

HARMONY COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2013

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Harmony Community School District

Officials

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

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:

Report on the Financial Statements

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, Bonaparte, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Harmony Community School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 40 through 42 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 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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 nine years ended June 30, 2012 (which are not presented herein). We expressed unqualified opinions for the years ended June 30, 2005 through June 30, 2012. We expressed a qualified opinion for the year ended June 30, 2004 for the lack of capital asset information. The supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 21, 2014 on our consideration of Harmony Community School District's internal control over financial reporting and on 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 in considering Harmony Community School District's internal control over financial reporting and compliance.



NOLTE, CORNMAN & JOHNSON, P.C.

May 21, 2014
Newton, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Harmony Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$4,000,921 in fiscal 2012 to \$3,885,204 in fiscal 2013, while General Fund expenditures increased from \$3,661,515 in fiscal 2012 to \$3,773,994 in fiscal 2013. This resulted in an increase in the District's General Fund balance from \$667,430 at June 30, 2012 to \$778,690 and June 30, 2013.
- The decrease in General Fund revenues was primarily attributable to decreases in local and federal source revenues during fiscal 2013. The increase in expenditures was due to the increase in expenditures in the instructional function.

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 Position 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-1
Harmony Community School District Annual Financial Report

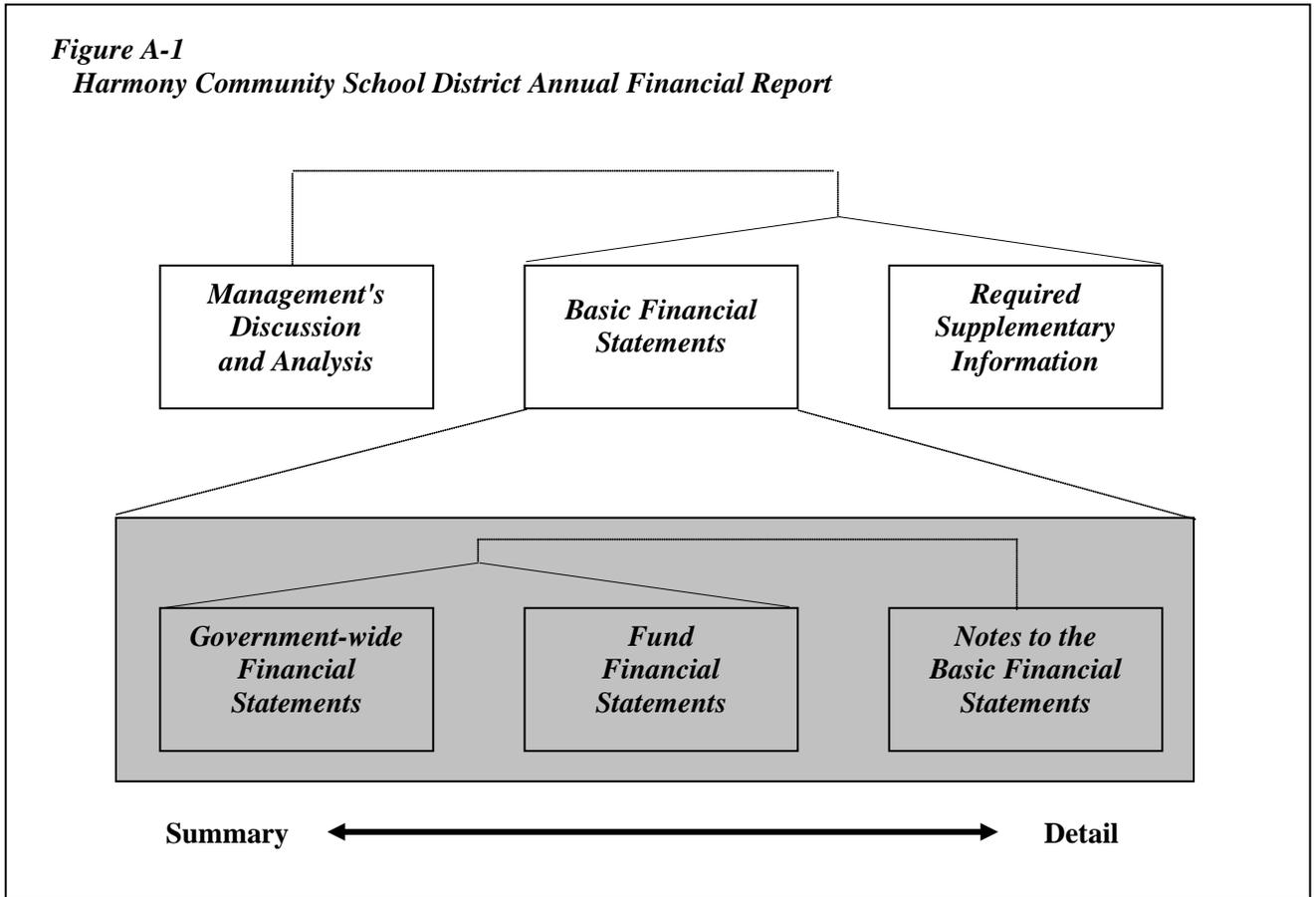


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in fund net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
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 Position includes all of the District’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net position and how it has changed. Net position - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position is 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 fund, one type of proprietary fund, is 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 Position, a Statement of Revenues, Expenses and Changes in Fund Net Position 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 Position and the Statement of Changes in Fiduciary Net Position.

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 position at June 30, 2013 compared to June 30, 2012.

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Current and other assets	\$ 4,446,840	4,165,275	32,761	24,181	4,479,601	4,189,456	6.93%
Capital assets	4,206,332	4,282,657	15,266	17,424	4,221,598	4,300,081	-1.83%
Total assets	<u>8,653,172</u>	<u>8,447,932</u>	<u>48,027</u>	<u>41,605</u>	<u>8,701,199</u>	<u>8,489,537</u>	<u>2.49%</u>
Long-term obligations	1,725,950	1,890,460	-	-	1,725,950	1,890,460	-8.70%
Other liabilities	2,128,053	2,116,365	29,288	28,598	2,157,341	2,144,963	0.58%
Total liabilities	<u>3,854,003</u>	<u>4,006,825</u>	<u>29,288</u>	<u>28,598</u>	<u>3,883,291</u>	<u>4,035,423</u>	<u>-3.77%</u>
Net position:							
Invested in capital assets, net of related debt	2,511,332	2,397,657	15,266	17,424	2,526,598	2,415,081	4.62%
Restricted	1,904,097	1,782,330	-	-	1,904,097	1,782,330	6.83%
Unrestricted	383,740	261,120	3,473	(4,417)	387,213	256,703	50.84%
Total net position	<u>\$ 4,799,169</u>	<u>4,441,107</u>	<u>18,739</u>	<u>13,007</u>	<u>4,817,908</u>	<u>4,454,114</u>	<u>8.17%</u>

The District's combined net position increased by \$363,794 or 8.17% over the prior year. The largest portion of the District's net position 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 position represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased \$121,767 or 6.83% over the prior year. This increase is due primarily to the increase in the ending fund balance of the Capital Projects: Physical Plant and Equipment Levy Fund.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased \$130,510 or 50.84%. The increase in unrestricted net position was a result of the increase in the ending fund balance of the General Fund.

