodities valued at \$25,481.

During the year ended June 30, 2012, the Nutrition Fund received contributed capital from the General Fund of \$5,190.

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUND  
 JUNE 30, 2012

	Private Purpose Trust
	Scholarship
ASSETS	
Cash and pooled investments	\$ 358,415
LIABILITIES	0
NET ASSETS	
Restricted for scholarships	352,915
Unrestricted	5,500
TOTAL NET ASSETS	\$ 358,415

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUND  
 YEAR ENDED JUNE 30, 2012

	Private Purpose Trust
	Scholarship
ADDITIONS:	
Local sources:	
Interest income	\$ 3,813
Contributions	1,000
TOTAL ADDITIONS	<u>4,813</u>
DEDUCTIONS:	
Scholarships awarded	<u>8,000</u>
Change in net assets	(3,187)
Net assets beginning of year	<u>361,602</u>
Net assets end of year	<u>\$ 358,415</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**(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 nonmajor 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, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2011.

Due From and Due to Other Funds - During the course of its operations, the District has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2012 balances of interfund accounts receivable or payable balance have been recorded.

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.

<u>Asset Class</u>	<u>Amount</u>
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:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
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, 2012, District expenditures in the non-instructional programs and other expenditures functions exceeded the budgeted amounts.

**(2) Cash and Pooled Investments**

The District's deposits in banks at June 30, 2012 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, 2012.

**(3) Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2012 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nutrition	\$ 12,835

The Enterprise, School Nutrition Fund is repaying the General Fund for salaries and benefits paid from the General Fund.

**(4) Transfers**

The detail of transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
Capital Projects: Statewide Sales, Services and Use Tax	General	\$ 9,925
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	313,148
Total		\$ 323,073

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was for debt relief.

The transfer from the General Fund to the Capital Projects: Statewide Sales, Services and Use Tax Fund was to repay the fund for expenses improperly coded in the prior year.

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2012 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	136,000	0	6,665,640
Land improvements	312,400	22,151	0	334,551
Machinery and equipment	1,454,274	16,379	30,795	1,439,858
Total capital assets being depreciated	<u>8,296,314</u>	<u>174,530</u>	<u>30,795</u>	<u>8,440,049</u>
Less accumulated depreciation for:				
Buildings	2,524,062	155,740	0	2,679,802
Land improvements	299,045	3,783	0	302,828
Machinery and equipment	1,195,477	54,119	17,834	1,231,762
Total accumulated depreciation	<u>4,018,584</u>	<u>213,642</u>	<u>17,834</u>	<u>4,214,392</u>
Total capital assets being depreciated, net	<u>4,277,730</u>	<u>(39,112)</u>	<u>12,961</u>	<u>4,225,657</u>
Governmental activities capital assets, net	<u>\$ 4,334,730</u>	<u>(39,112)</u>	<u>12,961</u>	<u>4,282,657</u>
Business type activities:				
Machinery and equipment	\$ 96,069	5,190	0	101,259
Less accumulated depreciation	80,548	3,287	0	83,835
Business type activities capital assets, net	<u>\$ 15,521</u>	<u>1,903</u>	<u>0</u>	<u>17,424</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 17,507
Support services:	
Administration	2,114
Operation and maintenance of plant	1,232
Transportation	33,266
	<u>54,119</u>
Unallocated depreciation	<u>159,523</u>
Total governmental activities depreciation expense	<u>\$ 213,642</u>
Business type activities:	
Food service operations	<u>\$ 3,287</u>

**(6) Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 2,075,000	0	190,000	1,885,000	190,000
Early retirement	14,280	0	8,820	5,460	5,040
Total	<u>\$ 2,089,280</u>	<u>0</u>	<u>198,820</u>	<u>1,890,460</u>	<u>195,040</u>

General Obligation Bonds Payable

Details of the District's June 30, 2012 General Obligation bonded debt is as follows:

