

**HARMONY
COMMUNITY DEVELOPMENT DISTRICT
OSCEOLA COUNTY, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2007**

**HARMONY COMMUNITY DEVELOPMENT DISTRICT
OSCEOLA COUNTY, FLORIDA**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Harmony Community Development District
Osceola County, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of Harmony Community Development District, Osceola County, Florida (the "District") as of and for the fiscal year ended September 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2007, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2008 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Grau & Associates

September 12, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Harmony Community Development District, Osceola County, Florida ("District") provides a narrative overview of the District's financial activities for the fiscal year ended September 30, 2007. Please read it in conjunction with the District's Independent Auditor's Report, basic financial statements, accompanying notes and supplementary information to the basic financial statements.

FINANCIAL HIGHLIGHTS

- The liabilities of the District exceeded its assets at the close of the fiscal year ended September 30, 2007 resulting in net assets (deficit) total of (\$1,206,817). Of this amount, \$221,580 is unrestricted net assets which may be used to meet the District's ongoing obligations.
- The District's total net assets increased by \$1,405,820 in comparison with the prior year. The key components of the District's net assets and change in net assets are reflected in the table in the government-wide financial analysis section.
- At September 30, 2007, the District's governmental funds reported combined ending fund balances of \$3,759,569, which is a decrease of (\$511,766) in comparison with the prior year. Of the total fund balance, \$3,537,989 is reserved for debt service and capital projects and \$221,580 is unreserved and available for spending at the District's discretion.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as the introduction to the District's financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements include all governmental activities that are principally supported by assessment and Developer revenues. The District does not have any business-type activities. The governmental activities of the District include the general government (management) and maintenance functions.

OVERVIEW OF FINANCIAL STATEMENTS {Continued}

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has one fund category: governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, debt service 2001, debt service 2004 and capital projects 2004 funds. The funds are all considered to be major funds.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with the budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the District, liabilities exceeded assets at the close of the fiscal year ended September 30, 2007 resulting in a net asset (deficit) total of (\$1,206,817).

A portion of the District's net assets reflects the investment in capital assets (e.g. land, land improvements, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These assets are used to provide services to residents consequently these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of the District's net assets represents resources that are subject to external restrictions on how they may be used. They are funds set aside for debt service under the District's Bond Indentures. The remaining balance of unrestricted net assets may be used to meet the District's other obligations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Key components of the District's net assets are reflected in the following table:

NET ASSETS SEPTEMBER 30,		
	2007	2006
Assets, excluding capital assets	\$ 4,505,863	\$ 5,710,121
Capital assets, net of depreciation	27,186,531	25,741,954
Total assets	<u>31,692,394</u>	<u>31,452,075</u>
Liabilities, excluding long-term liabilities	1,104,211	1,789,712
Long-term liabilities	31,795,000	32,275,000
Total liabilities	<u>32,899,211</u>	<u>34,064,712</u>
Net Assets		
Invested in capital assets, net of related debt	(3,680,561)	(4,927,012)
Restricted for debt service	2,252,164	2,107,039
Unrestricted	221,580	207,336
Total net assets (deficit)	<u>\$ (1,206,817)</u>	<u>\$ (2,612,637)</u>

The District's deficit net assets decreased by \$1,405,820 during the fiscal year ended September 30, 2007.

Key elements of the change in net assets are reflected in the following table:

CHANGES IN NET ASSETS FOR THE FISCAL YEAR ENDED SEPTEMBER 30,		
	2007	2006
Revenues:		
Program revenues	\$ 4,956,015	\$ 2,980,868
General revenues	6,195	
Total revenues	<u>4,962,210</u>	<u>2,980,868</u>
Expenses:		
General government	173,868	164,829
Maintenance and operations	1,107,046	809,304
Parks and recreation	7,222	
Interest	2,268,254	2,189,354
Total expenses	<u>3,556,390</u>	<u>3,163,487</u>
Change in net assets	1,405,820	(182,619)
Net assets (deficit), beginning	<u>(2,612,637)</u>	<u>(2,430,018)</u>
Net assets (deficit), ending	<u>\$ (1,206,817)</u>	<u>\$ (2,612,637)</u>