Figure A-4 shows the changes in net position for the year ended June 30, 2013 compared to the year ended June 30, 2012.

	Figure A-4 Change in Net Position							
	Governmental Activities		Business Type Activities		Total School District		Total Change	
	2013	2012	2013	2012	2013	2012	2012-13	
Revenues:								
Program revenues:								
Charges for service	\$ 170,135	181,927	45,451	56,152	215,586	238,079	-9.45%	
Operating grants, contributions and restricted interest	411,062	402,515	131,842	139,892	542,904	542,407	0.09%	
Capital grants, contributions and restricted interest	-	-	-	5,190	-	5,190	-100.00%	
General revenues:								
Property tax	1,718,476	1,870,391	-	-	1,718,476	1,870,391	-8.12%	
Income surtax	174,420	165,687	-	-	174,420	165,687	5.27%	
Statewide sales, services and use tax	304,293	282,023	-	-	304,293	282,023	7.90%	
Unrestricted state grants	1,803,501	1,768,216	-	-	1,803,501	1,768,216	2.00%	
Nonspecific programs federal grants	-	80,709	-	-	-	80,709	-100.00%	
Unrestricted investment earnings	14,870	12,209	110	-	14,980	12,209	22.70%	
Other	12,455	27,175	-	328	12,455	27,503	-54.71%	
Total revenues	<u>4,609,212</u>	<u>4,790,852</u>	<u>177,403</u>	<u>201,562</u>	<u>4,786,615</u>	<u>4,992,414</u>	<u>-4.12%</u>	
Program expenses:								
Instruction	2,715,322	2,589,048	-	-	2,715,322	2,589,048	4.88%	
Support services	1,223,763	1,104,048	-	-	1,223,763	1,104,048	10.84%	
Non-instructional programs	-	-	171,671	195,461	171,671	195,461	-12.17%	
Other expenses	312,065	358,448	-	-	312,065	358,448	-12.94%	
Total expenses	<u>4,251,150</u>	<u>4,051,544</u>	<u>171,671</u>	<u>195,461</u>	<u>4,422,821</u>	<u>4,247,005</u>	<u>4.14%</u>	
Change in net position	358,062	739,308	5,732	6,101	363,794	745,409	51.20%	
Net position beginning 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>	
Net position end of year	<u>\$ 4,799,169</u>	<u>4,441,107</u>	<u>18,739</u>	<u>13,007</u>	<u>4,817,908</u>	<u>4,454,114</u>	<u>8.17%</u>	

In fiscal 2013, property tax and unrestricted state grants account for 76.41% of the revenue from governmental activities while charges for service and operating grants and contributions account for 99.94% of the revenue from business type activities.

The District's total revenues were approximately \$4.79 million of which approximately \$4.61 million was for governmental activities and approximately \$0.18 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4.12% decrease in revenues and a 4.14% increase in expenses. The decrease in revenues was primarily a result of a decrease in local revenues collected as compared to the previous year. The increase in expenses can primarily be attributed to increases in the instructional and support services functional areas.

Governmental Activities

Revenues for governmental activities were \$4,609,212 and expenses were \$4,251,150.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services and other expenses for the year ended June 30, 2013 compared to the year ended June 30, 2012.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2013	2012	Change 2012-13	2013	2012	Change 2012-13
Instruction	\$ 2,715,322	2,589,048	4.88%	2,275,940	2,147,352	5.99%
Support services	1,223,763	1,104,048	10.84%	1,223,576	1,103,872	10.84%
Other expenses	312,065	358,448	-12.94%	170,437	215,878	-21.05%
Totals	<u>\$ 4,251,150</u>	<u>4,051,544</u>	<u>4.93%</u>	<u>3,669,953</u>	<u>3,467,102</u>	<u>5.85%</u>

For the year ended June 30, 2013:

- The cost financed by users of the District's programs was \$170,135.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$411,062.
- The net cost of governmental activities was financed with \$1,718,476 in property tax, \$174,420 in income surtax, \$304,293 in statewide sales, services and use tax, \$1,803,501 in unrestricted state grants, \$14,870 in interest income and \$12,455 in other general revenues.

Business Type Activities

Revenues of the District's business type activities were \$177,403 and expenses were \$171,671. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Harmony Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,101,981 compared to last year's ending fund balances of \$1,842,117. The primary reason for the increase in combined fund balances is the increase in the ending fund balance for the General Fund.

Governmental Fund Highlights

- The General Fund balance increased from \$667,430 at June 30, 2012 to \$778,690 at June 30, 2013. General Fund revenues decreased primarily because of the decrease in federal source funding. The increase in expenditures was mainly due to the increase in expenditures in the instructional function.
- The Capital Projects Fund balance increased from a balance of \$912,663 at June 30, 2012 to \$964,448 at June 30, 2013. The increase in fund balance was due to an increase in the amount of property tax levied as compared to the previous year coupled with a decrease in total expenditures including transfers for general obligation bond repayment.

- The Management Levy Fund balance increased during the year from a balance of \$200,814 at June 30, 2012 to a balance of \$293,733 at June 30, 2013.

Proprietary Fund Highlights

- The School Nutrition Fund net position increased from \$13,007 at June 30, 2012 to \$18,739 at June 30, 2013, representing an increase of 44.07%.

BUDGETARY HIGHLIGHTS

The District’s revenues were \$564,535 less than budgeted revenues, a variance of 10.55%. The most significant variance resulted from the District receiving less from local sources than originally anticipated.

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

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had invested \$4,221,598, 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 \$159,256.