Year Ending June 30,	Bond issue June 30, 2010			
	Interest Rate	Principal	Interest	Total
2012	1.60	% \$ 190,000	53,178	243,178
2013	1.90	195,000	50,138	245,138
2014	2.25	200,000	46,433	246,433
2015	2.65	200,000	41,932	241,932
2016	3.05	205,000	36,632	241,632
2017-2021	3.05-3.65	895,000	79,232	974,232
Total		<u>\$ 1,885,000</u>	<u>307,545</u>	<u>2,192,545</u>

Early Retirement

In prior years, the District offered a voluntary early retirement plan to its certified employees. As of June 30, 2012, there was one former employee 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, 2012, totaled \$8,820.

**(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 5.38% of their annual covered salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are

established by State statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$171,614, \$145,602 and \$139,339, 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 fully-insured 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, 2012, 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	(1,243)
Adjustment to annual required contribution	<u>2,083</u>
Annual OPEB cost	5,835
Contributions made	<u>(20,462)</u>
Increase in net OPEB obligation	(14,627)
Net OPEB obligation - beginning of year	<u>(41,425)</u>
Net OPEB obligation - end of year	<u><u>\$ (56,052)</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the plans actual contributions for the year ended June 30, 2012.

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, 2012 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)
2012	5,835	350.68%	(56,052)

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, 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 \$2,126,566, and the ratio of the UAAL to the covered payroll was 4.1%. As of June 30, 2012, 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**

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 \$142,570 for the year ended June 30, 2012 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, 2012 the School Nutrition Fund has a deficit unrestricted net asset balance of \$4,417.

**(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, 2012, expenditures in the non-instructional programs and the other expenditure functions exceeded the amounts budgeted.

**(13) Categorical Funding**

The District's restricted fund balance for categorical funding at June 30, 2012 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
Drop out and drop out prevention	\$ 188,116
Home school assistance program	259,356
Talented and gifted	79,556
Educator quality, professional development	26,288
Teacher salary supplement	2,028
At-risk supplementary weighting	14,731
Limited english proficiency weighting	12,668
Model core curriculum	14,012
Beginning teacher mentoring	4,239
Statewide voluntary preschool	10,609
Beginning administrator mentoring	1,500
Total	<u>\$ 613,103</u>

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 FUND  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2012

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Funds	Fund		Original	Final	Actual
	Actual	Actual				Variance
Revenues:						
Local sources	\$ 2,557,865	56,480	2,614,345	2,689,280	2,689,280	(74,935)
State sources	1,980,244	1,836	1,982,080	2,195,516	2,195,516	(213,436)
Federal sources	256,546	138,056	394,602	495,000	495,000	(100,398)
Total revenues	4,794,655	196,372	4,991,027	5,379,796	5,379,796	(388,769)
Expenditures/Expenses:						
Instruction	2,593,474	0	2,593,474	3,840,000	3,840,000	1,246,526
Support services	1,184,827	0	1,184,827	2,288,100	2,288,100	1,103,273
Non-instructional programs	0	195,461	195,461	180,000	180,000	(15,461)
Other expenditures	434,815	0	434,815	284,950	284,950	(149,865)
Total expenditures/expenses	4,213,116	195,461	4,408,577	6,593,050	6,593,050	2,184,473
Excess(Deficiency) of revenues over(under) expenditures/expenses	581,539	911	582,450	(1,213,254)	(1,213,254)	1,795,704
Other financing sources, net	0	5,190	5,190	0	0	(5,190)
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	581,539	6,101	587,640	(1,213,254)	(1,213,254)	1,790,514
Balance beginning of year	1,260,578	6,906	1,267,484	1,804,543	1,804,543	(537,059)
Balance end of year	\$ 1,842,117	13,007	1,855,124	591,289	591,289	1,253,455

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2012

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, 2012, expenditures in the non-instructional programs and other expenditure functions exceeded the amounts 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)	UAAAL as a
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAAL) (b-a)			Percentage of Covered Payroll ((b-a)/c)
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%
2012	July 1, 2009		87,326	87,236	0.0%	2,126,566	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.