Program revenues for the fiscal year ended September 30, 2007 are comprised of approximately \$3,836,000 in Developer revenue, including approximately \$747,000 of capital assets contributed by the Developer, approximately \$933,000 from assessments, and approximately \$187,000 from interest and other items. In contrast, program revenues for the fiscal year ended September 30, 2006 are comprised of approximately \$1,830,000 in Developer contributions, approximately \$748,000 from assessments, approximately \$350,000 from interest and approximately \$52,000 from reimbursements of costs from the Federal Emergency Management Agency and the South Florida Water Management District.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The District's general fund includes all activities related to providing management and operating services.

In the table below we have presented the cost of the largest functions/programs as a percentage of total governmental funds.

	2007		2006	
General government	\$ 173,868	4%	\$ 164,829	1%
Maintenance and operations	1,101,065	23%	808,039	8%
Interest and principal on long-term debt	2,741,263	58%	2,400,387	24%
Capital outlay	724,727	15%	6,774,805	67%
Total	\$ 4,740,923	100%	\$ 10,148,060	100%

As noted above, debt service comprises the majority of expenditures for total governmental activities for the current fiscal year. The majority of expenditures were comprised of debt service and capital outlay for the prior fiscal year.

GENERAL BUDGETING HIGHLIGHTS

An operating budget was adopted and maintained by the governing board for the District pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. The general fund budget for the fiscal year ended September 30, 2007 was amended to increase appropriations by \$17,031 and increase the use of fund balance of \$17,031. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2007.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2007, the District had \$27,201,529 invested in land, land improvements, infrastructure in progress, recreational facilities and equipment. In the government-wide statements accumulated depreciation of \$14,998 has been taken, which resulted in a net book value of \$27,186,531. More detailed information about the District's capital assets is presented in the notes of the financial statements.

Capital Debt

At September 30, 2007, the District had \$31,795,000 in Bonds outstanding, a decrease of approximately 1% from prior year. No new debt was issued during the year and the District had no immediate need to issue additional debt. More detailed information about the District's capital debt is presented in the notes of the financial statements.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, land owners, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages and the stewardship of the facilities it maintains. If you have questions about this report or need additional financial information, contact Harmony Community Development District's Finance Department at 210 N. University Drive, Suite 702, Coral Springs, Florida, 33071.

**HARMONY COMMUNITY DEVELOPMENT DISTRICT
OSCEOLA COUNTY, FLORIDA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007**

	Governmental Activities
ASSETS	
Cash	\$ 285,554
Developer assessments receivable	481,465
Interest receivable	11,875
Restricted assets:	
Investments	3,156,527
Deferred charges	570,442
Capital assets:	
Nondepreciable	26,511,757
Depreciable, net	674,774
Total assets	31,692,394
LIABILITIES	
Accounts payable	175,852
Accrued interest payable	928,359
Non-current liabilities:	
Due within one year	440,000
Due in more than one year	31,355,000
Total liabilities	32,899,211
NET ASSETS	
Invested in capital assets, net of related debt	(3,680,561)
Restricted for debt service	2,252,164
Unrestricted	221,580
Total net assets (deficit)	\$ (1,206,817)

See notes to the financial statements

HARMONY COMMUNITY DEVELOPMENT DISTRICT
 OSCEOLA COUNTY, FLORIDA
 STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:				
Governmental activities:				
General government	\$ 173,868	\$ -	\$ -	-
Maintenance and operations	1,107,046	987,874		2,068
Parks and recreation	7,222		800,781	793,559
Interest on long-term debt	2,268,254	2,234,468		603,998
Total governmental activities	3,556,390	3,222,342	800,781	1,399,625

General revenues:	
Unrestricted investment earnings	1,958
Miscellaneous	4,237
Total general revenues	6,195
Change in net assets	1,405,820
Net assets (deficit) - beginning	(2,612,637)
Net assets (deficit) - ending	<u><u>\$ (1,206,817)</u></u>