The original cost of the District’s capital assets was \$8,455,420. Governmental funds account for \$8,354,161 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 machinery and equipment category. The District’s machinery and equipment totaled \$225,520 at June 30, 2012, compared to \$256,544 reported at June 30, 2013. The increase in machinery and equipment was due to the purchase of a new Chevy suburban 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,	
	2013	2012	2013	2012	2013	2012	2012-13	
Land	\$ 57,000	57,000	-	-	57,000	57,000	0.00%	
Buildings	3,879,158	3,985,838	-	-	3,879,158	3,985,838	-2.68%	
Land improvements	28,896	31,723	-	-	28,896	31,723	-8.91%	
Machinery and equipment	241,278	208,096	15,266	17,424	256,544	225,520	13.76%	
Total	\$ 4,206,332	4,282,657	15,266	17,424	4,221,598	4,300,081	-1.83%	

Long-Term Debt

At June 30, 2013, the District had long-term debt outstanding of \$1,725,950 in general obligation bonds and other long-term debt outstanding. This represents an 8.70% 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 \$1,695,000 at June 30, 2013.

The District also had outstanding termination benefits payable from the Special Revenue, Management Levy Fund of \$16,460 and the General Fund of \$14,490 at June 30, 2013.

	Figure A-7 Outstanding Long-Term Obligations		
	Total School District		Total Change
	June 30,		June 30,
	2013	2012	2012-13
General obligation bonds	\$ 1,695,000	1,885,000	-10.08%
Termination benefits	30,950	5,460	466.85%
Total	<u>\$ 1,725,950</u>	<u>1,890,460</u>	<u>-8.70%</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 District receives a large amount of federal and state monies through grants. The grants have to be approved and their continuation depends on federal and state funding.
- The District continues to experience reductions in enrollment and a large number of open enrollment students each year and as a result the funds available to the District that are based on enrollment are reduced each year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kerry Phillips, Superintendent, Harmony Community School District, 602 Eighth Street, Bonaparte, Iowa, 52620.

HARMONY COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and pooled investments	\$ 2,215,480	28,944	2,244,424
Receivables:			
Property tax:			
Delinquent	90,973	-	90,973
Succeeding year	1,698,767	-	1,698,767
Income surtax	156,455	-	156,455
Accounts	7,825	-	7,825
Due from other funds	13,660	-	13,660
Due from other governments	199,151	-	199,151
Inventories	-	3,817	3,817
Capital assets, net of accumulated depreciation	4,206,332	15,266	4,221,598
Net OPEB asset	64,529	-	64,529
TOTAL ASSETS	8,653,172	48,027	8,701,199
LIABILITIES			
Due to other funds	-	13,660	13,660
Accounts payable	130,776	14,086	144,862
Salaries and benefits payable	284,568	-	284,568
Interest payable	4,178	-	4,178
Unearned revenue	-	1,542	1,542
Deferred revenue:			
Succeeding year property tax	1,698,767	-	1,698,767
Other	9,764	-	9,764
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	195,000	-	195,000
Termination benefits payable	30,950	-	30,950
Portion due after one year:			
General obligation bonds payable	1,500,000	-	1,500,000
TOTAL LIABILITIES	3,854,003	29,288	3,883,291
NET POSITION			
Invested in capital assets, net of related debt	2,511,332	15,266	2,526,598
Restricted for:			
Categorical funding	599,281	-	599,281
Management levy purposes	277,273	-	277,273
Student activities	63,095	-	63,095
School infrastructure	829,953	-	829,953
Physical plant and equipment	134,495	-	134,495
Unrestricted	383,740	3,473	387,213
TOTAL NET POSITION	\$ 4,799,169	18,739	4,817,908

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

	Program Revenues					Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest		Govern- mental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 1,800,444	69,195	55,956		(1,675,293)	-	(1,675,293)
Special	434,864	-	20,415		(414,449)	-	(414,449)
Other	480,014	100,940	192,876		(186,198)	-	(186,198)
	<u>2,715,322</u>	<u>170,135</u>	<u>269,247</u>		<u>(2,275,940)</u>	<u>-</u>	<u>(2,275,940)</u>
Support services:							
Student	58,622	-	-		(58,622)	-	(58,622)
Instructional staff	120,036	-	-		(120,036)	-	(120,036)
Administration	414,290	-	-		(414,290)	-	(414,290)
Operation and maintenance of plant	365,349	-	-		(365,349)	-	(365,349)
Transportation	265,466	-	187		(265,279)	-	(265,279)
	<u>1,223,763</u>	<u>-</u>	<u>187</u>		<u>(1,223,576)</u>	<u>-</u>	<u>(1,223,576)</u>
Long-term debt interest	53,424	-	-		(53,424)	-	(53,424)
Other expenses:							
AEA flowthrough	141,628	-	141,628		-	-	-
Depreciation(unallocated)*	117,013	-	-		(117,013)	-	(117,013)
	<u>258,641</u>	<u>-</u>	<u>141,628</u>		<u>(117,013)</u>	<u>-</u>	<u>(117,013)</u>
Total governmental activities	<u>4,251,150</u>	<u>170,135</u>	<u>411,062</u>		<u>(3,669,953)</u>	<u>-</u>	<u>(3,669,953)</u>
Business type activities:							
Non-instructional programs:							
Food service operations	171,671	45,451	131,842		-	5,622	5,622
Total	<u>\$ 4,422,821</u>	<u>215,586</u>	<u>542,904</u>		<u>(3,669,953)</u>	<u>5,622</u>	<u>(3,664,331)</u>
General Revenues :							
Property tax for:							
General purposes				\$ 1,596,632	-		1,596,632
Debt service				26,987	-		26,987
Capital outlay				94,857	-		94,857
Income surtax				174,420	-		174,420
Statewide sales, services and use tax				304,293	-		304,293
Unrestricted state grants				1,803,501	-		1,803,501
Unrestricted investment earnings				14,870		110	14,980
Other				12,455	-		12,455
Total general revenues				<u>4,028,015</u>		<u>110</u>	<u>4,028,125</u>
Change in net position				358,062		5,732	363,794
Net position beginning of year				<u>4,441,107</u>		<u>13,007</u>	<u>4,454,114</u>
Net position end of year				<u>\$ 4,799,169</u>		<u>18,739</u>	<u>4,817,908</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, 2013

