

**HARMONY
COMMUNITY DEVELOPMENT DISTRICT
OSCEOLA COUNTY, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2013**

**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

Report on the Financial Statements

We have audited the accompanying 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as 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 accounting principles generally accepted in the United States of America; 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 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 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 entity'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 entity'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 that 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 and each major fund of the District as of September 30, 2013, and the respective changes in financial position, thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 2 to the financial statements, in fiscal year 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board ("GASB") Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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, who 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 auditing standards generally accepted in the United States of America, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2014, 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, contracts, 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 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 the District's internal control over financial reporting and compliance.



March 27, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Harmony Community Development District, Osceola County, Florida's ("District") financial performance provides a narrative overview of the District's financial activities for the fiscal year ended September 30, 2013. 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 most recent fiscal year resulting in a net position deficit balance of (\$10,566,191).
- The change in the District's total net position in comparison with the prior fiscal year was \$418,749, an increase. The key components of the District's net position and change in net position are reflected in the table in the government-wide financial analysis section.
- At September 30, 2013, the District's governmental funds reported combined ending fund balances of \$4,035,713, an increase of \$127,210 in comparison with the prior year. Of the total fund balance, the majority is restricted for debt service and capital projects, assigned for operating reserves, renewal and replacement and insurance, and the remainder is unassigned fund balance which is available for spending at the District's discretion.
- During fiscal year 2013, the District implemented Governmental Accounting Standards Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board ("FASB") and American Institute of Certified Public Accountants ("AICPA") Pronouncements*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Please see New Accounting Standards Adopted in Note 2 of the financial statements for additional information.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as the introduction to the District's basic 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.

1) 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 position presents information on all the District's assets and liabilities with the residual amount being reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 special assessment revenues. The District does not have any business-type activities. The governmental activities of the District include the general government (management), physical environment (maintenance) and parks and recreation functions.

2) 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 currently maintains four individual governmental funds for external reporting. 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. All of the funds are 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.

3) Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position 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 most recent fiscal year.

A portion of the District's net position reflects its 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 position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the District's other obligations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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

NET POSITION		SEPTEMBER 30,	
	2013	2012	
Current and other assets	\$ 4,368,453	\$ 4,812,084	
Capital assets, net of depreciation	14,753,441	15,091,289	
Total assets	19,121,894	19,903,373	
Current liabilities	1,163,085	1,273,506	
Long-term liabilities	28,525,000	29,150,000	
Total liabilities	29,688,085	30,423,506	
Net position			
Net investment in capital assets	(13,771,559)	(13,531,067)	
Restricted	2,405,798	2,283,829	
Unrestricted	799,570	727,105	
Total net position (deficit)	\$ (10,566,191)	\$ (10,520,133)	

The District net position increased during the most recent fiscal year. The majority of the increase is the result of an increase in prepaid revenues and of the conveyance of completed infrastructure from the Developer.

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

CHANGES IN NET POSITION		FOR THE FISCAL YEAR ENDED SEPTEMBER 30,	
	2013	2012	
Revenues:			
Program revenues	\$ 4,299,801	\$ 4,211,491	
General revenues	11,884	12,866	
Total revenues	4,311,685	4,224,357	
Expenses:			
General government	180,292	201,603	
Maintenance and operations	1,493,287	1,538,236	
Parks and recreation	196,830	158,168	
Interest	2,022,527	2,086,300	
Total expenses	3,892,936	3,984,307	
Change in net position	418,749	240,050	
Net position (deficit)- beginning, previously stated	(10,520,133)	(10,760,183)	
Effect of adoption of GASB No. 65 (Note 2)	(464,807)	-	
Net position (deficit) - beginning, as restated	(10,984,940)	(10,760,183)	
Net position (deficit) - ending	\$ (10,566,191)	\$ (10,520,133)	

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2013 was \$3,892,936. The costs of the District's activities were primarily funded by program revenues. Program revenues, comprised primarily of non-ad valorem special assessments, increased during the fiscal year as a result of an increase in prepayment revenue and developer contribution. The majority of the change in expenses results from the decrease in interest. Based on the amortization schedule of the Bonds, as the balance outstanding of the Bonds decreases over time, the portion of each debt service payment allocated to principal increases accordingly thereby decreasing the amount allocated to interest.

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. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2013.

