

**HARMONY
COMMUNITY DEVELOPMENT DISTRICT
OSCEOLA COUNTY, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2014**

**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, 2014, 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, 2014, 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.

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 April 13, 2015, 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.

Report on Other Legal and Regulatory Requirements

We have also issued our report dated April 13, 2015, on our consideration of the District's compliance with the requirements of Section 218.415, Florida Statutes, as required by Rule 10.556(10) of the Auditor General of the State of Florida. The purpose of that report is to provide an opinion based on our examination conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.



April 13, 2015

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, 2014. 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 plus deferred outflows of resources at the close of the most recent fiscal year resulting in a net position deficit balance of (\$10,907,817).
- The change in the District's total net position in comparison with the prior fiscal year was (\$341,626), a decrease. 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, 2014, the District's governmental funds reported combined ending fund balances of \$2,588,289, a decrease of (\$1,447,424) in comparison with the prior fiscal year. A portion of fund balance is non-spendable for prepaid items, restricted for debt service, 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.

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, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

2) Fund Financial Statements (Continued)

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 five 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, debt service 2014, and capital projects 2004 funds. All of the funds are considered to be major funds. The debt service 2001 and capital projects 2004 funds were closed during the current fiscal year.

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 plus deferred outflows of resources at the close of the most recent fiscal

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,	
	2014	2013
Current and other assets	\$ 2,715,372	\$ 4,368,453
Capital assets, net of depreciation	14,315,003	14,753,441
Total assets	17,030,375	19,121,894
Deferred outflows of resources	453,863	-
Current liabilities	800,557	1,163,085
Long-term liabilities	27,591,498	28,525,000
Total liabilities	28,392,055	29,688,085
Net position		
Net investment in capital assets	(12,822,632)	(13,771,559)
Restricted	1,057,892	2,405,798
Unrestricted	856,923	799,570
Total net position	\$ (10,907,817)	\$ (10,566,191)

The District's net position decreased during the most recent fiscal year. The majority of the decrease represents the extent to which the cost of operations and depreciation expense exceeded ongoing program revenues.

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,	
	2014	2013
Revenues:		
Program revenues	\$ 4,116,468	\$ 4,299,801
General revenues	4,854	11,884
Total revenues	4,121,322	4,311,685
Expenses:		
General government	199,505	180,292
Maintenance and operations	1,587,600	1,493,287
Parks and recreation	178,955	196,830
Interest	2,086,303	2,022,527
Bond issuance costs	410,585	-
Total expenses	4,462,948	3,892,936
Change in net position	(341,626)	418,749
Net position - beginning, previously stated	(10,566,191)	(10,520,133)
Effect of adoption of GASB No. 65	-	(464,807)
Net position - beginning, as restated	(10,566,191)	(10,984,940)
Net position - ending	\$ (10,907,817)	\$ (10,566,191)

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2014 was \$4,462,948. The costs of the District's activities were primarily funded by program revenues. Program revenues are comprised primarily of assessments. The remainder of the current fiscal year revenue includes non-cash contributions from the Developer and another governmental entity, and interest revenue. The majority of the decrease in program revenues is due to a decrease in debt service assessments collected on Developer-owned lots. The Developer benefitted from savings realized through the refunding of the Series 2001 Bonds; therefore, it did not have to provide the entire amount levied for fiscal year 2014. The increase in current fiscal year expenses is primarily the result of costs incurred to issue the new Bonds.

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, 2014 was amended to increase revenues by \$1,850, appropriations by \$224,764 and use offund balance by \$222,914. The increase in revenues is primarily the result of slightly greater interest and miscellaneous revenues than originally anticipated. The increase in appropriations is primarily due to additional costs related to the installation of streetlights. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2014.