SUPPLEMENTARY INFORMATION

HARMONY COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2012

	Manage- ment Levy	Student Activity	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 194,500	52,807	247,307
Receivables:			
Property tax:			
Delinquent	11,038	0	11,038
Succeeding year property tax	200,000	0	200,000
<b>TOTAL ASSETS</b>	<b>\$ 405,538</b>	<b>52,807</b>	<b>458,345</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 4,724	0	4,724
Deferred revenue:			
Succeeding year property tax	200,000	0	200,000
Total liabilities	204,724	0	204,724
Fund balances:			
Restricted for:			
Management levy purposes	200,814	0	200,814
Student activities	0	52,807	52,807
Total fund balances	200,814	52,807	253,621
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 405,538</b>	<b>52,807</b>	<b>458,345</b>

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, 2012

	Manage- ment Levy	Student Activity	Total
REVENUES:			
Local sources:			
Local tax	\$ 205,068	0	205,068
Other	667	115,323	115,990
State sources	154	0	154
TOTAL REVENUES	<u>205,889</u>	<u>115,323</u>	<u>321,212</u>
EXPENDITURES:			
Current:			
Instruction:			
Other	0	103,449	103,449
Support services:			
Administration	67,899	0	67,899
Operation and maintenance of plant	22,110	0	22,110
Transportation	11,609	0	11,609
TOTAL EXPENDITURES	<u>101,618</u>	<u>103,449</u>	<u>205,067</u>
Net change in fund balances	104,271	11,874	116,145
Fund balance beginning of year	96,543	40,933	137,476
Fund balance end of year	<u>\$ 200,814</u>	<u>52,807</u>	<u>253,621</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2012

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
ASSETS			
Cash and pooled investments	\$ 777,808	47,396	825,204
Receivables:			
Property tax:			
Delinquent	0	4,105	4,105
Succeeding year	0	90,763	90,763
Accounts	6,794	0	6,794
Due from other governments	76,560	0	76,560
TOTAL ASSETS	<u>\$ 861,162</u>	<u>142,264</u>	<u>1,003,426</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	\$ 0	90,763	90,763
Fund balances:			
Restricted for:			
School infrastructure	861,162	0	861,162
Physical plant and equipment	0	51,501	51,501
Total fund balances	<u>861,162</u>	<u>51,501</u>	<u>912,663</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 861,162</u>	<u>142,264</u>	<u>1,003,426</u>

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, 2012

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ 282,023	61,712	343,735
Other	6,829	198	7,027
State sources	0	46	46
Total revenues	<u>288,852</u>	<u>61,956</u>	<u>350,808</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	59,975	0	59,975
Support services:			
Operation and maintenance of plant	543	0	543
Transportation	3,696	0	3,696
Capital outlay	39,227	6,465	45,692
Total expenditures	<u>103,441</u>	<u>6,465</u>	<u>109,906</u>
Excess of revenues over expenditures	185,411	55,491	240,902
Other financing sources(uses):			
Transfer in	9,925	0	9,925
Transfer out	(313,148)	0	(313,148)
Total other financing sources(uses)	<u>(303,223)</u>	<u>0</u>	<u>(303,223)</u>
Net change in fund balances	(117,812)	55,491	(62,321)
Fund balance beginning of year	978,974	(3,990)	974,984
Fund balance end of year	<u>\$ 861,162</u>	<u>51,501</u>	<u>912,663</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, 2012

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Elementary	\$ 25,209	14,285	14,322	25,172
High School	15,724	101,038	89,127	27,635
Total	\$ 40,933	115,323	103,449	52,807