The variance between budgeted and actual general fund revenues for the 2013 fiscal year is as a result of property owners not taking advantage of the discounts, resulting in higher than anticipated revenues. Also, miscellaneous revenues were higher than anticipated. The actual general fund expenditures for the current year were lower than budgeted amounts due primarily to anticipated costs which were not incurred in the current fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2013, the District had \$17,530,666 invested in land, land improvements, infrastructure, recreation areas and facilities, and equipment for its governmental activities. In the government-wide financial statements depreciation of \$2,777,225 has been taken, which resulted in a net book value of \$14,753,441. More detailed information about the District's capital assets is presented in the notes of the financial statements.

Capital Debt

At September 30, 2013, the District had \$28,525,000 in Bonds outstanding for its governmental activities. More detailed information about the District's capital debt is presented in the notes of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District does not anticipate any major projects or significant changes to its infrastructure maintenance program for the subsequent fiscal year. In addition, it is anticipated that the general operations of the District will remain fairly constant.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, land owners, 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 the 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 POSITION
SEPTEMBER 30, 2013**

	Governmental Activities
ASSETS	
Cash and equivalents	\$ 765,266
Investments	127,778
Accounts receivable	1,973
Assessments receivable	579,345
Interest receivable	3,493
Due from other governments	10,216
Restricted assets:	
Investments	2,880,382
Capital assets:	
Nondepreciable	8,543,600
Depreciable, net	6,209,841
Total assets	19,121,894
 LIABILITIES	
Accounts payable	159,994
Accrued interest payable	832,318
Unearned revenues	170,773
Non-current liabilities:	
Due within one year	650,000
Due in more than one year	27,875,000
Total liabilities	29,688,085
 NET POSITION	
Net investment in capital assets	(13,771,559)
Restricted for debt service	2,402,403
Restricted for capital projects	3,395
Unrestricted	799,570
Total net position (deficit)	\$ (10,566,191)

See notes to the financial statements

**HARMONY COMMUNITY DEVELOPMENT DISTRICT
OSCEOLA COUNTY, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013**

Functions/Programs Primary government:	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:				
General government	\$ 180,292	\$ -	\$ -	\$ -
Maintenance and operations	1,493,287	1,279,864	23	(213,400)
Parks and recreation	196,830	-	59,465	(137,365)
Interest on long-term debt	2,022,527	1,272	-	757,630
Total governmental activities	3,892,936	4,239,041	59,488	406,865
General revenues:				
Unrestricted investment earnings				3,050
Loss on disposal of capital assets				(7,635)
Miscellaneous				16,469
Total general revenues				11,884
Change in net position				418,749
Net position (deficit) - beginning, previously stated				(10,520,133)
Effect of adoption of GASB No. 65 (Note 2)				(464,807)
Net position (deficit) - beginning, as restated				(10,984,940)
Net position (deficit) - ending				<u>\$ (10,566,191)</u>

See notes to the financial statements

**HARMONY COMMUNITY DEVELOPMENT DISTRICT
OSCEOLA COUNTY, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013**

	Major Funds				Total Governmental Funds
	General	Debt Service 2001	Debt Service 2004	Capital Projects 2004	
ASSETS					
Cash and equivalents	\$ 765,266	\$ -	\$ -	\$ -	\$ 765,266
Investments	127,778	2,016,440	860,547	3,395	3,008,160
Assessments receivable	73,703	-	505,642	-	579,345
Accounts receivable	1,973	-	-	-	1,973
Interest receivable	3,493	-	-	-	3,493
Due from other governments	3,725	6,491	-	-	10,216
Due from other funds	-	16,374	-	-	16,374
Total assets	<u>\$ 975,938</u>	<u>\$ 2,039,305</u>	<u>\$ 1,366,189</u>	<u>\$ 3,395</u>	<u>\$ 4,384,827</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 159,994	\$ -	\$ -	\$ -	\$ 159,994
Due to other funds	16,374	-	-	-	16,374
Unearned revenue	-	170,773	-	-	170,773
Total liabilities	<u>176,368</u>	<u>170,773</u>	<u>-</u>	<u>-</u>	<u>347,141</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - other	1,973	-	-	-	1,973
Total deferred inflows of resources	<u>1,973</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,973</u>
Fund balances:					
Restricted for:					
Debt service	-	1,868,532	1,366,189	-	3,234,721
Capital projects	-	-	-	3,395	3,395
Assigned to:					
Operating reserve	366,305	-	-	-	366,305
Renewal and replacement	185,000	-	-	-	185,000
Insurance	50,000	-	-	-	50,000
Unassigned	196,292	-	-	-	196,292
Total fund balances	<u>797,597</u>	<u>1,868,532</u>	<u>1,366,189</u>	<u>3,395</u>	<u>4,035,713</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 975,938</u>	<u>\$ 2,039,305</u>	<u>\$ 1,366,189</u>	<u>\$ 3,395</u>	<u>\$ 4,384,827</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 POSITION
SEPTEMBER 30, 2013**