See notes to the financial statements

**HARMONY COMMUNITY DEVELOPMENT DISTRICT
OSCEOLA COUNTY, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007**

	Major Funds				Total Governmental Funds
	General	Debt Service 2001	Debt Service 2004	Capital Projects 2004	
ASSETS					
Cash	\$ 285,554	\$ -	\$ -	\$ -	\$ 285,554
Investments		1,710,164	1,072,233	374,130	3,156,527
Developer assessments receivable	93,768	233,920	153,777		481,465
Interest receivable		6,785	3,644	1,446	11,875
Due from other funds	267,585		249,475		517,060
Total assets	<u>\$ 646,907</u>	<u>\$ 1,950,869</u>	<u>\$ 1,479,129</u>	<u>\$ 375,576</u>	<u>\$ 4,452,481</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 175,852	\$ -	\$ -	\$ -	\$ 175,852
Due to other funds	249,475	249,475		18,110	517,060
Total liabilities	<u>425,327</u>	<u>249,475</u>	<u>-</u>	<u>18,110</u>	<u>692,912</u>
Fund balances:					
Reserved for:					
Debt service		1,701,394	1,479,129		3,180,523
Capital projects				357,466	357,466
Unreserved, reported in:					
General fund	221,580				221,580
Total fund balances	<u>221,580</u>	<u>1,701,394</u>	<u>1,479,129</u>	<u>357,466</u>	<u>3,759,569</u>
Total liabilities and fund balances	<u>\$ 646,907</u>	<u>\$ 1,950,869</u>	<u>\$ 1,479,129</u>	<u>\$ 375,576</u>	<u>\$ 4,452,481</u>

See notes to the financial statements

**HARMONY COMMUNITY DEVELOPMENT DISTRICT
OSCEOLA COUNTY, FLORIDA
RECONCILIATION OF THE BALANCE SHEET- GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007**

Amounts reported for governmental activities in the statement of net assets are different because:

Fund balance - governmental funds		\$ 3,759,569
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The statement of net assets includes those capital assets, net of any accumulated depreciation, in the net assets fo the government as a whole.		
Cost of capital assets	27,201,529	
Accumulated depreciation	<u>(14,998)</u>	27,186,531
Bond issue costs are not financial resources and, therefore are not reported as assets in the governmental funds. The statements of net assets includes these costs, net of amortization		
Bond issue costs	633,823	
Accumulated amortization	<u>(63,381)</u>	570,442
Liabilities not due and payable from current available resources are not reported as liabilities in the governmental fund statements. All liabilities, both current and long-term, are reported in the government-wide statements.		
Accrued interest payable	(928,359)	
Bonds payable	<u>(31,795,000)</u>	<u>(32,723,359)</u>
Net assets of governmental activities		<u><u>\$ (1,206,817)</u></u>

See notes to the financial statements

**HARMONY COMMUNITY DEVELOPMENT DISTRICT
OSCEOLA COUNTY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

	Major Funds			Capital Projects 2004	Total Governmental Funds
	General	Debt Service 2001	Debt Service 2004		
REVENUES					
Assessments	\$ 295,108	\$ 637,784	\$ -	\$ -	\$ 932,892
Developer revenue	987,874	875,252	1,225,922		3,089,048
Interest	1,958	83,104	50,190	37,564	172,816
Other revenues	4,237			16,250	20,487
Total revenues	<u>1,289,177</u>	<u>1,596,140</u>	<u>1,276,112</u>	<u>53,814</u>	<u>4,215,243</u>
EXPENDITURES					
Current:					
General government	173,868				173,868
Maintenance and operations	1,101,065				1,101,065
Debt Service:					
Principal		305,000	175,000		480,000
Interest		1,208,938	1,052,325		2,261,263
Capital outlay				710,813	710,813
Total expenditures	<u>1,274,933</u>	<u>1,513,938</u>	<u>1,227,325</u>	<u>710,813</u>	<u>4,727,009</u>
Excess (deficiency) of revenues over (under) expenditures	14,244	82,202	48,787	(656,999)	(511,766)
Fund balances - beginning	<u>207,336</u>	<u>1,619,192</u>	<u>1,430,342</u>	<u>1,014,465</u>	<u>4,271,335</u>
Fund balances - ending	<u>\$ 221,580</u>	<u>\$ 1,701,394</u>	<u>\$ 1,479,129</u>	<u>\$ 357,466</u>	<u>\$ 3,759,569</u>

