

HARMONY COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2015

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# Harmony Community School District

## Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
Dan Smith	President	2017
Bill Rice	Vice President	2015
Cody Warth	Board Member	2015
Tracy Hudson	Board Member	2015
Scott Taylor	Board Member	2017
<b>School Officials</b>		
Kerry Phillips	Superintendent	2015
Dennis Gourley	Business Manager/District Secretary	2015
Ahlers and Cooney	Attorney	2015

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
**(a professional corporation)**  
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**Telephone (641) 792-1910**

**INDEPENDENT AUDITOR'S REPORT**

**To the Board of Education  
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, 2015, 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, 2015, 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.

## **Emphasis of Matter**

As discussed in Note 15 to the financial statements, Harmony Community School District adopted new accounting guidance related to Government Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of District Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 46 through 51 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 third paragraph of this report, the financial statements for nine years ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 8, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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 March 4, 2016 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.

A handwritten signature in black ink that reads "Nolte, Cornman & Johnson PC". The signature is written in a cursive, flowing style.

NOLTE, CORNMAN & JOHNSON, P.C.

March 4, 2016  
Newton, Iowa

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Harmony Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2015 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,026,293 in fiscal year 2014 to \$4,168,214 in fiscal year 2015, while General Fund expenditures increased from \$4,237,208 in fiscal year 2014 to \$4,331,572 in fiscal year 2015. This resulted in a decrease in the District's General Fund balance from \$567,775 at June 30, 2014 to \$404,417 at June 30, 2015.
- The increase in General Fund revenues was primarily attributable to an increase in local tax and tuition source revenues during fiscal year 2015. The increase in expenditures was due to the increase in expenditures in the instruction functional area.

### 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.

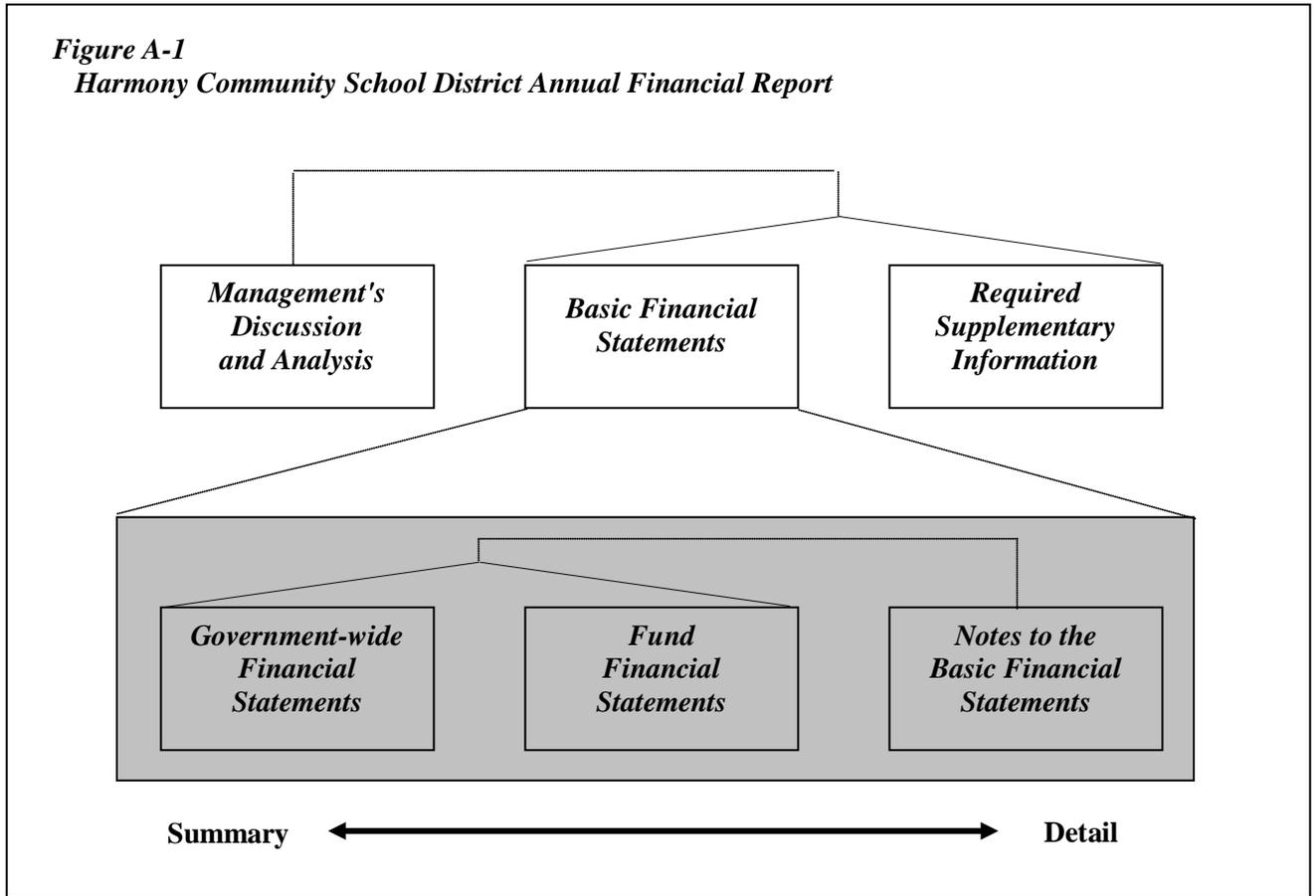
The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Harmony Community School District's operations in more detail than the government-wide statements by providing information about the 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 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, the District's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the nonmajor governmental funds.

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



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

<b>Figure A-2</b> <b>Major Features of the Government-Wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services	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"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenues, expenses and changes in fund net position</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of changes in fiduciary net position</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of deferred outflow/inflow information	Consumption/acquisition of net position that is applicable to a future reporting period	Consumption/acquisition of net position that is applicable to a future reporting period	Consumption/acquisition of net position that is applicable to a future reporting period	Consumption/acquisition of net position that is applicable to a future reporting period
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, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. All of the current year’s revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

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The two government-wide financial statements report the District's net position and how it has changed. Net position 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 governmental fund financial statements follow the governmental fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

**Figure A-3** below provides a summary of the District's net position at June 30, 2015 compared to June 30, 2014.

	Governmental Activities		Business Type Activities		Total School District		Total Change June 30, 2014-15
	June 30, 2014 (Not restated)		June 30, 2014 (Not restated)		June 30, 2014 (Not restated)		
Current and other assets	\$ 4,092,411	4,227,867	10,986	44,862	4,103,397	4,272,729	-3.96%
Capital assets	4,218,967	4,079,478	20,853	13,109	4,239,820	4,092,587	3.60%
Total assets	<u>8,311,378</u>	<u>8,307,345</u>	<u>31,839</u>	<u>57,971</u>	<u>8,343,217</u>	<u>8,365,316</u>	<u>-0.26%</u>
Deferred outflows of resources	315,047	-	10,436	-	325,483	-	100.00%
Long-term liabilities	2,694,991	1,521,208	30,426	-	2,725,417	1,521,208	79.16%
Other liabilities	568,053	297,814	67,643	72,001	635,696	369,815	71.90%
Total liabilities	<u>3,263,044</u>	<u>1,819,022</u>	<u>98,069</u>	<u>72,001</u>	<u>3,361,113</u>	<u>1,891,023</u>	<u>77.74%</u>
Deferred inflows of resources	2,179,143	1,725,619	11,603	-	2,190,746	1,725,619	26.95%
Net position:							
Net investment in capital assets	2,918,967	2,579,478	20,853	13,109	2,939,820	2,592,587	13.39%
Restricted	1,655,218	1,981,088	-	-	1,655,218	1,981,088	-16.45%
Unrestricted	(1,389,947)	202,138	(88,250)	(27,139)	(1,478,197)	174,999	-944.69%
Total net position	<u>\$ 3,184,238</u>	<u>4,762,704</u>	<u>(67,397)</u>	<u>(14,030)</u>	<u>3,116,841</u>	<u>4,748,674</u>	<u>-34.36%</u>

The District's combined net position decreased by \$1,631,833 or 34.36% from the prior year. The largest portion of the District's net position is 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 decreased \$325,870 or 16.45% over the prior year. The decrease in restricted net position is due primarily to the decrease in the ending fund balance of the Capital Projects 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 - decreased \$1,653,196 or 944.69%. This reduction in unrestricted net position was primarily a result of the District's net pension liability net pension expense recorded in the current year.