Fund balance - governmental funds		\$ 4,035,713
Amounts reported for governmental activities in the statement of net position are different because:		
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 position includes those capital assets, net of any accumulated depreciation, in the net position to the government as a whole.		
Cost of capital assets	17,530,666	
Accumulated depreciation	<u>(2,777,225)</u>	14,753,441
Assets that are not available to pay for current-period expenditures are deferred in the fund statements.		1,973
Liabilities not due and payable from current available resources are not reported as liabilities in the governmental fund financial statements. All liabilities, both current and long-term, are reported in the government-wide financial statements.		
Accrued interest payable	(832,318)	
Bonds payable	<u>(28,525,000)</u>	<u>(29,357,318)</u>
Net position of governmental activities		<u><u>\$ (10,566,191)</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, 2013**

	Major Funds				Total Governmental Funds
	General	Debt Service 2001	Debt Service 2004	Capital Projects 2004	
REVENUES					
Assessments	\$ 1,474,118	\$ 1,558,947	\$ 1,219,938	\$ -	\$ 4,253,003
Interest	3,050	907	365	23	4,345
Other revenues	16,469	-	-	-	16,469
Total revenues	<u>1,493,637</u>	<u>1,559,854</u>	<u>1,220,303</u>	<u>23</u>	<u>4,273,817</u>
EXPENDITURES					
Current:					
General government	166,236	14,056	-	-	180,292
Maintenance and operations	1,147,639	-	-	-	1,147,639
Parks and recreation	71,445	-	-	-	71,445
Debt service:					
Principal	-	370,000	255,000	-	625,000
Interest	-	1,071,913	968,963	-	2,040,876
Capital outlay	21,890	-	-	59,465	81,355
Total expenditures	<u>1,407,210</u>	<u>1,455,969</u>	<u>1,223,963</u>	<u>59,465</u>	<u>4,146,607</u>
Excess (deficiency) of revenues over (under) expenditures	86,427	103,885	(3,660)	(59,442)	127,210
Fund balances - beginning	<u>711,170</u>	<u>1,764,647</u>	<u>1,369,849</u>	<u>62,837</u>	<u>3,908,503</u>
Fund balances - ending	<u>\$ 797,597</u>	<u>\$ 1,868,532</u>	<u>\$ 1,366,189</u>	<u>\$ 3,395</u>	<u>\$ 4,035,713</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, 2013**

Net change in fund balances - total governmental funds	\$	127,210
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; however, the costs of capital assets is eliminated in the statement of activities and capitalized in the statement of net position.		81,355
Disposal of capital assets, net of accumulated depreciation		(7,635)
Depreciation of capital assets is not recognized in the governmental fund financial statements but is reported as an expense in the statement of activities.		(471,033)
Certain revenues were unavailable for the fund financial statements in the prior year. In the current year, these revenues were recorded in the fund financial statements.		(13,962)
The statement of activities reports noncash contributions as revenues but these revenues are not reported in the fund financial statements.		59,465
Repayment of long-term liabilities are reported as expenditures in the governmental fund financial statement but such repayments reduce liabilities in the statement of net assets and are eliminated in the statement of activities.		625,000
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.		18,349
Change in net position of governmental activities	<u>\$</u>	<u>418,749</u>

See notes to the financial statements

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

NOTE 1 - NATURE OF ORGANIZATION AND REPORTING ENTITY

Harmony Community Development District (the "District") was established on February 28, 2000 by the Osceola County, Florida Ordinance No. 00-05 and was created 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 managing the District systems and facilities, including acquisition, construction, maintenance, operation and financing 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 by qualified electors within the District. To carry out the purpose of the District, the Board of Supervisors of the District exercises all powers granted to the District pursuant to Chapter 190, Florida Statutes. These powers include, but are not limited to:

1. To determine, order, levy, impose, collect, and enforce special assessments.
2. Approve the budget for the ensuing fiscal year submitted to the Board by the District Manager.
3. Exercising control over the management of District systems, facilities and properties.
4. Controlling the use of funds generated by the District.
5. Approving the hiring and firing of key personnel.
6. To finance, fund, plan, establish, acquire, construct or reconstruct, enlarge or extend, equip, operate, and maintain District systems, facilities, and basic infrastructure.