	General	Management Levy	Capital Projects	Nonmajor Student Activity	Nonmajor Debt Service	Total
ASSETS						
Cash and pooled investments	\$ 1,021,689	283,258	847,378	63,095	60	2,215,480
Receivables:						
Property tax:						
Delinquent	73,389	10,475	5,154	-	1,955	90,973
Succeeding year	1,418,735	200,000	31,247	-	48,785	1,698,767
Income surtax	156,455	-	-	-	-	156,455
Accounts	7,825	-	-	-	-	7,825
Due from other funds	13,660	-	-	-	-	13,660
Due from other governments	84,364	-	114,787	-	-	199,151
TOTAL ASSETS	\$ 2,776,117	493,733	998,566	63,095	50,800	4,382,311
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 127,905	-	2,871	-	-	130,776
Salaries and benefits payable	284,568	-	-	-	-	284,568
Deferred revenue:						
Succeeding year property tax	1,418,735	200,000	31,247	-	48,785	1,698,767
Income surtax	156,455	-	-	-	-	156,455
Other	9,764	-	-	-	-	9,764
Total liabilities	1,997,427	200,000	34,118	-	48,785	2,280,330
Fund balances:						
Restricted for:						
Categorical funding	599,281	-	-	-	-	599,281
Debt service	-	-	-	-	2,015	2,015
Management levy purposes	-	293,733	-	-	-	293,733
Student activities	-	-	-	63,095	-	63,095
School infrastructure	-	-	829,953	-	-	829,953
Physical plant and equipment	-	-	134,495	-	-	134,495
Unassigned	179,409	-	-	-	-	179,409
Total fund balances	778,690	293,733	964,448	63,095	2,015	2,101,981
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,776,117	493,733	998,566	63,095	50,800	4,382,311

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Total fund balances of governmental funds(page 20)	\$ 2,101,981
<i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,206,332
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.	(4,178)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	156,455
Other postemployment benefits are not yet available to finance expenditures of the current fiscal period.	64,529
Long-term liabilities, including general obligation bonds payable and termination benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(1,725,950)</u>
Net position of governmental activities(page 18)	<u><u>\$ 4,799,169</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, 2013

	General	Management Levy	Capital Projects	Nonmajor Student Activity	Nonmajor Debt Service	Total
REVENUES:						
Local sources:						
Local tax	\$ 1,571,032	198,737	399,150	-	26,987	2,195,906
Tuition	64,713	-	-	-	-	64,713
Other	40,342	-	469	97,145	-	137,956
State sources	2,024,715	151	69	-	17	2,024,952
Federal sources	184,402	-	-	-	-	184,402
Total revenues	3,885,204	198,888	399,688	97,145	27,004	4,607,929
EXPENDITURES:						
Current:						
Instruction:						
Regular	1,696,419	-	70,573	-	-	1,766,992
Special	433,040	-	-	-	-	433,040
Other	393,561	-	-	86,857	-	480,418
	2,523,020	-	70,573	86,857	-	2,680,450
Support services:						
Student	57,786	-	-	-	-	57,786
Instructional staff	119,885	-	-	-	-	119,885
Administration	378,918	64,452	-	-	-	443,370
Operation and maintenance of plant	320,378	28,412	6,232	-	-	355,022
Transportation	232,329	13,105	33,386	-	-	278,820
	1,109,296	105,969	39,618	-	-	1,254,883
Capital outlay	-	-	27,427	-	-	27,427
Long-term debt:						
Principal	-	-	-	-	190,000	190,000
Interest and fiscal charges	-	-	-	-	53,677	53,677
	-	-	-	-	243,677	243,677
Other expenditures:						
AEA flowthrough	141,628	-	-	-	-	141,628
Total expenditures	3,773,944	105,969	137,618	86,857	243,677	4,348,065
Excess(Deficiency) of revenues over(under) expenditures	111,260	92,919	262,070	10,288	(216,673)	259,864
Other financing sources(uses):						
Transfer in	-	-	-	-	210,285	210,285
Transfer out	-	-	(210,285)	-	-	(210,285)
Total other financing sources(uses)	-	-	(210,285)	-	210,285	-
Change in fund balances	111,260	92,919	51,785	10,288	(6,388)	259,864
Fund balances beginning of year	667,430	200,814	912,663	52,807	8,403	1,842,117
Fund balances end of year	\$ 778,690	293,733	964,448	63,095	2,015	2,101,981

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, 2013

Change in fund balances - total governmental funds(page 22) \$ 259,864

Amounts reported for governmental activities in the Statement of Activities are different because:

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

Capital outlay	\$ 80,773	
Depreciation expense	(157,098)	(76,325)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position. 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. 253

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 1,283

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 funds, as follows:

Termination benefits	\$ (25,490)	
Other postemployment benefits	8,477	(17,013)

Change in net position of governmental activities(page 19) \$ 358,062

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2013

	School Nutrition
ASSETS	
Cash and cash equivalents	\$ 28,944
Inventories	3,817
Capital assets, net of accumulated depreciation	15,266
TOTAL ASSETS	48,027
LIABILITIES	
Due to other funds	13,660
Salaries and benefits payable	14,086
Unearned revenue	1,542
TOTAL LIABILITIES	29,288
NET POSITION	
Invested in capital assets	15,266
Unrestricted	3,473
TOTAL NET POSITION	\$ 18,739

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for service	\$ 45,451
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	74,538
Benefits	11,969
Services	170
Supplies	82,836
Depreciation	2,158
TOTAL OPERATING EXPENSES	171,671
OPERATING LOSS	(126,220)
NON-OPERATING REVENUES:	
Interest income	110
State sources	1,555
Federal sources	130,287
TOTAL NON-OPERATING REVENUES	131,952
Change in net position	5,732
Net position beginning of year	13,007
Net position end of year	\$ 18,739

SEE NOTES FINANCIAL STATEMENTS.

EXHIBIT IHARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 45,774
Cash payments to employees for services	(86,965)
Cash payments to suppliers for goods or services	(60,161)
Net cash used in operating activities	<u>(101,352)</u>
Cash flows from non-capital financing activities:	
Borrowings from the General Fund	825
State grants received	1,555
Federal grants received	107,093
Net cash provided by non-capital financing activities	<u>109,473</u>
Cash flows from investing activities:	
Interest on investments	110
Net increase in cash and cash equivalents	8,231
Cash and cash equivalents at beginning of year	<u>20,713</u>
Cash and cash equivalents at end of year	<u>\$ 28,944</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (126,220)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	23,194
Depreciation	2,158
Increase in inventories	(349)
Decrease in salaries and benefits payable	(458)
Increase in unearned revenue	323
Net cash used in operating activities	<u>\$ (101,352)</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2013, the District received Federal commodities valued at \$23,194.