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 for governmental activities and business type activities were restated by \$1,524,036 and \$36,517, respectively, to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. Fiscal year 2013 and 2014 financial statement amounts for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

**Figure A-4** shows the changes in net position for the year ended June 30, 2015 compared to the year ended June 30, 2014.

	Figure A-4 Change in Net Position							
	Governmental Activities		Business Type Activities		Total School District		Total Change	
	2014 (Not restated)		2014 (Not restated)		2014 (Not restated)		2014-15	
	2015	(Not restated)	2015	(Not restated)	2015	(Not restated)	2014-15	
Revenues:								
Program revenues:								
Charges for service	\$ 242,075	105,039	47,009	50,923	289,084	155,962	85.36%	
Operating grants, contributions and restricted interest	367,655	436,757	115,107	111,623	482,762	548,380	-11.97%	
General revenues:								
Property tax	1,732,441	1,702,187	-	-	1,732,441	1,702,187	1.78%	
Income surtax	172,320	160,629	-	-	172,320	160,629	7.28%	
Statewide sales, services and use tax	329,147	314,223	-	-	329,147	314,223	4.75%	
Unrestricted state grants	1,956,605	1,945,715	-	-	1,956,605	1,945,715	0.56%	
Unrestricted investment earnings	10,502	9,993	70	24	10,572	10,017	5.54%	
Other	61,678	53,441	170	333	61,848	53,774	15.01%	
Gain on sale of real property	-	16,802	-	-	-	16,802	-100.00%	
Total revenues	4,872,423	4,744,786	162,356	162,903	5,034,779	4,907,689	2.59%	
Program expenses:								
Instruction	3,158,210	2,941,031	-	-	3,158,210	2,941,031	7.38%	
Support services	1,445,566	1,531,215	25	-	1,445,591	1,531,215	-5.59%	
Non-instructional programs	-	339	188,042	195,672	188,042	196,011	-4.07%	
Other expenses	314,216	308,666	-	-	314,216	308,666	1.80%	
Total expenses	4,917,992	4,781,251	188,067	195,672	5,106,059	4,976,923	2.59%	
Deficiency of revenues under expenses	(45,569)	(36,465)	(25,711)	(32,769)	(71,280)	(69,234)	-2.96%	
Transfers	(8,861)	-	8,861	-	-	-	0.00%	
Change in net position	(54,430)	(36,465)	(16,850)	(32,769)	(71,280)	(69,234)	-2.96%	
Net position beginning of year, as restated	3,238,668	4,799,169	(50,547)	18,739	3,188,121	4,817,908	33.83%	
Net position end of year	\$ 3,184,238	4,762,704	(67,397)	(14,030)	3,116,841	4,748,674	-34.36%	

In fiscal year 2015, property tax and unrestricted state grants accounted for 75.71% of the revenue from governmental activities while charges for service and operating grants and contributions accounted for 99.85% of the revenue from business type activities.

The District's total revenues were approximately \$5.03 million of which approximately \$4.87 million was for governmental activities and approximately \$0.16 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 2.59% increase in revenues and a 2.59% increase in expenses. The increase in revenues was primarily a result of an increase in charges for service as compared to the previous year. The increase in expenses can primarily be attributed to increases in the instruction functional area.

### Governmental Activities

Revenues for governmental activities were \$4,872,423 and expenses were \$4,917,992.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services, non-instructional programs and other expenses for the year ended June 30, 2015 compared to the year ended June 30, 2014.

	Total Cost of Services			Net Cost of Services		
	2015	2014 (Not restated)	Change 2014-15	2015	2014 (Not restated)	Change 2014-15
Instruction	\$ 3,158,210	2,941,031	7.38%	2,732,282	2,549,066	7.19%
Support services	1,445,566	1,531,215	-5.59%	1,410,410	1,529,507	-7.79%
Non-instructional programs	-	339	-100.00%	-	339	-100.00%
Other expenses	314,216	308,666	1.80%	165,570	160,543	3.13%
Totals	<u>\$ 4,917,992</u>	<u>4,781,251</u>	<u>2.86%</u>	<u>4,308,262</u>	<u>4,239,455</u>	<u>1.62%</u>

For the year ended June 30, 2015:

- The cost financed by users of the District's programs was \$242,075.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$367,655.
- The net cost of governmental activities was financed with \$1,732,441 in property tax, \$172,320 in income surtax, \$329,147 in statewide sales, services and use tax, \$1,956,605 in unrestricted state grants, \$10,502 in interest income and \$61,678 in other general revenues.

### Business Type Activities

Revenues of the District's business type activities were \$162,356 and expenses were \$188,067. 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, investment income and other general revenues.

### INDIVIDUAL FUND ANALYSIS

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

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The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,614,073 compared to last year's ending fund balances of \$1,997,517. The primary reason for the decrease in combined fund balances is the decrease in the ending fund balance for the Capital Projects Fund.

### **Governmental Fund Highlights**

- The General Fund balance decreased from \$567,775 at June 30, 2014 to \$404,417 at June 30, 2015. General Fund revenues increased primarily because of the increase in local source funding. The increase in expenditures was mainly due to the increase in expenditures in the instructional function.
- The Capital Projects Fund balance decreased from a balance of \$970,628 at June 30, 2014 to \$746,829 at June 30, 2015. The decrease was due to expenditures for various projects around the District.
- The Management Levy Fund balance decreased during the year from a balance of \$368,294 at June 30, 2014 to a balance of \$346,692 at June 30, 2015.

### **Proprietary Fund Highlights**

- The School Nutrition Fund net position decreased from a deficit \$50,547, restated as of July 1, 2014 to a deficit \$67,397 at June 30, 2015, representing a decrease of 33.34%.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Harmony Community School District amended its budget one time to reflect additional expenditures in each of the functional areas.

The District's revenues were \$99,071 more than budgeted revenues, a variance of 2.01%. The most significant variance resulted from the District receiving more from state 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, 2015, the District had invested \$4,239,820, 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) This represents a net increase of 3.60% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$221,473.

The original cost of the District's capital assets was \$7,956,946. Governmental funds accounted for \$7,844,886 with the remainder of \$112,060 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 \$245,913 at June 30, 2014, compared to \$332,494 reported at June 30, 2015. The increase was primarily the result of vehicle purchases 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,
	2015	2014	2015	2014	2015	2014	2014-15
Land	\$ 48,834	48,834	-	-	48,834	48,834	0.00%
Buildings	3,825,791	3,771,772	-	-	3,825,791	3,771,772	1.43%
Land improvements	32,701	26,068	-	-	32,701	26,068	25.44%
Machinery and equipment	311,641	232,804	20,853	13,109	332,494	245,913	35.21%
Total	\$ 4,218,967	4,079,478	20,853	13,109	4,239,820	4,092,587	3.60%

### Long-Term Debt

At June 30, 2015, the District had \$2,725,417 in general obligation bonds and other long-term debt outstanding. This represents a 79.16% increase 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 \$1,300,000 at June 30, 2015.

The District also had outstanding termination benefits payable from the Special Revenue, Management Levy Fund of \$125,181 at June 30, 2015.

The District had a net pension liability of \$1,300,236 at June 30, 2015. Of this amount, \$1,269,810 was attributable to the governmental activities of the District with the remaining \$30,426 attributable to the business type activities of the District.