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 JUNE 30, 2012

	Millican Educational Memorial Fund	Reifior Scholarship Fund	Total
ASSETS			
Cash and pooled investments	\$ 85,478	272,937	358,415
LIABILITIES	0	0	0
NET ASSETS			
Restricted for scholarships	83,478	269,437	352,915
Unrestricted	2,000	3,500	5,500
TOTAL NET ASSETS	\$ 85,478	272,937	358,415

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 YEAR ENDED JUNE 30, 2012

	Millican Educational Memorial Fund	Reifior Scholarship Fund	Total
ADDITIONS:			
Interest income	\$ 163	3,650	3,813
Contributions	1,000	0	1,000
TOTAL REVENUES	<u>1,163</u>	<u>3,650</u>	<u>4,813</u>
DEDUCTIONS:			
Scholarships awarded	<u>2,000</u>	<u>6,000</u>	<u>8,000</u>
Net change in net assets	(837)	(2,350)	(3,187)
Net assets beginning of year	<u>86,315</u>	<u>275,287</u>	<u>361,602</u>
Net assets end of year	<u>\$ 85,478</u>	<u>272,937</u>	<u>358,415</u>

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 NINE YEARS

	Modified Accrual Basis								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:									
Local sources:									
Local tax	\$ 2,321,904	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	60,717	99,082	128,506	107,973	118,453	163,993	132,135	113,193	89,798
Other	175,244	776,171	524,394	290,003	304,407	274,874	418,550	192,263	168,316
State sources	1,980,244	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	256,546	394,044	477,219	170,936	127,321	175,983	392,614	429,329	803,061
<b>Total</b>	<b>\$ 4,794,655</b>	<b>5,534,951</b>	<b>5,128,439</b>	<b>4,568,279</b>	<b>4,696,155</b>	<b>4,493,830</b>	<b>4,731,471</b>	<b>4,240,496</b>	<b>4,654,395</b>
Expenditures:									
Instruction:									
Regular	\$ 1,633,350	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	369,571	340,654	343,311	433,181	362,510	377,524	474,025	485,582	441,702
Other	590,553	898,888	794,840	440,428	496,310	450,873	540,649	377,897	364,298
Support services:									
Student	47,309	62,769	23,567	50,474	45,895	41,190	60,444	55,240	57,131
Instructional staff	91,163	79,155	94,049	140,973	88,826	109,752	115,268	39,800	90,565
Administration	473,213	478,198	553,054	571,687	484,770	565,493	518,482	499,173	474,511
Operation and maintenance of plant	339,206	379,914	404,937	436,262	395,697	397,313	352,742	376,651	315,636
Transportation	233,936	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	0	80,108	59,276
Capital outlay	45,692	128,380	71,484	13,787	47,354	18,461	562,759	307,755	1,156,803
Long-term debt:									
Principal	190,000	2,140,000	145,000	140,000	143,623	134,189	128,683	115,702	110,000
Interest and fiscal charges	56,553	155,689	111,317	117,392	124,496	131,241	136,665	140,816	145,674
Other expenditures:									
AEA flow-through	142,570	164,594	164,866	146,210	143,592	139,303	133,907	135,157	138,777
<b>Total</b>	<b>\$ 4,213,116</b>	<b>6,961,042</b>	<b>4,940,331</b>	<b>4,485,632</b>	<b>4,318,075</b>	<b>4,322,338</b>	<b>4,946,689</b>	<b>4,603,151</b>	<b>5,258,294</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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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, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 14, 2013. 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

The management of Harmony Community School District is responsible for establishing and maintaining effective 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-12 through I-D-12 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-12 and I-F-12 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, 2012 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 14, 2013

HARMONY COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

**Part I: Findings Related to the Basic Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

I-A-12 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. Also vouchers are processed, disbursements are recorded and checks are prepared by the same person. We also noted that one individual has the ability to modify pay rates, process the payroll and generate payroll checks and direct deposits.