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2013

	<u>Private Purpose</u> <u>Trust</u> <u>Scholarship</u>
ASSETS	
Cash and pooled investments	\$ 355,098
LIABILITIES	<u>-</u>
NET POSITION	
Restricted for scholarships	<u>\$ 355,098</u>

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2013

	<u>Private Purpose Trust Scholarship</u>
ADDITIONS:	
Local sources:	
Interest income	\$ 2,183
DEDUCTIONS:	
Scholarships awarded	5,500
Change in net position	(3,317)
Net position beginning of year	358,415
Net position end of year	\$ 355,098

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Note 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 Position 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 Position presents the District's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is 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 position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often has 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 Management Levy Fund is used to account for property tax and other revenues to be used for the payment of the District's property, auto, liability and worker's compensation insurance coverage. The Management Levy Fund is also used to account for the termination benefits paid to District retirees.

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 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 position and changes in net position. The District's fiduciary fund is 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 is both restricted and unrestricted net position 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.

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, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2012.

Due From and Due to Other Funds - During the course of its operations, the District has numerous transactions between funds. As of June 30, 2013 balances of interfund accounts receivable or payable have been recorded to the extent that certain transactions between funds had not been paid or received.

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 Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Land improvements	1,000
Intangibles	25,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Intangibles	5-10 years
Machinery and equipment	5-12 years

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

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

Deferred revenue on the Statement of Net Position 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 Position 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 Position.

Fund Balances - 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 Position - In the Government-wide Statement of Net Position, net position is reported as restricted when constraints placed on net position 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. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2013, expenditures in the other expenditures functional area exceeded the budgeted amount.

Note 2. Cash and Pooled Investments

The District’s deposits in banks at June 30, 2013 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, 2013.

Note 3. Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2013 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nutrition	\$ 13,660

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

Note 4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 210,285

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was for principal and interest payments on the District's general obligation bond indebtedness.

Note 5. Capital Assets

Capital assets activity for the year ended June 30, 2013 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 57,000	-	-	57,000
Total capital assets not being depreciated	<u>57,000</u>	<u>-</u>	<u>-</u>	<u>57,000</u>
Capital assets being depreciated:				
Buildings	6,665,640	7,506	-	6,673,146
Land improvements	334,551	-	-	334,551
Machinery and equipment	1,439,858	73,267	223,661	1,289,464
Total capital assets being depreciated	<u>8,440,049</u>	<u>80,773</u>	<u>223,661</u>	<u>8,297,161</u>
Less accumulated depreciation for:				
Buildings	2,679,802	114,186	-	2,793,988
Land improvements	302,828	2,827	-	305,655
Machinery and equipment	1,231,762	40,085	223,661	1,048,186
Total accumulated depreciation	<u>4,214,392</u>	<u>157,098</u>	<u>223,661</u>	<u>4,147,829</u>
Total capital assets being depreciated, net	<u>4,225,657</u>	<u>(76,325)</u>	<u>-</u>	<u>4,149,332</u>
Governmental activities capital assets, net	<u>\$ 4,282,657</u>	<u>(76,325)</u>	<u>-</u>	<u>4,206,332</u>
Business type activities:				
Machinery and equipment	\$ 101,259	-	-	101,259
Less accumulated depreciation	83,835	2,158	-	85,993
Business type activities capital assets, net	<u>\$ 17,424</u>	<u>(2,158)</u>	<u>-</u>	<u>15,266</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 13,986
Other	1,527
Support services:	
Administration	3,053
Operation and maintenance of plant	1,200
Transportation	20,319
	<u>40,085</u>
Unallocated depreciation	<u>117,013</u>
Total governmental activities depreciation expense	<u>\$ 157,098</u>
Business type activities:	
Food service operations	<u>\$ 2,158</u>

Note 6. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2013 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
<u>Governmental activities:</u>					
General obligation bonds	\$ 1,885,000	-	190,000	1,695,000	195,000
Termination benefits	5,460	61,060	35,570	30,950	30,950
Total	\$ 1,890,460	61,060	225,570	1,725,950	225,950

General Obligation Bonds Payable

Details of the District's June 30, 2013 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond issue June 30, 2010			
	Interest Rate	Principal	Interest	Total
2014	1.90	% \$ 195,000	50,138	245,138
2015	2.25	200,000	46,433	246,433
2016	2.65	200,000	41,932	241,932
2017	3.05	205,000	36,632	241,632
2018	3.05	215,000	30,380	245,380
2019-2021	3.35-3.65	680,000	48,852	728,852
Total		\$ 1,695,000	254,367	1,949,367

Termination Benefits

During the year ended June 30, 2010, the District offered a voluntary termination benefit plan to its certified and non-certified employees. 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 termination benefit incentive 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 employees and \$10,000 for non-certified employees. Termination benefits paid during the year ended June 30, 2013 to one employee covered by this plan totaled \$5,040.

During the year ended June 30, 2012, the District offered a voluntary termination benefit plan to full time certified employees. Eligible employees must have been at least age fifty-five and have completed fifteen years of continuous service to the District. Employees had to complete an application which was subject to approval by the Board of Education. The termination benefit incentive for each eligible employee was equal to a 50% of the employee's base salary(not including extended days or other additional pay) and \$40 per day for any unused sick leave time. The maximum benefit that an employee could receive was \$25,000 for base salary and \$4,800 for unused sick leave time. Termination benefits paid during the year ended June 30, 2013 for two employees covered by this plan totaled \$30,530.

Note 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 5.78% of their annual covered salary and the District is required to contribute 8.67% of annual covered salary. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$167,958, \$171,614 and \$145,602, respectively, equal to the required contributions for each year.

Note 8. Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer health benefit plan which provides medical/prescription drug and dental benefits for employees, retirees and their spouses. There are 30 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, 2013, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$	2,369
Interest on net OPEB obligation		(561)
Adjustment to annual required contribution		2,161
Annual OPEB cost		3,969
Contributions made		(12,446)
Increase in net OPEB obligation		(8,477)
Net OPEB obligation - beginning of year		(56,052)
Net OPEB obligation - end of year	\$	(64,529)

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, 2013.

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, 2013 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 5,389	507.70%	\$ (41,425)
2012	5,389	350.68%	(56,052)
2013	3,969	313.58%	(64,529)

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$34,513, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$34,513. The covered payroll (annual payroll of active employees covered by the plan) was \$1,879,767, and the ratio of the UAAL to the covered payroll was 1.8%. As of June 30, 2013, 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, 2012 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 1% discount rate based on the District's funding policy. The projected annual medical trend rate is 8%. The ultimate medical trend rate is 3%. The medical trend rate is reduced by a percentage each year until reaching the 3% ultimate trend rate.