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2015	2014 (Not restated)	2015	2014 (Not restated)	2015	2014 (Not restated)	2014-15
General obligation bonds	\$ 1,300,000	1,500,000	-	-	1,300,000	1,500,000	-13.33%
Termination benefits	125,181	21,208	-	-	125,181	21,208	490.25%
Net pension liability	1,269,810	-	30,426	-	1,300,236	-	100.00%
Total	\$ 2,694,991	1,521,208	30,426	-	2,725,417	1,521,208	79.16%

### 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 and supplemental aid. The grants have to be approved and their continuation depends on federal and state funding.

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The supplemental aid should increase next year with the District approving a whole grade sharing agreement with the neighboring district.

- Open enrollment out continues to increase and this causes expenditures to increase. This may continue to increase as families evaluate the whole grade sharing the District has entered into and the affect it will have on their child.

## **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 Pam Morrissey, Business Manager/District Secretary, Harmony Community School District, 602 Eighth Street, Bonaparte, Iowa, 52620.

## **BASIC FINANCIAL STATEMENTS**

HARMONY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2015

	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 1,938,762	-	1,938,762
Receivables:			
Property tax:			
Delinquent	51,786	-	51,786
Succeeding year	1,694,873	-	1,694,873
Income surtax	156,401	-	156,401
Accounts	10,751	47	10,798
Due from other funds	51,555	-	51,555
Due from other governments	125,778	7,958	133,736
Inventories	-	2,981	2,981
Net OPEB asset	62,505	-	62,505
Capital assets, net of accumulated depreciation	4,218,967	20,853	4,239,820
<b>TOTAL ASSETS</b>	<b>8,311,378</b>	<b>31,839</b>	<b>8,343,217</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension related deferred outflows	315,047	10,436	325,483
<b>LIABILITIES</b>			
Due to other funds	-	51,555	51,555
Accounts payable	231,488	481	231,969
Salaries and benefits payable	323,307	14,646	337,953
Advances from grantors	9,764	-	9,764
Interest payable	3,494	-	3,494
Unearned revenue	-	961	961
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	200,000	-	200,000
Termination benefits payable	48,341	-	48,341
Portion due after one year:			
General obligation bonds payable	1,100,000	-	1,100,000
Termination benefits payable	76,840	-	76,840
Net pension liability	1,269,810	30,426	1,300,236
<b>TOTAL LIABILITIES</b>	<b>3,263,044</b>	<b>98,069</b>	<b>3,361,113</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable property tax revenue	1,694,873	-	1,694,873
Pension related deferred inflows	484,270	11,603	495,873
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>2,179,143</b>	<b>11,603</b>	<b>2,190,746</b>
<b>NET POSITION</b>			
Net investment in capital assets	2,918,967	20,853	2,939,820
Restricted for:			
Categorical funding	574,237	-	574,237
Debt service	47,018	-	47,018
Management levy purposes	221,511	-	221,511
Student activities	65,623	-	65,623
School infrastructure	593,498	-	593,498
Physical plant and equipment	153,331	-	153,331
Unrestricted	(1,389,947)	(88,250)	(1,478,197)
<b>TOTAL NET POSITION</b>	<b>\$ 3,184,238</b>	<b>(67,397)</b>	<b>3,116,841</b>

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2015

	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
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular	\$ 2,088,863	52,120	30,646	(2,006,097)	-	(2,006,097)
Special	504,347	-	17,481	(486,866)	-	(486,866)
Other	565,000	156,736	168,945	(239,319)	-	(239,319)
	<u>3,158,210</u>	<u>208,856</u>	<u>217,072</u>	<u>(2,732,282)</u>	<u>-</u>	<u>(2,732,282)</u>
Support services:						
Student	101,590	21,709	-	(79,881)	-	(79,881)
Instructional staff	121,578	-	-	(121,578)	-	(121,578)
Administration	486,398	-	1,325	(485,073)	-	(485,073)
Operation and maintenance of plant	408,348	-	-	(408,348)	-	(408,348)
Transportation	327,652	11,510	612	(315,530)	-	(315,530)
	<u>1,445,566</u>	<u>33,219</u>	<u>1,937</u>	<u>(1,410,410)</u>	<u>-</u>	<u>(1,410,410)</u>
Long-term debt interest	46,558	-	-	(46,558)	-	(46,558)
Other expenses:						
AEA flowthrough	148,646	-	148,646	-	-	-
Depreciation(unallocated)*	119,012	-	-	(119,012)	-	(119,012)
	<u>267,658</u>	<u>-</u>	<u>148,646</u>	<u>(119,012)</u>	<u>-</u>	<u>(119,012)</u>
Total governmental activities	<u>4,917,992</u>	<u>242,075</u>	<u>367,655</u>	<u>(4,308,262)</u>	<u>-</u>	<u>(4,308,262)</u>
Business type activities:						
Support services:						
Operation and maintenance of plant	25	-	-	-	(25)	(25)
Non-instructional programs:						
Food service operations	188,042	47,009	115,107	-	(25,926)	(25,926)
Total business type activities	<u>188,067</u>	<u>47,009</u>	<u>115,107</u>	<u>-</u>	<u>(25,951)</u>	<u>(25,951)</u>
Total	<u>\$ 5,106,059</u>	<u>289,084</u>	<u>482,762</u>	<u>(4,308,262)</u>	<u>(25,951)</u>	<u>(4,334,213)</u>
<b>General Revenues and Transfers:</b>						
General revenues:						
Property tax for:						
General purposes				\$ 1,589,417	-	1,589,417
Debt service				50,527	-	50,527
Capital outlay				92,497	-	92,497
Income surtax				172,320	-	172,320
Statewide sales, services and use tax				329,147	-	329,147
Unrestricted state grants				1,956,605	-	1,956,605
Unrestricted investment earnings				10,502	70	10,572
Other				61,678	170	61,848
Transfers				(8,861)	8,861	-
Total general revenues and transfers				<u>4,253,832</u>	<u>9,101</u>	<u>4,262,933</u>
Change in net position				(54,430)	(16,850)	(71,280)
Net position beginning of year, as restated				<u>3,238,668</u>	<u>(50,547)</u>	<u>3,188,121</u>
Net position end of year				<u>\$ 3,184,238</u>	<u>(67,397)</u>	<u>3,116,841</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, 2015

	General	Management	Capital	Nonmajor	Total
		Levy	Projects		
<b>ASSETS</b>					
Cash and pooled investments	\$ 792,937	335,306	692,803	117,716	1,938,762
Receivables:					
Property tax:					
Delinquent	45,262	2,266	2,764	1,494	51,786
Succeeding year	1,463,050	97,833	92,476	41,514	1,694,873
Income surtax	156,401	-	-	-	156,401
Accounts	111	10,109	-	531	10,751
Due from other funds	51,555	-	-	-	51,555
Due from other governments	74,516	-	51,262	-	125,778
<b>TOTAL ASSETS</b>	<b>\$ 2,583,832</b>	<b>445,514</b>	<b>839,305</b>	<b>161,255</b>	<b>4,029,906</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>					
Liabilities:					
Accounts payable	\$ 226,893	989	-	3,606	231,488
Salaries and benefits payable	323,307	-	-	-	323,307
Advances from grantors	9,764	-	-	-	9,764
Total liabilities	559,964	989	-	3,606	564,559
Deferred inflows of resources:					
Unavailable resources:					
Succeeding year property tax	1,463,050	97,833	92,476	41,514	1,694,873
Income surtax	156,401	-	-	-	156,401
Total deferred inflows of resources	1,619,451	97,833	92,476	41,514	1,851,274
Fund balances:					
Restricted for:					
Categorical funding	574,237	-	-	-	574,237
Debt service	-	-	-	50,512	50,512
Management levy purposes	-	346,692	-	-	346,692
Student activities	-	-	-	65,623	65,623
School infrastructure	-	-	593,498	-	593,498
Physical plant and equipment	-	-	153,331	-	153,331
Unassigned	(169,820)	-	-	-	(169,820)
Total fund balances	404,417	346,692	746,829	116,135	1,614,073
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 2,583,832</b>	<b>445,514</b>	<b>839,305</b>	<b>161,255</b>	<b>4,029,906</b>