See notes to the financial statements

**HARMONY COMMUNITY DEVELOPMENT DISTRICT
OSCEOLA COUNTY, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

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

Net change in fund balances - total governmental funds	\$	(511,766)
Governmental funds report capital outlays as expenditures, however, the costs of those assets is eliminated in the statement of activities and capitalized in the statement of net assets.		708,813
Depreciation on capital assets is not recognized in the governmental fund statements but is reported as an expense in the statement of activities.		(11,203)
Capital assets contributed by the Developer are capitalized in the statement of net assets and reported as revenues in the statement of activities. Such transactions are not reported in the governmental fund statements.		746,967
Repayment of long-term liabilities are reported as expenditures in the governmental fund statement but such repayments reduce liabilities in the statement of net assets and are eliminated in the statement of activities.		480,000
Governmental funds report the effect of issuance of costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Amortization of issuance costs		(21,127)
The change in accrued interest on long-term liabilities between the current and prior fiscal year is recorded in the statement of activities but not in the fund financial statements.		<u>14,136</u>
Change in net assets of governmental activities	\$	<u><u>1,405,820</u></u>

See notes to the financial statements

**HARMONY COMMUNITY DEVELOPMENT DISTRICT
OSCEOLA COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Harmony Community Development District (the "District") was established on February 28, 2000 by the Osceola County, Florida Ordinance No. 00-05 pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes. The Act provides among other things, the power to manage basic services for community development, power to borrow money and issue bonds, and to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure.

The District was established for the purpose of financing and managing the acquisition, construction, maintenance and operation of a portion of the infrastructure necessary for community development within the District.

The District is governed by the Board of Supervisors ("Board") which is composed of five members. The Supervisors are elected on an at large basis by the owners of the property within the District. The Board of Supervisors of the District exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes. Certain Board members are affiliated with Birchwood Acres Limited Partnership ("Developer") at September 30, 2007. The District is economically dependent on the Developer.

The Board has the responsibility for:

1. Assessing and levying assessments.
2. Approving budgets.
3. Exercising control over facilities and properties.
4. Controlling the use of funds generated by the District.
5. Approving the hiring and firing of key personnel.
6. Financing improvements.

The financial statements were prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement 14, and Statement 39, an amendment of GASB Statement 14. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the District Board of Supervisors is considered to be financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that, if excluded, the financial statements of the District would be considered incomplete or misleading. There are no entities considered to be component units of the District; therefore, the financial statements include only the operations of the District.

Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment. Operating-type special assessments for maintenance and debt service are treated as charges for services. and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not included among program revenues are reported instead as *general revenues*.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide 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. Assessments are recognized as revenues in the year for which they are levied. Grants and similar items are to be recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Assessments

Assessments are non-ad valorem assessments on all platted lots within the District. Assessments are levied each November 1 on property of record as of the previous January 1 to pay for the operations, maintenance and debt service of the District. The fiscal year for which annual assessments are levied begins on October 1 with discounts available for payments through February 28 and become delinquent on April 1. For debt service assessments, amounts collected as advance payments are used to prepay a portion of the Bonds outstanding. Otherwise, assessments are collected annually to provide funds for the debt service on the portion of the Bonds which are not paid with prepaid assessments. The District's annual assessments are billed and collected by the County Tax Assessor/Collector. The amounts remitted to the District are net of applicable discounts or fees and include interest on monies held from the day of collection to the day of distribution. In addition, any excess fees computed by the Tax Collector are remitted to the District.