Mortality rates are from tables developed by the Society of Actuaries, 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.

Note 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.

Note 10. Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2013 is comprised of the following programs:

Program	Amount
Limited english proficiency weighting	\$ 12,668
Home school assistance program	280,034
At-risk programs	19,041
Gifted and talented	87,507
Drop out and drop out prevention	118,135
Beginning teacher mentoring	2,400
Teacher salary supplement	3,738
Beginning administrator mentoring	1,500
Four-year old preschool state aid	55,180
Professional development for model core curriculum	19,078
Total	<u>\$ 599,281</u>

Note 11. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$141,628 for the year ended June 30, 2013 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 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, 2013, expenditures in the other expenditures function exceeded the amount budgeted.

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, 2013

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds	Fund		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 2,398,575	45,561	2,444,136	2,820,951	2,820,951	(376,815)
State sources	2,024,952	1,555	2,026,507	2,138,456	2,138,456	(111,949)
Federal sources	184,402	130,287	314,689	390,460	390,460	(75,771)
Total revenues	<u>4,607,929</u>	<u>177,403</u>	<u>4,785,332</u>	<u>5,349,867</u>	<u>5,349,867</u>	<u>(564,535)</u>
Expenditures/Expenses:						
Instruction	2,680,450	-	2,680,450	3,285,569	3,285,569	605,119
Support services	1,254,883	-	1,254,883	1,784,503	1,784,503	529,620
Non-instructional programs	-	171,671	171,671	200,000	200,000	28,329
Other expenditures	412,732	-	412,732	367,387	367,387	(45,345)
Total expenditures/expenses	<u>4,348,065</u>	<u>171,671</u>	<u>4,519,736</u>	<u>5,637,459</u>	<u>5,637,459</u>	<u>1,117,723</u>
Excess(Deficiency) of revenues over(under) expenditures/expenses	259,864	5,732	265,596	(287,592)	(287,592)	553,188
Other financing sources, net	-	-	-	215,569	215,569	215,569
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	259,864	5,732	265,596	(72,023)	(72,023)	768,757
Balance beginning of year	<u>1,842,117</u>	<u>13,007</u>	<u>1,855,124</u>	<u>1,042,863</u>	<u>1,042,863</u>	<u>812,261</u>
Balance end of year	<u>\$ 2,101,981</u>	<u>18,739</u>	<u>2,120,720</u>	<u>970,840</u>	<u>970,840</u>	<u>1,581,018</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2013

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, 2013, expenditures in the other expenditures function exceeded the amount budgeted.

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

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)			
2010	July 1, 2009	\$ -	\$ 87,236	\$ 87,236	0.0%	\$ 2,228,745	3.9%
2011	July 1, 2009	-	87,236	87,236	0.0%	2,144,847	4.1%
2012	July 1, 2009		87,326	87,236	0.0%	2,126,566	4.1%
2013	July 1, 2012		34,513	34,513	0.0%	1,879,767	1.8%

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
 CAPITAL PROJECT ACCOUNTS
 JUNE 30, 2013

	Capital Projects		
	Statewide Sales Services and Use Tax	Physical Plant and Equipment Levy	Total
ASSETS			
Cash and pooled investments	\$ 718,037	129,341	847,378
Receivables:			
Property tax:			
Delinquent	-	5,154	5,154
Succeeding year	-	31,247	31,247
Due from other governments	114,787	-	114,787
TOTAL ASSETS	\$ 832,824	165,742	998,566
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 2,871	-	2,871
Deferred revenue:			
Succeeding year property tax	-	31,247	31,247
Total liabilities	2,871	31,247	34,118
Fund balances:			
Restricted for:			
School infrastructure	829,953	-	829,953
Physical plant and equipment	-	134,495	134,495
Total fund balances	829,953	134,495	964,448
TOTAL LIABILITIES AND FUND BALANCES	\$ 832,824	165,742	998,566

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, 2013

	Capital Projects		Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
REVENUES:			
Local sources:			
Local tax	\$ 304,293	94,857	399,150
Other	-	469	469
State sources	-	69	69
Total revenues	304,293	95,395	399,688
EXPENDITURES:			
Current:			
Instruction:			
Regular	70,573	-	70,573
Support services:			
Operation and maintenance of plant	-	6,232	6,232
Transportation	33,386	-	33,386
Capital outlay	21,258	6,169	27,427
Total expenditures	125,217	12,401	137,618
Excess of revenues over expenditures	179,076	82,994	262,070
Other financing uses:			
Transfer out	(210,285)	-	(210,285)
Change in fund balances	(31,209)	82,994	51,785
Fund balance beginning of year	861,162	51,501	912,663
Fund balance end of year	\$ 829,953	134,495	964,448

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND,
STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2013

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Elementary	\$ 25,172	13,911	15,813	23,270
High School	27,635	83,234	71,044	39,825
Total	<u>\$ 52,807</u>	<u>97,145</u>	<u>86,857</u>	<u>63,095</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
COMBINING STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	Private Purpose Trust - Scholarship		
	Millican Educational Memorial Fund	Reifior Scholarship Fund	Total
ASSETS			
Cash and pooled investments	\$ 84,482	270,616	355,098
LIABILITIES	-	-	-
NET POSITION			
Restricted for scholarships	\$ 84,482	270,616	355,098

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2013

	Private Purpose Trust - Scholarship		
	Millican Educational Memorial Fund	Reifior Scholarship Fund	Total
ADDITIONS:			
Local sources:			
Interest income	\$ 1,004	1,179	2,183
DEDUCTIONS:			
Scholarships awarded	2,000	3,500	5,500
Change in net position	(996)	(2,321)	(3,317)
Net position beginning of year	85,478	272,937	358,415
Net position end of year	\$ 84,482	270,616	355,098