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2015

<b>Total fund balances of governmental funds(page 20)</b>	\$	1,614,073
<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.		4,218,967
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(3,494)
Income surtax receivable are not available to pay current year expenditures and, therefore, are recognized as deferred inflows of resources in the governmental funds.		156,401
Other postemployment benefits are not available to finance expenditures of the current fiscal period.		62,505
Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:		
Deferred outflows of resources	\$ 315,047	
Deferred inflows of resources	<u>(484,270)</u>	(169,223)
Long-term liabilities, including general obligation bonds payable, termination benefits payable and net pension liability are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(2,694,991)</u>
<b>Net position of governmental activities(page 18)</b>	<b>\$</b>	<b><u><u>3,184,238</u></u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2015

	General	Management Levy	Capital Projects	Nonmajor	Total
<b>REVENUES:</b>					
Local sources:					
Local tax	\$ 1,671,723	80,108	92,497	50,527	1,894,855
Tuition	49,370	-	-	-	49,370
Other	119,661	5,831	12,653	126,740	264,885
State sources	2,166,217	-	329,147	-	2,495,364
Federal sources	158,043	-	-	-	158,043
Total revenues	<u>4,165,014</u>	<u>85,939</u>	<u>434,297</u>	<u>177,267</u>	<u>4,862,517</u>
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular	1,969,588	7,069	20,594	-	1,997,251
Special	519,618	-	-	-	519,618
Other	449,333	-	-	128,485	577,818
	<u>2,938,539</u>	<u>7,069</u>	<u>20,594</u>	<u>128,485</u>	<u>3,094,687</u>
Support services:					
Student	96,459	-	8,923	-	105,382
Instructional staff	133,026	-	-	-	133,026
Administration	421,975	60,784	-	-	482,759
Operation and maintenance of plant	335,814	25,011	18,819	-	379,644
Transportation	257,113	14,677	164,339	-	436,129
	<u>1,244,387</u>	<u>100,472</u>	<u>192,081</u>	<u>-</u>	<u>1,536,940</u>
Capital outlay	-	-	221,955	-	221,955
Long-term debt:					
Principal	-	-	-	200,000	200,000
Interest and fiscal charges	-	-	-	46,933	46,933
	<u>-</u>	<u>-</u>	<u>-</u>	<u>246,933</u>	<u>246,933</u>
Other expenditures:					
AEA flowthrough	148,646	-	-	-	148,646
Total expenditures	<u>4,331,572</u>	<u>107,541</u>	<u>434,630</u>	<u>375,418</u>	<u>5,249,161</u>
Deficiency of revenues under expenditures	(166,558)	(21,602)	(333)	(198,151)	(386,644)
Other financing sources(uses):					
Transfer in	-	-	-	223,466	223,466
Transfer out	-	-	(223,466)	-	(223,466)
Proceeds from the sale of equipment	3,200	-	-	-	3,200
Total other financing sources(uses)	<u>3,200</u>	<u>-</u>	<u>(223,466)</u>	<u>223,466</u>	<u>3,200</u>
Change in fund balances	(163,358)	(21,602)	(223,799)	25,315	(383,444)
Fund balances beginning of year	<u>567,775</u>	<u>368,294</u>	<u>970,628</u>	<u>90,820</u>	<u>1,997,517</u>
Fund balances end of year	<u>\$ 404,417</u>	<u>346,692</u>	<u>746,829</u>	<u>116,135</u>	<u>1,614,073</u>

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2015

<b>Change in fund balances - total governmental funds</b> (page 22)		\$ (383,444)
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
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	\$ 357,905	
Depreciation expense	<u>(218,416)</u>	139,489
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.		200,000
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.		375
Income surtax account receivable is not available to finance expenditures of the current year period and is recognized as deferred inflows of resources in the governmental funds.		9,906
The current year District employer share of IPERS contributions are reported as expenditures in the governmental funds, but are reported as a deferred outflow of resources in the Statement of Net Position.		192,388
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	\$ (103,973)	
Pension expense	(107,385)	
Other postemployment benefits	<u>(1,786)</u>	<u>(213,144)</u>
<b>Change in net position of governmental activities</b> (page 19)		<u>\$ (54,430)</u>

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2015

	School Nutrition
<b>ASSETS</b>	
Current assets:	
Accounts receivable	\$ 47
Due from other governments	7,958
Inventories	2,981
Total current assets	10,986
Noncurrent assets:	
Capital assets, net of accumulated depreciation	20,853
<b>TOTAL ASSETS</b>	<b>31,839</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension related deferred outflows	10,436
<b>LIABILITIES</b>	
Current liabilities:	
Due to other funds	51,555
Accounts payable	481
Salaries and benefits payable	14,646
Unearned revenue	961
Total current liabilities	67,643
Noncurrent liabilities:	
Net pension liability	30,426
<b>TOTAL LIABILITIES</b>	<b>98,069</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension related deferred inflows	11,603
<b>NET POSITION</b>	
Net investment in capital assets	20,853
Unrestricted	(88,250)
<b>TOTAL NET POSITION</b>	<b>\$ (67,397)</b>

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, 2015

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for service	\$ 47,009
Miscellaneous	170
TOTAL OPERATING REVENUES	47,179
OPERATING EXPENSES:	
Support services:	
Operation and maintenance of plant:	
Services	25
Non-instructional programs:	
Food service operations:	
Salaries	85,365
Benefits	9,230
Services	162
Supplies	90,078
Depreciation	3,057
Other	150
	188,042
TOTAL OPERATING EXPENSES	188,067
OPERATING LOSS	(140,888)
NON-OPERATING REVENUES:	
Interest income	70
State sources	1,223
Federal sources	113,884
TOTAL NON-OPERATING REVENUES	115,177
Change in net position before capital contributions	(25,711)
OTHER FINANCING SOURCES:	
Contributed capital	8,861
Change in net position	(16,850)
Net position beginning of year, as restated	(50,547)
Net position end of year	\$ (67,397)

SEE NOTES FINANCIAL STATEMENTS.

EXHIBIT I

HARMONY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2015

	<u>School</u> <u>Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 49,133
Cash received from miscellaneous	170
Cash payments to employees for services	(84,873)
Cash payments to suppliers for goods or services	(79,458)
Net cash used in operating activities	<u>(115,028)</u>
Cash flows from non-capital financing activities:	
Repayments to the General Fund	(20,446)
State grants received	1,223
Federal grants received	94,558
Net cash provided by non-capital financing activities	<u>75,335</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(1,940)</u>
Cash flows from investing activities:	
Interest on investments	<u>70</u>
Net decrease in cash and pooled investments	(41,563)
Cash and pooled investments at beginning of year	<u>41,563</u>
Cash and pooled investments at end of year	<u>\$ -</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (140,888)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	11,368
Depreciation	3,057
Increase in inventories	(892)
Decrease in accounts receivable	1,163
Increase in accounts payable	481
Increase in salaries and benefits payable	14,646
Decrease in net pension liability	(10,574)
Increase in deferred outflows of resources	(5,953)
Increase in deferred inflows of resources	11,603
Increase in unearned revenue	961
Net cash used in operating activities	<u>\$ (115,028)</u>

NON-CASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES:

During the year ended June 30, 2015, the District received Federal commodities valued at \$11,368.

During the year ended June 30, 2015, the Nutrition Fund received contributed capital of \$8,861 from the Capital Projects: Statewide Sales, Services and Use Tax Fund.