The financial statements were prepared in accordance with Governmental Accounting Standards Board ("GASS") Statements. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the primary government 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 position 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 2 - 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 special assessments apportioned to the benefited lands within the District. Assessments are levied to pay for the operations and maintenance of the District. For debt service, certain amounts are collected at lot closings as advance payments and 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 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. Pursuant to District policy, the District's annual assessments for operations and debt service are noticed and collected by the County Tax Collector for non-Developer owned platted lots, utilizing the Uniform Method of Collection. The amounts remitted to the District are net of applicable discounts or fees. In addition, amounts remitted by the County Tax Collector include interest on monies held from the day of collection to the day of distribution. The District notices and collects non-ad valorem special assessments for Developer owned non-platted lots.

Assessments and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. The portion of assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period.

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 Funds 2001 and 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 2001 and 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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Standards Adopted

During fiscal year 2013, the District adopted three new accounting standards as follows:

GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

This Statement incorporates into the GASB's authoritative literature certain guidance that previously could only be found in certain FASB and AICPA pronouncements issued on or before November 30, 1989 and eliminates the selection to apply post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources (previously reported as assets and liabilities) into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

The implementation of GASB 65 resulted in the write off of Bond issuance costs and the effect of adoption of GASB 65 is the reduction of beginning net position by \$464,807 of the governmental activities. The effect on fiscal year 2012 had the implementation of GASB 65 occurred earlier would have resulted in a decrease in expenses of the governmental activities by \$21,127.

Assets, Liabilities and Net Position or Equity

Restricted Assets

These assets represent cash and investments set aside pursuant to Bond covenants or other contractual restrictions.

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 paragraphs 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 as specified in the Bond Indenture.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity (Continued)

Deposits and Investments (Continued)

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 governmental 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
Infrastructure	15
Recreational facilities	25-30

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.

Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned.

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 position. Bond premiums and discounts are deferred and amortized over the life of the Bonds. Bonds payable are reported net of applicable premiums or discounts. Bond issuance costs are expensed when incurred.

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.

NOTE 2 - **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Assets, Liabilities and Net Position or Equity (Continued)

Deferred Outflows/Inflows of Resources

The statement of net position reports, as applicable, a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future reporting period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. For example, the District would record deferred outflows of resources related to debit amounts resulting from current and advance refundings resulting in the defeasance of debt (i.e. when there are differences between the reacquisition price and the net carrying amount of the old debt).

The statement of net position reports, as applicable, a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to future reporting period(s) and so will not be recognized as an inflow of resources (revenue) until that time. For example, when an asset is recorded in the governmental fund financial statements, but the revenue is not available, the District reports a deferred inflow of resources until such times as the revenue becomes available.

Fund Equity/Net Position

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

The District can establish limitations on the use of fund balance as follows:

Committed fund balance -Amounts that can be used only for the specific purposes determined by a formal action (motion) of the Board of Supervisors. Commitments may be changed or lifted only by the Board of Supervisors taking the same formal action (motion) that imposed the constraint originally. Resources accumulated pursuant to stabilization arrangements sometimes are reported in this category.

Assigned fund balance - Includes spendable fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. Assignments are established by the Board of Supervisors of the District and are generally temporary.

The District first uses committed fund balance, followed by assigned fund balance and then unassigned fund balance when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Net position is the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position in the government-wide financial statements are categorized as net investment in capital assets, restricted or unrestricted. Net investment in capital assets represents net position related to infrastructure and property, plant and equipment. Restricted net position represents the assets restricted by the District's Bond covenants or other contractual restrictions: Unrestricted net position consists of the net position not meeting the definition of either of the other two components.

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 3 - BUDGETARY INFORMATION

The District is required to establish a budgetary system and an approved Annual Budget. Annual Budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end.

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 adopted legally 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 4 - DEPOSITS AND INVESTMENTS

Deposits

The District's cash balances, including the certificates of deposit shown below, 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, 2013:

	Fair Value	Credit Risk	Maturities
US Bank N.A. Open Commercial Paper	\$ 527,059	S&P A-1+	N/A
US Bank N.A. Int Bearing Commercial Paper	2,353,323	S&P A-1+	N/A
Centerstate Bank Certificate of Deposit	127,778	N/A	7/6/2014
	\$ 3,008,160		

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 Bond Indenture limits the type of investments held using unspent proceeds.