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-12 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-12 Bank Reconciliations - We noted during our audit that the District does not reconcile the bank statements of the General Fund to the general ledger on a timely basis.

Recommendation - The District has a treasurer that has the bank statements sent to her and the Business office does not receive the bank statements for as much as two months later. It is impossible to complete bank reconciliations timely and correct errors that may occur timely when bank statements are not available to the Business Office timely. If the treasurer is completing bank reconciliations – it would be better internal controls for her to share with the Business Office her reconciliation and compare to the District’s official records to ensure those bank statements also reconcile.

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 - The District has notified the bank to receive the bank statements electronically. This way the Business Manager can check it often and reconcile the statements right away.

Conclusion - Response accepted.

I-D-12 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-12 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 it was noted during the audit that the Nutrition Fund is carrying numerous negative student and adult lunch account balances on the books with deficit balances higher than would be the three day amount for meals.

Recommendation - The District should review their procedures and policies in regard to negative student lunch account balances. The District should try various collection techniques to collect the balances from the families before writing the balances off of the books. Another option would be to give these families a free/reduced lunch application to see if they qualify.

Response - We have been watching more closely these negative balances, and do not allow them. Free and reduced lunch forms have also been offered to these families.

Conclusion - Response accepted.

II-F-12 Receipting Procedures - We noted during our audit that the High School uses prenumbered receipts. However, the receipts are not turned into the Central Office in sequential order. We also noted several receipts that were missing.

Recommendation - If a receipt is voided a copy of the voided receipt should be submitted with the other receipts to the central office. More effective internal controls are achieved when receipts are completed in sequential order and all voids are turned into central office for processing.

Response - The high school has been notified to be sure that all receipts are in numerical order, including any voids. If they are out sequence, or missing, they are notified immediately.

Conclusion - Response accepted.

## **Part II: Other Findings Related to Required Statutory Reporting:**

II-A-12 Certified Budget - District expenditures for the year ended June 30, 2012 exceeded the amount budgeted in the non-instructional and other expenditures functions.

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

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

Conclusion - Response accepted.

II-B-12 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.

II-C-12 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-12 Business Transactions - No business transactions between the District and District officials were noted.
- II-E-12 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-12 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board
- II-G-12 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-12 Supplementary Weighting – No variance regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-I-12 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-12 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-12 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- II-L-12 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.

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, 2012, 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 2012 audit.

Beginning balance		\$ 978,974
Revenues:		
Sales tax revenues	\$ 282,023	
Other local sources	6,829	
Transfers from other funds	9,925	298,777
		1,277,751
Expenditures/transfers out:		
School infrastructure construction	35,677	
Equipment	64,213	
Other	3,551	
Transfers to other funds:		
Debt service fund	313,148	416,589
		416,589
Ending balance		\$ 861,162

For the year ended June 30, 2012, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	Rate of Levy Reduction Per \$1,000 of Taxable Valuation	Property Tax Dollars Reduced
Debt service levy	\$ 1.41038	\$ 125,000

II-M-12 Financial Condition - At June 30, 2012, the School Nutrition Fund has a deficit unrestricted net asset balance of \$4,417.

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-12 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, 2012, the Nutrition Fund owed the General Fund \$12,835.

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 1<sup>st</sup> 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 that the District has adequate funding to repay the \$12,835 interfund loan and in the future the District should repay interfund loans in a timely manner in the future.

Response - The nutrition fund will be reconciled to assure that they do have adequate finances to repay the general fund the \$12,835 owed from FY11 and the transaction will be completed.

Conclusion - Response accepted.

II-O-12 District and Regional Rents - We noted during our audit that the District receives money for use of facilities when hosting district and regional events, which was deposited into the Student Activity Fund.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the general fund. The District should receipt rent collected for facility usage into the General Fund.

Response - In the future if we host District events, the rent money will be deposited in the General Fund

Conclusion - Response accepted.