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUND  
JUNE 30, 2015

	<u>Private Purpose Trust Scholarship</u>
<b>ASSETS</b>	
Cash and pooled investments	\$ 355,295
<b>LIABILITIES</b>	<u>-</u>
<b>NET POSITION</b>	
Held in trust for scholarships	<u>\$ 355,295</u>

SEE NOTES TO FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUND  
YEAR ENDED JUNE 30, 2015

	Private Purpose Trust
	Scholarship
ADDITIONS:	
Local sources:	
Interest income	\$ 2,517
Contributions	1,500
TOTAL ADDITIONS	4,017
DEDUCTIONS:	
Instruction:	
Regular:	
Scholarships awarded	1,250
Change in net position	2,767
Net position beginning of year	352,528
Net position end of year	\$ 355,295

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

**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, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

*Net investment in capital assets* 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. Enabling legislation did not result in any restricted net position.

*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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity**

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. Investments are stated at fair value except for the investment in non-negotiable certificates of deposit which are stated at cost.

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, 2013 assessed property valuations; is for the tax accrual period July 1, 2014 through June 30, 2015 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2014.

Due From and Due to Other Funds - During the course of its operations, the District has numerous transactions between funds. As of June 30, 2015 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	2 or more years
Machinery and equipment	5-12 years

Deferred Outflows of Resources - Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

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.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources - Deferred inflows of resources represent an acquisition of net position that applies to future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources 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 inflows of resources consist of property tax receivables and other receivables not collected within sixty days after year end.

Deferred inflows of resources in 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 and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

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.

Advances from Grantors - Grant proceeds which have been received by the District but will be spent in a succeeding fiscal year.

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

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

Unassigned - All amounts not included in other spendable classifications.

## **E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2015, expenditures in the other expenditures functional area exceeded the budgeted amount and the District exceeded its General Fund unspent authorized budget.

### **Note 2. Cash and Pooled Investments**

The District's deposits in banks at June 30, 2015 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, 2015.

**Note 3. Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2015 is as follows:

Receivable Fund	Payable Fund	Amount
General	School Nutrition	\$ 51,555

The School Nutrition Fund is repaying the General Fund for salaries and benefits not repaid to the General Fund before year end.

**Note 4. Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

Transfer to	Transfer from	Amount
	Capital Projects:	
Debt Service	Statewide Sales, Services and Use Tax	\$ 223,466

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was needed 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, 2015 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 48,834	-	-	48,834
Total capital assets not being depreciated	48,834	-	-	48,834
Capital assets being depreciated:				
Buildings	6,174,771	169,706	-	6,344,477
Land improvements	334,551	9,958	-	344,509
Machinery and equipment	1,125,045	178,241	196,220	1,107,066
Total capital assets being depreciated	7,634,367	357,905	196,220	7,796,052
Less accumulated depreciation for:				
Buildings	2,402,999	115,687	-	2,518,686
Land improvements	308,483	3,325	-	311,808
Machinery and equipment	892,241	99,404	196,220	795,425
Total accumulated depreciation	3,603,723	218,416	196,220	3,625,919
Total capital assets being depreciated, net	4,030,644	139,489	-	4,170,133
Governmental activities capital assets, net	\$ 4,079,478	139,489	-	4,218,967

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 101,259	10,801	-	112,060
Less accumulated depreciation	88,150	3,057	-	91,207
Business type activities capital assets, net	\$ 13,109	7,744	-	20,853

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 14,112
Other	6,854

Support services:

Instructional staff	556
Administration	13,781
Transportation	64,101
	<u>99,404</u>

Unallocated depreciation	<u>119,012</u>
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Total governmental activities depreciation expense	<u>\$ 218,416</u>
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Business type activities:

Food service operations	<u>\$ 3,057</u>
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**Note 6. Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2015 is as follows:

	Balance Beginning of Year Restated	Additions	Deletions	Balance End of Year	Due Within One Year
<u>Governmental activities:</u>					
General obligation bonds	\$ 1,500,000	-	200,000	1,300,000	200,000
Termination benefits	21,208	110,723	6,750	125,181	48,341
Net pension liability	1,711,131	-	441,321	1,269,810	-
Total	\$ 3,232,339	110,723	648,071	2,694,991	248,341
<u>Business type activities:</u>					
Net pension liability	\$ 41,000	-	10,574	30,426	-

### General Obligation Bonds Payable

Details of the District's June 30, 2015 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond issue June 30, 2010				
	Interest Rate		Principal	Interest	Total
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	3.35		220,000	23,822	243,822
2020	3.50		225,000	16,453	241,453
2021	3.65		235,000	8,577	243,577
Total		\$	1,300,000	157,796	1,457,796

### Termination Benefits

During the year ended June 30, 2014, 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 a continuation at their current level of participation in the District's health insurance plan. This benefit will be provided for up to 36 months. At June 30, 2015, the District had an obligation to one participant with a total liability of \$14,458.

During the year ended June 30, 2015, 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 a continuation at their current level of participation in the District's health insurance plan, this benefit will be provided for up to 36 months. Additionally each retiree will be paid \$40,000 in equal quarterly payments of \$3,333 over three years beginning on September 25, 2015. At June 30, 2015, the District had an obligation to two participants with a total liability of \$110,723.

### Note 7. Pension Plan

Plan Description - IPERS membership is mandatory for employees of the District, except for those covered by another retirement system. Employees of the District are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general information purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the District contributed 8.93 percent for a total rate of 14.88 percent.

The District's contributions to IPERS for the year ended June 30, 2015 were \$199,884.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the District reported a liability of \$1,300,236 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the District's collective proportion was 0.032128 percent, which was an increase of 0.001182 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$109,957. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 14,131	\$ -
Changes of assumptions	57,382	-
Net difference between projected and actual earnings on pension plan investments	-	495,873
Changes in proportion and differences between District contributions and proportionate share of contributions	54,086	-
District contributions subsequent to the measurement date	199,884	-
<b>Total</b>	<b>\$ 325,483</b>	<b>\$ 495,873</b>

\$199,884 reported as deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2016	\$ (94,623)
2017	(94,623)
2018	(94,623)
2019	(94,623)
2020	8,218
	<u>\$ (370,274)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	\$ 2,456,759	\$ 1,300,236	\$ 324,010

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

Payables to the Pension Plan - At June 30, 2015, the District reported payables to the defined benefit pension plan of \$25,000 for legally required employer contributions and \$16,657 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

**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. Retired participants 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, 2015, 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		(643)
Adjustment to annual required contribution		2,479
Annual OPEB cost		<u>4,205</u>
Contributions made		<u>(2,419)</u>
Increase in net OPEB obligation		1,786
Net OPEB obligation - beginning of year		<u>(64,291)</u>
Net OPEB obligation - end of year	\$	<u><u>(62,505)</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the plans actual contributions for the year ended June 30, 2015.

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, 2015 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 3,969	313.58%	\$ (64,529)
2014	4,212	94.35%	(64,291)
2015	4,205	57.53%	(62,505)

*Funded Status and Funding Progress* - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2015, 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 \$1,892,332, and the ratio of the UAAL to the covered payroll was 1.8%. As of June 30, 2015, 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 for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents 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**

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed in July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2015 were \$280,281.

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

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

#### **Note 10. 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, 2015, expenditures in the other expenditures function exceeded the amount budgeted and the District exceeded its General Fund unspent authorized budget.

**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 \$148,646 for the year ended June 30, 2015 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**Note 12. Categorical Funding**

The District's restricted fund balance for categorical funding at June 30, 2015 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
Limited english proficient	\$ 12,668
Home school assistance program	310,180
Weighted at-risk programs	30,616
Gifted and talented programs	94,821
Returning dropouts and dropout prevention programs	44,197
Beginning teacher mentoring and induction program	6,242
Beginning administrator mentoring and induction program	222
Iowa early intervention block grant	22,924
Four-year-old preschool state aid	3,424
Successful progression for early readers	13,404
Professional development for model core curriculum	24,070
Professional development	11,469
Total	<u>\$ 574,237</u>

**Note 13. Deficit Unassigned Fund Balance/Unrestricted Net Position**

At June 30, 2015, the General Fund had a deficit unassigned fund balance of \$169,820. The District also had a deficit unrestricted net position in the School Nutrition Fund of \$88,250 and a deficit total net position of \$67,397. The District had a deficit unrestricted net position of \$1,389,947 in the governmental activities.