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables at September 30, 2013 were as follows:

Fund	Receivable	Payable
General	\$ -	\$ 16,374
Debt Service fund 2001	16,374	-
Total	\$ 16,374	\$ 16,374

NOTE 5-INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)

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. In the case of the District, the balances between the general fund and the debt service fund relate to incorrect billing of certain landowners with regard to payoff amounts for the Series 2001 Bonds. The management company fully paid the District by applying a credit to the current fiscal year monthly invoices.

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2013 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Land and land improvements	\$ 8,543,600	\$ -	\$ -	\$ 8,543,600
Total capital assets, not being depreciated	8,543,600	-	-	8,543,600
Capital assets, being depreciated				
Infrastructure	5,029,451	118,930	(16,197)	5,132,184
Recreational facilities	3,751,220		-	3,751,220
Equipment	81,772	21,890	-	103,662
Total capital assets, being depreciated	8,862,443	140,820	(16,197)	8,987,066
Less accumulated depreciation for:				
Infrastructure	1,654,025	337,668	(8,562)	1,983,131
Recreational facilities	625,538	125,385	-	750,923
Equipment	35,191	7,980	-	43,171
Total accumulated depreciation	2,314,754	471,033	(8,562)	2,777,225
Total capital assets, being depreciated, net	6,547,689	(330,213)	(7,635)	6,209,841
Governmental activities capital assets, net	\$ 15,091,289	\$ (330,213)	\$ (7,635)	\$ 14,753,441

Depreciation expense was charged to function/program as follows:

Maintenance and operations	\$ 345,648
Parks and recreation	125,385
Total depreciation expense	\$ 471,033

In the prior fiscal year, the District entered into an agreement with the Developer whereby the District contributed 50 percent toward a Park Improvements Project completed in the current fiscal year. The District used the funds held on deposit in the Series 2004 Construction Account. Upon the completion of the project, the Developer conveyed to the District all of its rights, title and interest in and to the Improvements. The total cost of the project was \$118,930.

NOTE 7 - LONG TERM LIABILITIES

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 are subject to redemption at the option of the District prior to their maturity. The Bonds are subject to extraordinary mandatory redemption prior to their selected 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, 2013 as the District collected prepaid assessments from lot owners and prepaid \$20,000 of the Bonds. See Note 13 for additional call amounts subsequent to year end.

NOTE 7 - LONG TERM LIABILITIES (Continued)

Capital Improvement Revenue Bonds Series 2001 (Continued)

The Bond Indenture established a debt service reserve requirement as well as other restrictions and requirements relating principally to the use of proceeds 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, 2013.

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 District does not currently have a letter of credit. 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 are subject to redemption at the option of the District prior to their maturity. The Bonds are subject to extraordinary mandatory redemption prior to their selected 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 as well as certain other restrictions and requirements relating principally to the use of proceeds 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, 2013.

Long-term debt activity

Changes in long-term liability activity for the fiscal year ended September 30, 2013 were as follows:

<u>Governmental activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:					
Series 2001	\$ 14,795,000	\$ -	\$ 370,000	\$ 14,425,000	\$ 375,000
Series 2004	14,355,000	-	255,000	14,100,000	275,000
Total	\$ 29,150,000	\$ -	\$ 625,000	\$ 28,525,000	\$ 650,000

NOTE 7 - LONG TERM LIABILITIES (Continued)

At September 30, 2013, the scheduled debt service requirements on the long-term debt were as follows:

Year ending September 30:	Governmental Activities		
	Principal	Interest	Total
2014	\$ 650,000	\$ 1,997,563	\$ 2,647,563
2015	690,000	1,951,813	2,641,813
2016	740,000	1,903,233	2,643,233
2017	795,000	1,851,133	2,646,133
2018	850,000	1,795,150	2,645,150
2019 - 2023	5,260,000	7,985,238	13,245,238
2024- 2028	7,390,000	5,853,100	13,243,100
2029- 2033	8,930,000	2,856,850	11,786,850
2034-2036	3,220,000	444,825	3,664,825
Total	\$ 28,525,000	\$ 26,638,905	\$ 55,163,905

NOTE 8 - DEVELOPER AND RELATED TRANSACTIONS

The Developer (Harmony Development Co., LLC) and related entities own a portion of raw land within the District; therefore, revenues in the general and debt service funds include non ad-valorem assessments billed by the District on lots owned by the Developer and related entities. Developer and related assessment revenue for the fiscal year ended September 30, 2013 totaled \$1,093,465 for the general fund. For debt service, Developer and related assessment revenue for the fiscal year ended September 30, 2013 was \$2,032,809 for both the Series 2001 and 2004 Bonds.