Assessments and interest associated with the current fiscal period are all considered to be susceptible to accrual and are recognized as revenues of the current fiscal period. Only the portion of assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

General Fund

The general fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund 2001

The debt service fund is used to account for the accumulation of resources for the annual payment of principal and interest on the Series 2001 Bonds.

Debt Service Fund 2004

The debt service fund is used to account for the accumulation of resources for the annual payment of principal and interest on the Series 2004 Bonds.

Capital Projects Fund 2004

This fund accounts for the financial resources to be used for the acquisition or construction of major infrastructure within the District.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first for qualifying expenditures, then unrestricted resources as they are needed.

Restricted Assets

These assets represent cash and investments set aside pursuant to Bond covenants.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and demand deposits.

The District has elected to proceed under the Alternative Investment Guidelines as set forth in Section 218.415 (17) Florida Statutes. The District may invest any surplus public funds in the following:

- a) The Local Government Surplus Trust Funds, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act;
- b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency;
- c) Interest bearing time deposits or savings accounts in qualified public depositories;
- d) Direct obligations of the U.S. Treasury.

Securities listed in paragraph c and d shall be invested to provide sufficient liquidity to pay obligations as they come due. In addition, surplus funds may be deposited into certificates of deposit which are insured and any unspent Bond proceeds are required to be held in investments allowed in the Bond Indenture.

The District records all interest revenue related to investment activities in the respective funds and reports investments at fair value.

Inventories and Prepaid Items

Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, sidewalks and similar items) are reported in the government activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. 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 assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Equipment	10
Recreational facilities	30

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Capital Assets (Continued)

In the governmental fund financial statements, amounts incurred for the acquisition of capital assets are reported as fund expenditures. Depreciation expense is not reported in the governmental fund financial statements.

Deferred Charges

In connection with the issuance of the Special Assessment Bonds, Series 2004 the District incurred costs totaling \$633,823. In the government-wide financial statements that amount has been capitalized and amortized ratably over the estimated life of the Bonds. At September 30, 2007 the District reported accumulated amortization of \$63,381.

Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized ratably over the life of the Bonds. Bonds payable are reported net of premiums or discounts.

In the fund financial statements, governmental fund types recognize premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity/Net Assets

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net assets in the government-wide financial statements are categorized as invested in capital assets, net of related debt, restricted or unrestricted. Invested in capital assets, net of related debt represents net assets related to infrastructure and property, plant and equipment, net of any related debt. Restricted net assets represent the assets restricted by the District's Bond covenants.

Other Disclosures

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2- STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The District is required to establish a budgetary system and an approved Annual Budget. The District follows these procedures in establishing the budgetary data reflected in the financial statements.

- a) Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
- b) Public hearings are conducted to obtain comments.
- c) Prior to October 1, the budget is legally adopted by the District Board.
- d) All budget changes must be approved by the District Board.
- e) The budgets are adopted on a basis consistent with generally accepted accounting principles.
- f) Unused appropriation for annually budgeted funds lapse at the end of the year.

NOTE 3- CASH AND INVESTMENTS

Cash

The District's cash balances were entirely covered by federal depository insurance or by a collateral pool pledged to the State Treasurer. Florida Statutes Chapter 280, "Florida Security for Public Deposits Act", requires all qualified depositories to deposit with the Treasurer or another banking institution eligible collateral equal to various percentages of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held. The percentage of eligible collateral (generally, U.S. Governmental and agency securities, state or local government debt, or corporate bonds) to public deposits is dependent upon the depository's financial history and its compliance with Chapter 280. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses.

Investments

The District's investments were held as follows at September 30, 2007:

	Fair Value	Credit Risk	Maturities
Money Market Mutual Funds - First American			Weighted average of the fund
Government Obligation Funds	<u>\$ 3,156,527</u>	S&P AAAm	portfolio: 23 days

Custodial risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The District has no formal policy for custodial risk. The money market mutual funds are not evidenced by securities that exist in physical or book entry form.