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 TEN YEARS

	Modified Accrual Basis									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:										
Local sources:										
Local tax	\$ 2,195,906	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	64,713	60,717	99,082	128,506	107,973	118,453	163,993	132,135	113,193	89,798
Other	137,956	175,244	776,171	524,394	290,003	304,407	274,874	418,550	192,263	168,316
State sources	2,024,952	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	184,402	256,546	394,044	477,219	170,936	127,321	175,983	392,614	429,329	803,061
Total	\$ 4,607,929	4,794,655	5,534,951	5,128,439	4,568,279	4,696,155	4,493,830	4,731,471	4,240,496	4,654,395
Expenditures:										
Instruction:										
Regular	\$ 1,766,992	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	433,040	369,571	340,654	343,311	433,181	362,510	377,524	474,025	485,582	441,702
Other	480,418	590,553	898,888	794,840	440,428	496,310	450,873	540,649	377,897	364,298
Support services:										
Student	57,786	47,309	62,769	23,567	50,474	45,895	41,190	60,444	55,240	57,131
Instructional staff	119,885	91,163	79,155	94,049	140,973	88,826	109,752	115,268	39,800	90,565
Administration	443,370	473,213	478,198	553,054	571,687	484,770	565,493	518,482	499,173	474,511
Operation and maintenance of plant	355,022	339,206	379,914	404,937	436,262	395,697	397,313	352,742	376,651	315,636
Transportation	278,820	233,936	234,595	351,712	313,199	247,995	268,299	280,853	281,304	282,624
Non-instructional programs	-	-	-	-	-	-	-	-	80,108	59,276
Capital outlay	27,427	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	190,000	2,140,000	145,000	140,000	143,623	134,189	128,683	115,702	110,000
Interest and fiscal charges	53,677	56,553	155,689	111,317	117,392	124,496	131,241	136,665	140,816	145,674
Other expenditures:										
AEA flow-through	141,628	142,570	164,594	164,866	146,210	143,592	139,303	133,907	135,157	138,777
Total	\$ 4,348,065	4,213,116	6,961,042	4,940,331	4,485,632	4,318,075	4,322,338	4,946,689	4,603,151	5,258,294

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

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

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

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the 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, 2013, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 21, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Harmony Community School District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harmony Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Harmony Community School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and 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 misstatements 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 described in Part I of the accompanying Schedule of Findings as items I-A-13 through I-C-13 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which 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-D-13 through I-I-13 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 which 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, 2013 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

Harmony Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Harmony Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.

May 21, 2014
Newton, Iowa

HARMONY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-13 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual may perform two or more functions in each of the following areas for the District.

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash.
- 2) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 3) Receipts - collecting, recording, depositing, journalizing, posting and reconciling.
- 4) Disbursements - purchase order processing, check preparation, mailing and recording.
- 5) Inventories - ordering, receiving, issuing and storing.
- 6) Capital assets - purchasing, recording and reconciling.
- 7) Wire transfers - processing and approving.
- 8) Payroll - recording approved pay rates and deductions, recordkeeping, preparation, posting and distribution.
- 9) Transfers - preparing and approving.
- 10) Financial reporting - preparing, reconciling and approving.
- 11) Computer systems - performing all general accounting functions and controlling all data input and output.
- 12) School lunch program - collecting, recording, journalizing, posting, reconciling, purchase order processing, check preparation, mailing and recording.

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

Response - The District is contracting Business Office functions from Great Prairie AEA and will improve segregation of duties when it is economically feasible.

Conclusion - Response acknowledged.

I-B-13 Bank Reconciliations - We noted during our audit that the District does not reconcile the bank statements of all funds to the general ledger on a timely basis.

Recommendation - The District has a treasurer that is completing bank reconciliations. Better internal controls would be achieved if the treasurer would share the bank reconciliations with the Business Office to compare to the District's official records to ensure bank statements reconcile to the general ledger. 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 is contracting Business Office functions from Great Prairie AEA and is switching the accounting software provider from Harris Software(DataTeam) to Software Unlimited July 2014. Bank reconciliations are completed through April 2014.

Conclusion - Response accepted.

I-C-13 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 District is contracting Business Office functions from Great Prairie AEA and is switching the accounting software provider from Harris Software(DataTeam) to Software Unlimited July 2014. All funds will be accounted for on Software Unlimited.

Conclusion - Response accepted.

I-D-13 Booster Club Accounts - We noted during our audit, that the District's Athletic Booster Club and Music Booster Club uses the District's Federal Identification Number. Because these booster clubs are using the District's Federal Identification Number, the District should be accounting for the booster club within the District's Student Activity Fund. The Booster Clubs' accounts and transactions should be included in the District's financial statements and subjected to the same Code of Iowa requirements as well as internal controls that the District follows.

Recommendation - The District should contact officials of the two booster clubs and request the accounts to be turned over to the District. The booster clubs may establish a 501(c)(3) organization with a federal identification number separate that of the District, however the current accounts are District assets and should be turned over to the District for proper recording.

In addition, the Board of Directors should consider contacting local banks and request listings of accounts utilizing the District's Federal Identification Number. The District should research any unfamiliar accounts and make necessary changes.

Response - One of the booster clubs has obtained a separate Federal identification number. The other booster club account has been closed. The District will contact local banks and research any unfamiliar accounts and make necessary changes.

Conclusion - Response accepted.

I-E-13 Cafeteria Plan Bank Account - We noted during our audit that the District has a bank account for the District's 125 cafeteria plan that is not on the District's Uniform Accounting System.

Recommendation - The District needs to include the 125 cafeteria plan bank account transactions in the District's Uniform Accounting System.

Response - The District will include the cafeteria plan bank account in its Uniform Accounting System.

Conclusion - Response accepted.

I-F-13 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 District will review procedures and make adjustments as necessary to comply with the auditor recommendation.

Conclusion - Response accepted.

I-G-13 Title I Reporting - We noted during our audit that Title I reports submitted to the Iowa Department of Education were not reconciled to actual expenses reported in the District's general ledger.

Recommendation - The District needs to reconcile Title I reports submitted to the Iowa Department of Education to actual expenses reported in the District's general ledger. Once this reconciliation is completed, the District should amend the Title I budget to match revenues to actual general ledger expenditures.

Response - The District will reconcile Title I reports to the general ledger and amend the budget as necessary in the future.

Conclusion - Response accepted.

I-H-13 Scholarships - We noted during our audit that the District recorded donations and subsequent expenditures for scholarships given to students from the General Fund.

Recommendation - The District already has a scholarship fund established on the Uniform Accounting System. It would seem logical to record all transactions for scholarships in the already established Private Purpose Trust account.

Response - The District will record scholarship transactions in the Private Purpose Trust account.

Conclusion - Response accepted.

I-I-13 Student Activity Fund Interest - We noted during our audit that both the elementary activity fund and the high school activity fund have interest accounts. It appears that the interest was not allocated to the individual activity fund accounts at least once during the year.

Recommendation - Interest earned by the elementary and high school activity funds should be allocated at least once during the fiscal year to the individual activity fund accounts that earned the interest.