**Note 14. Reconciliation of Governmental Fund Balances to Net Position**

Reconciliation of certain governmental fund balances to net position are detailed as follows:

	<u>Net Investment in Capital Assets</u>	<u>Debt Service</u>	<u>Management Levy</u>	<u>Unassigned/ Unrestricted</u>
Fund balance (Exhibit C)	\$ -	50,512	346,692	(169,820)
Invested in capital assets, net of accumulated depreciation	4,218,967	-	-	-
General obligation bond capitalized indebtedness	(1,300,000)	-	-	-
Accrued interest payable	-	(3,494)	-	-
Termination benefits payable	-	-	(125,181)	-
Income surtax	-	-	-	156,401
Pension related deferred outflows	-	-	-	315,047
Net pension liability	-	-	-	(1,269,810)
Pension related deferred inflows	-	-	-	(484,270)
Net OPEB asset	-	-	-	62,505
Net position (Exhibit A)	<u>\$ 2,918,967</u>	<u>47,018</u>	<u>221,511</u>	<u>(1,389,947)</u>

**Note 15. Prospective Accounting Change**

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27 was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position for governmental and business type activities were restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Net position June 30, 2014, as previously reported	\$ 4,762,704	\$ (14,030)
Net pension liability at June 30, 2014	(1,711,131)	(41,000)
Deferred outflows of resources related to the contributions made after the June 30, 2013 measurement date	187,095	4,483
Net position July 1, 2014, as restated	<u>\$ 3,238,668</u>	<u>\$ (50,547)</u>

## **Harmony Community School District**

**REQUIRED SUPPLEMENTARY INFORMATION**

HARMONY COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUND  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2015

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds	Fund		Original	Final	
	Actual	Actual				
<b>Revenues:</b>						
Local sources	\$ 2,209,110	47,249	2,256,359	2,468,515	2,468,515	(212,156)
State sources	2,495,364	1,223	2,496,587	2,130,009	2,130,009	366,578
Federal sources	158,043	113,884	271,927	327,278	327,278	(55,351)
Total revenues	<u>4,862,517</u>	<u>162,356</u>	<u>5,024,873</u>	<u>4,925,802</u>	<u>4,925,802</u>	<u>99,071</u>
<b>Expenditures/Expenses:</b>						
Instruction	3,094,687	-	3,094,687	2,799,547	3,204,564	109,877
Support services	1,536,940	25	1,536,965	1,334,533	1,725,271	188,306
Non-instructional programs	-	188,042	188,042	167,689	220,000	31,958
Other expenditures	617,534	-	617,534	438,811	610,406	(7,128)
Total expenditures/expenses	<u>5,249,161</u>	<u>188,067</u>	<u>5,437,228</u>	<u>4,740,580</u>	<u>5,760,241</u>	<u>323,013</u>
Excess(Deficiency) of revenues over(under) expenditures/expenses	(386,644)	(25,711)	(412,355)	185,222	(834,439)	422,084
Other financing sources, net	3,200	8,861	12,061	52,960	52,960	40,899
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	(383,444)	(16,850)	(400,294)	238,182	(781,479)	462,983
Balances beginning of year, as restated	1,997,517	(50,547)	1,946,970	1,974,997	1,974,997	(28,027)
Balances end of year	<u>\$ 1,614,073</u>	<u>(67,397)</u>	<u>1,546,676</u>	<u>2,213,179</u>	<u>1,193,518</u>	<u>434,956</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2015

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, the District adopted one budget amendment, increasing expenditures by \$1,019,661.

During the year ended June 30, 2015, expenditures in the other expenditures function exceeded the amount budgeted and the District exceeded its General Fund unspent authorized budget.

HARMONY COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
 LAST FISCALY YEAR\*  
 (IN THOUSANDS)  
 REQUIRED SUPPLEMENTARY INFORMATION

	2015
District's proportion of the net pension liability	0.032128%
District's proportionate share of the net pension liability	\$ 1,300
District's covered-employee payroll	\$ 2,238
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	58.09%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

\* The amount presented for each fiscal year were determined as of June 30.

**Noted:** GASB Statement No. 68 requires ten year of information to be presented in the table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF DISTRICT CONTRIBUTIONS  
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
LAST 10 FISCAL YEARS  
(IN THOUSANDS)  
REQUIRED SUPPLEMENTARY INFORMATION

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 200	192	168	172	146	139	138	133	133	135
Contributions in relation to the statutorily required contribution	(200)	(192)	(168)	(172)	(146)	(139)	(138)	(133)	(133)	(135)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
District's covered-employee payroll	\$ 2,238	2,150	1,938	2,131	2,101	2,000	2,173	2,198	2,313	2,348
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%	6.95%	6.95%	6.35%	6.05%	5.75%	5.75%

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY  
YEAR ENDED JUNE 30, 2015

*Changes of benefit terms:*

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

*Changes of assumptions:*

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

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%
2014	July 1, 2012	-	34,513	34,513	0.0%	2,164,124	1.6%
2015	July 1, 2012	-	34,513	34,513	0.0%	1,892,332	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.

## **Harmony Community School District**

**SUPPLEMENTARY INFORMATION**

HARMONY COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2015

	Special Revenue		
	Student Activity	Debt Service	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 68,698	49,018	117,716
Receivables:			
Property tax:			
Delinquent	-	1,494	1,494
Succeeding year property tax	-	41,514	41,514
Accounts	531	-	531
<b>TOTAL ASSETS</b>	<b>\$ 69,229</b>	<b>92,026</b>	<b>161,255</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 3,606	-	3,606
Deferred inflows of resources:			
Succeeding year property tax	-	41,514	41,514
Fund balances:			
Restricted for:			
Debt service	-	50,512	50,512
Student activities	65,623	-	65,623
Total fund balances	65,623	50,512	116,135
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 69,229</b>	<b>92,026</b>	<b>161,255</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2015

	Special Revenue		
	Student Activity	Debt Service	Total
REVENUES:			
Local sources:			
Local tax	\$ -	50,527	50,527
Other	126,699	41	126,740
Total revenues	126,699	50,568	177,267
EXPENDITURES:			
Current:			
Instruction:			
Other	128,485	-	128,485
Long-term debt:			
Principal	-	200,000	200,000
Interest and fiscal charges	-	46,933	46,933
	-	246,933	246,933
Total expenditures	128,485	246,933	375,418
Deficiency of revenues under expenditures	(1,786)	(196,365)	(198,151)
Other financing sources:			
Transfer in	-	223,466	223,466
Change in fund balances	(1,786)	27,101	25,315
Fund balances beginning of year	67,409	23,411	90,820
Fund balances end of year	\$ 65,623	50,512	116,135

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2015

	Capital Projects		
	Statewide Sales Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 542,236	150,567	692,803
Receivables:			
Property tax:			
Delinquent	-	2,764	2,764
Succeeding year	-	92,476	92,476
Due from other governments	51,262	-	51,262
<b>TOTAL ASSETS</b>	<b>\$ 593,498</b>	<b>245,807</b>	<b>839,305</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>			
Liabilities:	\$ -	-	-
Deferred inflows of resources:			
Unavailable resources:			
Succeeding year property tax	-	92,476	92,476
Fund balances:			
Restricted for:			
School infrastructure	593,498	-	593,498
Physical plant and equipment	-	153,331	153,331
Total fund balances	593,498	153,331	746,829
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 593,498</b>	<b>245,807</b>	<b>839,305</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 CAPITAL PROJECT ACCOUNTS  
 YEAR ENDED JUNE 30, 2015