Credit risk - For investments, credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investment ratings by investment type are included in the preceding summary of investments.

Concentration risk- The District places no limit on the amount the District may invest in any one issuer.

Interest rate risk- The District does not have a formal policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

However, the investments above are held by the debt service and capital projects funds for unspent Bond proceeds. The Bond Indenture limits the type of investments held using unspent proceeds.

NOTE 4 - INTERUND TRANSACTIONS

Interfund balances at September 30, 2007 were as follows:

Fund	Receivable	Palable
General	\$ 267,585	\$ 249,475
Debt service 2001		249,475
Debt service 2004	249,475	
Capital projects 2004		18,110
Total	\$ 517,060	\$ 517,060

The outstanding balances between funds result primarily from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2007 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Land and land improvements	\$ 4,645,000	\$ 97,000	\$ -	\$ 4,742,000
Infrastructure in progress	21,062,794	706,963		21,769,757
Total capital assets, not being depreciated	25,707,794	803,963	-	26,511,757
Capital assets, being depreciated				
Recreational facilities		649,967		649,967
Equipment	37,955	1,850		39,805
Total capital assets, being depreciated	37,955	651,817	-	689,772
Less accumulated depreciation for:				
Recreational facilities		7,222		7,222
Equipment	3,795	3,981		7,776
Total accumulated depreciation	3,795	11,203	-	14,998
Total capital assets, being depreciated, net	34,160	640,614	-	674,774
Governmental activities capital assets, net	\$ 25,741,954	\$ 1,444,577	\$ -	\$ 27,186,531

Infrastructure within the District will be developed in three phases and is expected to cost a total of approximately \$26,193,000. Certain of the assets will not be owned or maintained by the District. The District expects to complete the infrastructure in the subsequent fiscal year.

During the fiscal year ending September 30, 2007, the District accepted the transfer of title and maintenance obligations of the Ashley Park Pool and Cabana capital assets totaling approximately \$747,000. The conveyance is reported in the government-wide statements as an addition to capital assets and Developer contributions.

Depreciation expense was charged to functions/programs as follows:

Maintenance and operations	\$ 3,981
Parks and recreation	7,222
	\$ 11,203

NOTE 6 - LONG TERM LIABILITIES

The District Board has authorized the issuance of Bonds not to exceed \$50,000,000. At September 30, 2007 the following Bonds are outstanding.

Capital Improvement Revenue Bonds Series 2001

On October 9, 2001 the District issued \$17,700,000 of Capital Improvement Revenue Bonds Series 2001, due on May 1, 2032 with a fixed interest rate of 7.25%. Interest is payable semiannually on each May 1 and November 1. Principal is payable on an annual basis commencing May 1, 2003 through May 1, 2032.

The Series 2001 Bonds may, at the option of the District, be called for redemption as a whole or in part on any interest payment date on or after May 1, 2014 at a redemption price set in the Bond Indenture.

The Series 2001 Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture. This occurred during the fiscal year ended September 30, 2007 as the District collected prepaid assessments from lot owners and prepaid \$70,000 of the Bonds. See Note 10- Subsequent Events for additional call amounts subsequent to September 30, 2007.

The Bond Indenture established a debt service reserve requirement and has certain other restrictions and requirements relating principally to the use of proceeds to pay for infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agrees to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. The District is in compliance with the requirements of the Bond Indenture at September 30, 2007.

The Bond Indenture requires that the District obtain a \$5,000,000 letter of credit which can be utilized by the Trustee in the event that sufficient funds are not available to cover the required debt service payments. The letter of credit expired during the prior fiscal year and was not extended.

There is an insurance policy and mortgage security agreement in place through the District's trust account.

Capital Improvement Revenue Bonds Series 2004

On December 10, 2004 the District issued \$15,490,000 of Capital Improvement Revenue Bonds Series 2004, due on May 1, 2036 with a fixed interest rate of 6.75%. Interest is payable semiannually on each May 1 and November 1 commencing May 1, 2006. Principal is payable on an annual basis commencing May 1, 2007.