Response - The District will allocate the interest earned to the accounts that are earning the interest at least annually.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-13 Certified Budget - District expenditures for the year ended June 30, 2013 exceeded the amount budgeted in the 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-13 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-13 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.

However, we noted during our audit that several payments made with the District's credit card lacked supporting documentation for the purpose and type of expense. The District has Board Policy 803.10 that addresses the use of District issued credit cards by employees for necessary expenses incurred while on District business. If an employee fails to submit a detailed receipt in addition to the credit card receipt indicating the date, purpose and nature of the expense for each item, that expense would become the employee's expense that would have to be reimbursed to the District within ten days following the use of the District credit card.

Recommendation - The District should review Board Policy 803.10 with employees and require the documentation required by board policy be given to central office staff.

Response - The District will review Board Policy 803.10 with employees and require that all supporting documentation for purchases on the District's credit cards are turned into the central office.

Conclusion - Response accepted.

II-D-13 Business Transactions - No business transactions between the District and District officials were noted.

II-E-13 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-13 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-13 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students was understated by 0.5 students.

We also noted during our audit that the District did not certify enrollment to the Iowa Department of Education by the October 15th deadline as required by Chapter 257.6 of the Code of Iowa.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter. The District should certify enrollment with the Iowa Department of Education by October 15th annually to be in compliance with Chapter 257.6 of the Code of Iowa.

Response - The District's auditors will contact the Iowa Department of Education and the Department of management to resolve this manner. The District will certify enrollment with the Iowa Department of Education by October 15th annually to be in compliance with Chapter 257.6 of the Code of Iowa.

Conclusion - Response accepted.

II-H-13 Supplementary Weighting - We noted a variance regarding supplementary weighting certified to the Iowa Department of Education. The accreditation for a class was overstated by 0.03.

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

Response - The District's auditors will contact the Iowa Department of Education and the Department of management to resolve this manner.

Conclusion - Response accepted.

II-I-13 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-13 Certified Annual Report - The Certified Annual Report was not filed with the Department of Education timely and we noted significant deficiencies in the amounts reported.

Recommendation - The District should submit the Certified Annual Report in a timely manner in the future.

Response - The CAR will be submitted to the Iowa Department of Education timely in the future.

Conclusion - Response accepted.

II-K-13 Categorical Funding - We noted during our audit that the District had expenses for field trips to Chicago and Colorado, as well as mileage paid to an employee for picking up a teacher who was visiting a sick relative in Chicago paid from TAG funding. Expenditures for the two previously mentioned items with TAG funding do not appear to be appropriate according to Iowa Administrative Code 281 Chapter 98.20(1)(2).

The following is the adjustment made to the ending restricted balance for TAG categorical funding:

	Restricted Balance on District's CAR	Amount of Expense Adjustment	Audited Ending Restricted Balance
Gifted and talented	\$ 80,989	\$ 6,518	\$ 87,507

Recommendation - The District should review Iowa Administrative Code 281 Chapter 98.20(1)(2) for allowable expenditures with TAG funding. The District should contact the Iowa Department of Education regarding corrective action required.

Response - The District will contact the Iowa Department of Education to determine the corrective action that will need to be taken by the District.

Conclusion - Response accepted.

II-L-13 Check Signatures - We noted instances of checks written from the Student Activity Fund having only one signature. Chapter 291.8 of the Code of Iowa requires the Board Secretary to sign all checks. Pursuant to Chapter 291.1 of the Iowa Code of Iowa, the Board President must sign all checks or may designate an individual to sign warrants on his/her behalf.

Recommendation - The District should review procedures in place and make necessary adjustments to ensure the proper signatures are on all checks to be in compliance with Chapter 291.1 and 291.8 of the Code of Iowa.

Response - The District will review procedures and make necessary adjustments to comply.

Conclusion - Response accepted.

II-M-13 Statewide Sales, Services and Use Tax - No instances of non-compliance with the allowable uses of the statewide sales, services and use tax revenue provided in Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax 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, 2013, 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 2013 audit.

Beginning balance		\$ 861,162
Revenues:		
Sales tax revenues		304,293
		<u>1,165,455</u>
Expenditures/transfer out:		
Equipment	103,959	
Other	21,258	
Transfer to another fund:		
Debt service fund	210,285	<u>335,502</u>
Ending balance		<u><u>\$ 829,953</u></u>

For the year ended June 30, 2013, 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	Property
	Reduction	Tax
	Per \$1,000	Dollars
	of Taxable	Reduced
	Valuation	
Debt service levy	\$ 2.31685	\$ 210,285

II-N-13 Student Activity Fund - In accordance with 298A.8 of the Code of Iowa and Iowa Administrative Code 281 Chapter 12.6(1), the purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for students. More specific examples of these instances of questioned items and recommendations are as follows:

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

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

Response - The District will handle instructional revenues and expenditures through the General Fund. Remaining JEL funds will be transferred to the General Fund.

Conclusion - Response accepted.

Living Skills account: We noted during our audit that both the high school activity fund and elementary activity fund have a living skills account. It appears that the revenues and expenses in this account are linked to the District's special education program.

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

Response - The District will handle instructional revenues and expenditures through the General Fund. Remaining funds in the Living Skills accounts will be transferred to the General Fund.

Conclusion - Response accepted.

Book Fairs: We noted during our audit that the District records revenues and expenses related to book fairs in the Student Activity Fund.

Recommendation - Revenues and expenses for book fairs appears to be more appropriately handled in the General Fund.

Response - The District will handle book fair revenues and expenses in the General Fund.

Conclusion - Response accepted.

Questionable Accounts: The elementary student activity fund has the following accounts that do not appear to be extracurricular or cocurricular in nature: Miscellaneous, Concessions, Friends of the Library, Fun Day, Lamination, Nursing, Reading Program and Carnival.

Recommendation - The District should review the propriety of revenues and expenditures that are recorded in these accounts. Some of these accounts appear to be administratively maintained, rather than maintained by a club or organization, while others appear to be more instructional in nature. The remaining balances in these accounts would be more appropriate in the General Fund.

Response - The District will review these accounts and make necessary adjustments to comply with the auditor recommendation.

Conclusion - Response accepted.

II-O-13 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, 2013, the Nutrition Fund owed the General Fund \$13,660.

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

Recommendation - It appears that the District has adequate funding to repay the \$13,660 interfund loan and in the future the District should repay interfund loans in a timely manner.

Response - The District will make adjustments so the interfund loan will be repaid by June 30, 2014.

Conclusion - Response accepted.