In addition, during the current fiscal year the Developer contributed \$59,465 toward a Park Improvement Project that was completed in the current fiscal year.

NOTE 9 - CONCENTRATION

The District's activity is dependent on the continued involvement of the Developer, the loss of which could have a material adverse effect on the District's operations.

NOTE 10 - DEFICIT NET POSITION

The District has a government-wide net position deficit balance of (\$10,566,191) as of September 30, 2013. There is no such deficit reflected in the governmental fund statements. In a prior year, certain assets were financed through the issuance of long-term debt but were conveyed to other entities for ownership and maintenance. Those capitals assets are not included in the assets of the District; however, the long-term debt associated with those assets remains a liability of the District.

NOTE 11-MANAGEMENT COMPANY

Pursuant to Section 190.007 (f) the District has contracted with a management company to manage the works of the District, including to perform services such as 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 to manage the works of the District. The management company provides management services, including, but not limited to: managing the works of the District, accounting, financial reporting, computer and other administrative services.

NOTE 12 - 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 13 - SUBSEQUENT EVENTS

Bond Payments

Subsequent to year end, the District prepaid \$75,000 of the Series 2001 Bonds. The prepayment was an extraordinary mandatory redemption as outlined in the Bond Indenture.

Interlocal Agreement

Subsequent to year end, the School Board of Osceola County, Florida ("the School Board") conveyed certain parcels ("The Property") to the District pursuant to an interlocal agreement whereby the District shall maintain The Property in a manner equivalent to or superior to that provided under the School Board's standard. The conveyance is subject to a reversionary interest in favor of the School Board by which the title to the property would revert to the ownership of the School Board upon the dissolution or termination of the District.

**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, 2013**

	Budgeted Amounts Original & Final	Actual Amounts	Variance with Final Budget- Positive (Negative)
REVENUES			
Assessments - Tax collector	\$ 578,276	\$ 589,676	\$ 11,400
Assessments - District collected	884,442	884,442	-
Interest and other revenues	2,500	19,519	17,019
Total revenues	1,465,218	1,493,637	28,419
EXPENDITURES			
Current:			
General government	178,696	166,236	12,460
Maintenance and operations	1,209,022	1,147,639	61,383
Parks and recreation	65,500	71,445	(5,945)
Capital outlay	12,000	21,890	(9,890)
Total expenditures	1,465,218	1,407,210	58,008
Excess (deficiency) of revenues over (under) expenditures	\$ -	86,427	\$ 86,427
Fund balance - beginning		711,170	
Fund balance - ending		\$ 797,597	

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. Actual general fund expenditures did not exceed budgeted appropriations for the fiscal year ended September 30, 2013.

The variance between budgeted and actual general fund revenues for the 2013 fiscal year is as a result of lot owners not taking advantage of the discounts, resulting in higher than anticipated revenues. Also, miscellaneous revenues were higher than anticipated. The actual general fund expenditures for the current year were lower than budgeted amounts due primarily to anticipated costs which were not incurred in the current fiscal year.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our opinion thereon dated March 27, 2014, which includes an emphasis of matter paragraph.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control 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 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 that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, 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*.

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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Handwritten signature in cursive script that reads "Shand Associates".

March 27, 2014



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**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, Osceola County, Florida ("District") as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated March 27, 2014, which includes an emphasis of matter paragraph.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Florida Auditor General. 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 Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards* and Chapter 10.550, Rules of the Florida Auditor General dated March 27, 2014. 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.**

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, as applicable, management, and the Board of Supervisors of Harmony Community Development District, Osceola County, 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

March 27, 2014

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 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, 2012.

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.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported for the fiscal year ended September 30, 2013.

4. Noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported, for the fiscal year ended September 30, 2013.

5. The name or official title and legal authority of the District are disclosed in the notes to the financial statements.

6. 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, 2013 financial audit report.

7. The District has not met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes.

8. We applied financial condition assessment procedures pursuant to Rule 10.556(7) and no deteriorating financial conditions were noted as of September 30, 2013. 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.