The Series 2004 Bonds may, at the option of the District, be called for redemption as a whole or in part on any interest payment date on or after May 1, 2015 at a redemption price set in the Bond Indenture.

The Series 2004 Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture.

The Bond Indenture established a debt service reserve requirement and has certain other restrictions and requirements relating principally to the use of proceeds to pay for infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agrees to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. The District is in compliance with the requirements of the Bond Indenture at September 30, 2007.

NOTE 6 - LONG TERM LIABILITIES (Continued)

Changes in long-term liability activity for the fiscal year ended September 30, 2007 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
Series 2001	\$ 16,685,000	\$ -	\$ 305,000	\$ 16,380,000	\$ 255,000
Series 2004	15,590,000		175,000	15,415,000	185,000
Total	<u>\$ 32,275,000</u>	<u>\$ -</u>	<u>\$ 480,000</u>	<u>\$ 31,795,000</u>	<u>\$ 440,000</u>

At September 30, 2007, the scheduled debt service requirements on the long - term debt were as follows:

Year ending September 30:	Governmental Activities		
	Principal	Interest	Total
2008	\$ 440,000	\$ 2,233,138	\$ 2,673,138
2009	465,000	2,202,165	2,667,165
2010	500,000	2,169,425	2,669,425
2011	540,000	2,134,405	2,674,405
2012	580,000	2,096,200	2,676,200
2013- 2017	3,515,000	9,815,312	13,330,312
2018 -2022	4,955,000	8,389,037	13,344,037
2023 - 2027	6,975,000	6,377,000	13,352,000
2028 - 2032	9,665,000	3,548,625	13,213,625
2033- 2036	4,160,000	725,625	4,885,625
Total	<u>\$ 31,795,000</u>	<u>\$ 39,690,930</u>	<u>\$ 71,485,930</u>

NOTE 7 - DEVELOPER TRANSACTIONS

The Developer owns a portion of land within the District; therefore, revenues in the general and debt service funds include amounts billed on those lots. Developer revenue for the fiscal year ended September 30, 2007 for the general fund was \$987,874 and included a receivable of \$93,768. Developer revenue for the fiscal year ended September 30, 2007 was \$814,252 for debt service on the Series 2001 Bonds and \$1,225,922 for debt service on the Series 2004 Bonds, which include receivables of \$233,920 and \$153,777, respectively. For debt service 2001 fund the Developer was also directly billed for \$61,000 of assessments related to the golf course which is not owned or maintained by the District. This amount is included in the developer revenue for the debt service 2001 fund.

NOTE 8 - MANAGEMENT COMPANY

The District has contracted with a management company to perform services which include financial and accounting advisory services. Certain employees of the management company also serve as officers of the District. Under the agreement, the District compensates the management company for management, accounting, financial reporting, computer and other administrative costs.

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has obtained commercial insurance from independent third parties to mitigate the costs of these risks; coverage may not extend to all situations. Settled claims from these risks have not exceeded commercial insurance coverage over the past three years.

NOTE 10- SUBSEQUENT EVENTS

Subsequent to September 30, 2007, the District prepaid \$35,000 of the Series 2001 Bonds. The prepayment was an extraordinary mandatory redemption as outlined in the Bond Indenture.

**HARMONY COMMUNITY DEVELOPMENT DISTRICT
OSCEOLA COUNTY, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Assessments	\$ 306,179	\$ 306,179	\$ 295,108	\$ (11,071)
Developer revenue	969,653	969,653	987,874	18,221
Interest and miscellaneous			6,195	6,195
Total revenues	1,275,832	1,275,832	1,289,177	13,345
EXPENDITURES				
Current:				
General government	159,003	176,034	173,868	2,166
Maintenance and operations	1,116,829	1,116,829	1,101,065	15,764
Total expenditures	1,275,832	1,292,863	1,274,933	17,930
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ (17,031)	14,244	\$ 31,275
Fund balance - beginning			207,336	
Fund balance - ending			\$ 221,580	

See notes to required supplementary information

**HARMONY COMMUNITY DEVELOPMENT DISTRICT
OSCEOLA COUNTY, FLORIDA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

The District is required to establish a budgetary system and an approved Annual Budget for the general fund. The District's budgeting process is based on estimates of cash receipts and cash expenditures which are approved by the Board. The budget approximates a basis consistent with accounting principles generally accepted in the United States of America (generally accepted accounting principles).