	Capital Projects		Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
REVENUES:			
Local sources:			
Local tax	\$ -	92,497	92,497
Other	12,534	119	12,653
State sources	329,147	-	329,147
Total revenues	341,681	92,616	434,297
EXPENDITURES:			
Current:			
Instruction:			
Regular	16,539	4,055	20,594
Support services:			
Student	-	8,923	8,923
Operation and maintenance of plant	18,819	-	18,819
Transportation	65,400	98,939	164,339
Capital outlay	221,955	-	221,955
Total expenditures	322,713	111,917	434,630
Excess(Deficiency) of revenues over(under) expenditures	18,968	(19,301)	(333)
Other financing uses:			
Transfer out	(223,466)	-	(223,466)
Change in fund balances	(204,498)	(19,301)	(223,799)
Fund balances beginning of year	797,996	172,632	970,628
Fund balances end of year	\$ 593,498	153,331	746,829

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND,  
STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2015

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intrafund Transfers	Balance End of Year
Elementary	\$ 20,542	-	-	(20,542)	-
High School	46,867	-	-	(46,867)	-
Interest	-	82	-	-	82
Dramatics	-	154	-	602	756
Special Vocal	-	-	-	664	664
Special Instrumental	-	555	-	3,835	4,390
Athletics	-	29,253	28,952	(301)	-
Cross Country	-	-	-	85	85
HS Cheerleaders	-	3,657	7,309	4,277	625
Drill team	-	3,734	5,717	2,046	63
Basketball Boys	-	-	-	47	47
Football	-	3,401	1,966	56	1,491
Baseball	-	-	-	58	58
Girls Basketball	-	2,426	1,891	707	1,242
Volleyball	-	1,456	1,390	(2)	64
Softball	-	-	-	359	359
Girls Track	-	421	298	180	303
Annual Staff	-	5,480	3,923	3,918	5,475
Student Council	-	861	1,327	1,437	971
FFA	-	10,128	5,642	12,093	16,579
AFS Club	-	29,926	31,039	1,113	-
National Honor Society	-	-	517	977	460
ART Club	-	-	-	3,269	3,269
Perfect Pals	-	480	-	4	484
JEL - Just Eliminate Lies	-	-	-	43	43
Living Skills Class	-	-	98	752	654
Business Class	-	-	-	42	42
ACT/MISC	-	159	-	140	299
Class of 2015	-	3,200	2,046	(1,154)	-
Class of 2016	-	6,546	4,018	-	2,528
Class of 2017	-	120	-	-	120
Middle School Activity	-	119	-	-	119
Friends of the Library	-	-	-	5,676	5,676
Fun Day	-	-	-	859	859
Lamination	-	-	-	71	71
Nursing	-	-	-	257	257
Reading Program	-	9,017	5,695	9,731	13,053
Elem Living Skills	-	-	-	59	59
Elem Art Club	-	-	-	850	850
Carnival	-	-	-	29	29
Youth Basketball	-	495	-	(495)	-
Swimming	-	330	780	450	-
Miscellaneous	-	-	107	1,153	1,046
Concessions - Elem	-	-	-	347	347
Santa's Secret Shop	-	-	363	1,248	885
Concessions	-	14,699	25,407	11,927	1,219
<b>Total</b>	<b>\$ 67,409</b>	<b>126,699</b>	<b>128,485</b>	<b>-</b>	<b>65,623</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF FIDUCIARY NET POSITION  
 PRIVATE PURPOSE TRUST  
 JUNE 30, 2015

	Private Purpose Trust - Scholarship		
	Millican Educational Memorial Fund	Reifior Scholarship Fund	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 84,823	270,472	355,295
<b>LIABILITIES</b>	-	-	-
<b>NET POSITION</b>			
Held in trust for scholarships	\$ 84,823	270,472	355,295

SEE ACCOMPANYING INDEPENDENT AUDITOR’S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION  
 PRIVATE PURPOSE TRUST  
 YEAR ENDED JUNE 30, 2015

	Private Purpose Trust - Scholarship		
	Millican Educational Memorial Fund	Reifior Scholarship Fund	Total
ADDITIONS:			
Local sources:			
Interest income	\$ 1,125	1,392	2,517
Contributions	-	1,500	1,500
<b>TOTAL REVENUES</b>	<b>1,125</b>	<b>2,892</b>	<b>4,017</b>
DEDUCTIONS:			
Instruction:			
Regular:			
Scholarships awarded	500	750	1,250
Change in net position	625	2,142	2,767
Net position beginning of year	84,198	268,330	352,528
Net position end of year	\$ 84,823	270,472	355,295

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**HARMONY COMMUNITY SCHOOL DISTRICT**  
**SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION**  
**ALL GOVERNMENTAL FUNDS**  
**FOR THE LAST TEN YEARS**

	Modified Accrual Basis									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Revenues:</b>										
<b>Local sources:</b>										
Local tax	\$ 1,894,855	1,872,776	2,195,906	2,321,904	2,199,655	1,974,053	1,904,147	1,790,127	1,658,929	1,756,668
Tuition	49,370	32,382	64,713	60,717	99,082	128,506	107,973	118,453	163,993	132,135
Other	264,885	140,229	137,956	175,244	776,171	524,394	290,003	304,407	274,874	418,550
State sources	2,495,364	2,476,692	2,024,952	1,980,244	2,065,999	2,024,267	2,095,220	2,355,847	2,220,051	2,031,504
Federal sources	158,043	215,865	184,402	256,546	394,044	477,219	170,936	127,321	175,983	392,614
<b>Total</b>	<b>\$ 4,862,517</b>	<b>4,737,944</b>	<b>4,607,929</b>	<b>4,794,655</b>	<b>5,534,951</b>	<b>5,128,439</b>	<b>4,568,279</b>	<b>4,696,155</b>	<b>4,493,830</b>	<b>4,731,471</b>
<b>Expenditures:</b>										
<b>Instruction:</b>										
Regular	\$ 1,997,251	1,909,020	1,766,992	1,633,350	1,898,206	1,882,194	1,682,039	1,737,007	1,688,700	1,642,212
Special	519,618	499,302	433,040	369,571	340,654	343,311	433,181	362,510	377,524	474,025
Other	577,818	527,830	480,418	590,553	898,888	794,840	440,428	496,310	450,873	540,649
<b>Support services:</b>										
Student	105,382	62,785	57,786	47,309	62,769	23,567	50,474	45,895	41,190	60,444
Instructional staff	133,026	189,121	119,885	91,163	79,155	94,049	140,973	88,826	109,752	115,268
Administration	482,759	473,031	443,370	473,213	478,198	553,054	571,687	484,770	565,493	518,482
Operation and maintenance of plant	379,644	420,927	355,022	339,206	379,914	404,937	436,262	395,697	397,313	352,742
Transportation	436,129	335,025	278,820	233,936	234,595	351,712	313,199	247,995	268,299	280,853
Non-instructional programs	-	339	-	-	-	-	-	-	-	-
Capital outlay	221,955	60,254	27,427	45,692	128,380	71,484	13,787	47,354	18,461	562,759
<b>Long-term debt:</b>										
Principal	200,000	195,000	190,000	190,000	2,140,000	145,000	140,000	143,623	134,189	128,683
Interest and fiscal charges	46,933	50,638	53,677	56,553	155,689	111,317	117,392	124,496	131,241	136,665
<b>Other expenditures:</b>										
AEA flow-through	148,646	148,123	141,628	142,570	164,594	164,866	146,210	143,592	139,303	133,907
<b>Total</b>	<b>\$ 5,249,161</b>	<b>4,871,395</b>	<b>4,348,065</b>	<b>4,213,116</b>	<b>6,961,042</b>	<b>4,940,331</b>	<b>4,485,632</b>	<b>4,318,075</b>	<b>4,322,338</b>	<b>4,946,689</b>

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, 2015, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 4, 2016.

**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 deficiency described in Part I of the accompanying Schedule of Findings as item I-A-15 to be a material weakness.

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-B-15 and I-C-15 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, 2015 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.

March 4, 2016  
Newton, Iowa

HARMONY COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2015

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

**I-A-15 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. An individual performs two or more functions in one or more 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 - posting and reconciling.
- 4) Wire transfers - processing and approving.
- 5) Payroll - recording approved pay rates and deductions.
- 6) Computer systems - performing all general accounting functions and controlling all data input and output.
- 7) School lunch program - collecting, recording, journalizing, posting, reconciling.