The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. The general fund budget for the fiscal year ended September 30, 2007 was amended to increase appropriations by \$17,031 and increase the use of fund balance of \$17,031. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2007.

**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 Supervisors
Harmony Community Development District
Osceola County, Florida

We have audited the financial statements of the governmental activities and each major fund of Harmony Community Development District, Osceola County, Florida ("District") as of and for the fiscal year ended September 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harmony Community Development District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harmony Community Development District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Harmony Community Development District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Harmony Community Development District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Harmony Community Development District's financial statements that is more than inconsequential will not be prevented or detected by Harmony Community Development District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Harmony Community Development District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harmony Community Development District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the management, Board of Supervisors of Harmony Community Development District, Osceola County, Florida and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

Shau & Associates

September 12, 2008

**MANAGEMENT LETTER PURSUANT TO THE RULES OF
THE AUDITOR GENERAL FOR THE STATE OF FLORIDA**

To the Board of Supervisors
Harmony Community Development District
Osceola County, Florida

We have audited the accompanying basic financial statements of Harmony Community Development District ("District") as of and for the fiscal year ended September 30, 2007, and have issued our report thereon dated September 12, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In addition, we have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters dated September 12, 2008. Disclosures in that report should be considered in conjunction with this management letter.

The purpose of this letter is to comment on those matters required by Chapter 10.550 of the Rules of the Auditor General for the State of Florida. Accordingly, in connection with our audit of the financial statements of the District, as described in the first paragraph, we report the following:

- I. Current year findings and recommendations.**
- II. Status of prior year findings and recommendations.**
- III. Compliance with the Provisions of the Auditor General of the State of Florida.**

This report is intended for the information of the management, Board of Supervisors of Harmony Community Development District, Osceola County, Florida and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank Harmony Community Development District, Osceola County, Florida and the personnel associated with it, for the opportunity to be of service to them in this endeavor as well as future engagements and the courtesies extended to us.

Grau & Associates

September 12, 2008

REPORT TO MANAGEMENT

I CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None

II PRIOR YEAR FINDINGS AND RECOMMENDATIONS

None

III COMPLIANCE WITH THE PROVISIONS OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA

Unless otherwise required to be reported in the auditor's report on compliance and internal controls, the management letter shall include, but not be limited to the following:

1. A statement as to whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report.

There were no significant findings and recommendations made in the preceding annual financial audit report for the fiscal year ended September 30, 2006.

2. A statement as to whether or not the local governmental entity complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

The District complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

3. Any recommendations to improve the local governmental entity's financial management, accounting procedures, and internal controls.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported.

4. Violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported.

5. For matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors, the following may be reported based on professional judgment:

- a. Violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements.

- b. Improper expenditures or illegal acts that would have an immaterial effect on the financial statements.

REPORT TO MANAGEMENT (Continued)

- c. Control deficiencies that are not significant deficiencies, including, but not limited to:
1. Improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements).
 2. Failures to properly record financial transactions.
 3. Other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor.

There were no such matters discovered by, or that came to the attention of, the auditor, that, in our judgment, are required to be reported.

6. The name or official title and legal authority of the District are disclosed in the notes to the financial statements.
7. The District has not met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes.
8. The financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes agrees with the September 30, 2007 financial audit report.
9. We applied financial condition assessment procedures pursuant to Rule 10.556(7) and no deteriorating financial conditions were noted. It is management's responsibility to monitor financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.