**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 will continue to review procedures and make changes when possible.

**Conclusion** - Response accepted.

**I-B-15 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 comply with this recommendation.

**Conclusion** - Response accepted.

**I-C-15 Credit Cards** - 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. District Board Policy 803.10 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 continue to review and work toward implementation of Board Policy 802.2

**Conclusion** - Response accepted.

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

**II-A-15 Certified Budget** - District expenditures for the year ended June 30, 2015 exceeded the amount budgeted in the other expenditures function. The District also exceeded its General Fund unspent authorized budget for the year ended June 30, 2015 by approximately \$119,292.

**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. The District should contact the Iowa Department of Education and the School Budget Review Committee to resolve the General Fund unspent authorized budget over expenditure.

**Response** - The District will comply.

**Conclusion** - Response accepted.

**II-B-15 Questionable Disbursements** - We noted during our audit that the District paid several late charges associated with the District credit card. These do not appear to meet public purpose as defined in an Attorney General's opinion dated April 25, 1979.

**Recommendation** - The District should review procedures to ensure that credit card purchases are properly handled and the credit card bill paid in a timely manner.

**Response** - District will review procedures to ensure proper handling of credit card purchases.

**Conclusion** - Response accepted.

**II-C-15 Travel Expense** - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

**II-D-15 Business Transactions** - No business transactions between the District and District officials or employees were noted.

**II-E-15 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-15 Board Minutes** - We noted no transactions requiring Board approval which have not been approved by the Board. We did note that the Board minutes did not list all banks where the District had deposited money and did not state the maximum amount to be held at each depository as required by Chapter 12C.2 of the Code of Iowa.

**Recommendation** - The District should review its procedures to ensure compliance with the Code of Iowa.

**Response** - District will comply with Chapter 12C.2 of the Code of Iowa.

**Conclusion** - Response accepted.

**II-G-15 Certified Enrollment** - We noted during our audit that the District did not certify enrollment data to the Iowa Department of Education by the October 15<sup>th</sup> deadline as required by Chapter 257.6 of the Code of Iowa.

**Recommendation** - The District should certify enrollment with the Iowa Department of Education by October 15<sup>th</sup> annually to be in compliance with Chapter 257.6 of the Code of Iowa.

**Response** - District will comply and certify enrollment timely.

**Conclusion** - Response accepted.

**II-H-15 Supplementary Weighting** - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

**II-I-15 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-15 Certified Annual Report** - The Certified Annual Report was certified timely to the Iowa Department of Education.

**II-K-15 Categorical Funding** - No instances were noted of categorical funding used to supplant rather than supplement other funds. However, we noted during our audit that the District has an excessive home school assistance program carryover balance.

**Recommendation** - The District should review the state allocation and home school assistance program carryover balance and develop a plan for expending this carryover balance.

**Response** - District will work on developing a plan to expend the Home School Assistance Program carry over balance.

**Conclusion** - Response accepted.

**II-L-15 Check Signatures** - We noted instances of checks written which lacked the signature of the Board Secretary. Chapter 291.8 of the Code of Iowa requires the Board Secretary to sign all checks.

**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** - District will comply.

**Conclusion** - Response accepted.

**II-M-15 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, 2015,

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 2015 audit:

Beginning balance		\$ 797,996
Revenues:		
Sales tax revenues	329,147	
Other local revenues	<u>12,534</u>	<u>341,681</u>
		1,139,677
Expenditures/transfer out:		
Equipment	100,758	
School infrastructure construction	221,955	
Transfer to another fund:		
Debt service fund	<u>223,466</u>	<u>546,179</u>
Ending balance		<u><u>\$ 593,498</u></u>

For the year ended June 30, 2015, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	Rate of Levy Reduction Per \$1,000 of Taxable Valuation	Property Tax Dollars Reduced
Debt service levy	<u>\$ 2.42626</u>	<u>\$ 223,466</u>

**II-N-15 Student Activity Fund** - During our audit concerns arose about the propriety of certain receipts, expenditures and accounts within the 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 JEL balance will be transferred to the General Fund.

**Conclusion** - Response accepted.

**Inactive accounts:** We noted during our audit accounts within the Student Activity Fund that had no activity in the current or prior year. Accounts with no activity include Business Class, Friends of the Library, Fun Day, Lamination, Nursing, Elem Living Skills and Carnival accounts.

**Recommendation** - The District should review the accounts to determine if the activities will still occur, if not the accounts should be closed at the discretion of the School Board.

**Response** - The District will review these accounts and with Board approval close accounts that are no longer active.

**Conclusion** - Response accepted.

**Questionable Accounts:** The Student Activity Fund has the following accounts that do not appear to be extracurricular or cocurricular in nature: Interest, ACT/MISC, 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 the propriety of revenue and expenditures in the Student Activity Fund.

**Conclusion** - Response accepted.

**Questioned Revenues and Expenses:** We noted during our audit that the District was recording revenues and expenditures from book fairs into the Student Activity Fund. Expenditures of this nature would appear to be related to the instructional programs of the school and would be more appropriately accounted for in a different fund. We also noted that the District paid for an assembly for the elementary school out of the Student Activity Fund. An assembly for the school would appear to be part of the instructional program of the school and more appropriately accounted for in a different fund.

**Recommendation** - The District should review its procedures to ensure expenditures in the Activity Fund are for the cocurricular and extracurricular activities of the District.

**Response** - The District will review the Activity Fund accounts for procedures to ensure appropriate expenditures for this fund.

**Conclusion** - Response accepted.

**II-O-15 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, 2015, the Nutrition Fund owed the General Fund \$51,555.

According to a declaratory order issued by the Iowa Department of Education to the Auditor of State dated April 11, 2009, interfund loans on the District's year-end financial statements must be repaid to their respective funds on or before October 1<sup>st</sup> of the following fiscal year or the date of the District's Board of Directors organizational meeting, whichever is later. If the District is unable to repay the interfund loans by that time, the District must seek outside funding to repay the interfund loans according to Iowa Code Chapter 74.

**Recommendation** - The District should issue external debt to repay the interfund loans to be in compliance with the declaratory order issued by the Iowa Department of Education to the Auditor of State and Iowa Code Chapter 74.

**Response** - District will comply.

**Conclusion** - Response accepted.

**II-P-15 Financial Condition** - At June 30, 2015, the General Fund had a deficit unassigned fund balance of \$169,820. The District also had a deficit unrestricted net position in the School Nutrition Fund of \$88,250 and deficit total net position of \$67,397. The District had a deficit unrestricted net position of \$1,389,947 in the governmental activities. The primary reason for this deficit net position is due to the implementation of GASB Statements No. 68 and No. 71 during the year.

**Recommendation** - The District should take steps to ensure the District's administration and Board of Education understand this accounting change/restatement and how GASB Statements No. 68 and 71 will affect the District's financials moving forward. The District should also continue to monitor the General Fund and School Nutrition Fund and investigate alternatives to eliminate the deficits.

**Response** - The District will educate the administration and Board of Education regarding GASB Statement No. 68 & No. 71, and continue to monitor the General Fund.

**Conclusion** - Response accepted.

**II-Q-15 Time Sheets** - We noted during our audit that the District does not maintain documentation of hours worked by coaches who are non-certified staff. This creates a situation where calculating wage per hour amounts is not possible.

**Recommendation** - In order to comply with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for noncertified staff coaches. The District should then determine if wages paid comply with minimum wage and overtime requirements.

**Response** - The District will comply with this requirement.

**Conclusion** - Response accepted.

**II-R-15 Scholarship Awards** - We noted during our audit that the District paid a scholarship out of the General Fund. Scholarships are more appropriately handled from the Private Purpose Trust Fund.

**Recommendation** - When the District receives money for scholarships the money should be receipted into the Private Purpose Trust Fund.

**Response** - The District will comply.

**Conclusion** - Response accepted.