The variance between budgeted and actual general fund revenues for the current fiscal year is the result of greater than anticipated assessments being collected due to fewer people taking advantage of the discount for early payment than expected. 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, 2014, the District had \$17,566,874 invested in land and land improvements, infrastructure, improvement, recreation areas and facilities, and equipment for its governmental activities. In the government-wide financial statements depreciation of \$3,251,871 has been taken, which resulted in a net book value of \$14,315,003. More detailed information about the District's capital assets is presented in the notes of the financial statements.

Capital Debt

At September 30, 2014, the District had \$27,770,000 Bonds outstanding for its governmental activities. During the 2014 fiscal year, the District issued \$13,945,000 Series 2014 Capital Improvement Revenue Refunding Bonds. 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, 2014**

	Governmental Activities
ASSETS	
Cash and equivalents	\$ 714,014
Investments	100,000
Accounts receivable	1,435
Assessments receivable	67,413
Interest receivable	262
Due from other governments	10,112
Prepays	164,438
Restricted assets:	
Investments	1,657,698
Capital assets:	
Nondepreciable	8,544,996
Depreciable, net	5,770,007
Total assets	17,030,375
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding (debit)	453,863
	453,863
 LIABILITIES	
Accounts payable	127,083
Accrued interest payable	673,474
Non-current liabilities:	
Due within one year	550,000
Due in more than one year	27,041,498
Total liabilities	28,392,055
 NET POSITION	
Net investment in capital assets	(12,822,632)
Restricted for debt service	1,057,892
Unrestricted	856,923
Total net position	\$ (10,907,817)

See notes to the financial statements

HARMONY COMMUNITY DEVELOPMENT DISTRICT
OSCEOLA COUNTY, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

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	\$ 199,505	\$ -	\$ -	\$ -
Maintenance and operations	1,587,600	-	2	(234,833)
Parks and recreation	178,955	-	10,396	(168,559)
Interest on long-term debt	2,086,303	1,331	-	467,497
Bond issuance costs	410,585	-	-	(410,585)
Total governmental activities	4,462,948	1,331	10,398	(346,480)

General revenues:	
Unrestricted investment earnings	3,425
Miscellaneous	1,429
Total general revenues	4,854
Change in net position	(341,626)
Net position - beginning	(10,566,191)
Net position - ending	\$ (10,907,817)

See notes to the financial statements

**HARMONY COMMUNITY DEVELOPMENT DISTRICT
OSCEOLA COUNTY, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014**

	Major Funds			Total Governmental Funds
	General	Debt Service 2004	Debt Service 2014	
ASSETS				
Cash and equivalents	\$ 714,014	\$ -	\$ -	\$ 714,014
Investments	100,000	860,550	797,148	1,757,698
Assessments receivable	-	22,637	44,776	67,413
Accounts receivable	1,435	-	-	1,435
Interest receivable	262	-	-	262
Due from other governments	3,857	-	6,255	10,112
Prepays	164,438	-	-	164,438
Total assets	<u>\$ 984,006</u>	<u>\$ 883,187</u>	<u>\$ 848,179</u>	<u>\$ 2,715,372</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 127,083	\$ -	\$ -	\$ 127,083
Total liabilities	<u>127,083</u>	<u>-</u>	<u>-</u>	<u>127,083</u>
Fund balances:				
Nonspendable for prepaids	164,438	-	-	164,438
Restricted for:				
Debt service	-	883,187	848,179	1,731,366
Assigned to:				
Operating reserve	257,981	-	-	257,981
Renewal and replacement	133,376	-	-	133,376
Insurance	50,000	-	-	50,000
Unassigned	251,128	-	-	251,128
Total fund balances	<u>856,923</u>	<u>883,187</u>	<u>848,179</u>	<u>2,588,289</u>
Total liabilities and fund balances	<u>\$ 984,006</u>	<u>\$ 883,187</u>	<u>\$ 848,179</u>	<u>\$ 2,715,372</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, 2014**

Fund balance - governmental funds		\$ 2,588,289
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 of the government as a whole.		
Cost of capital assets	17,566,874	
Accumulated depreciation	<u>(3,251,871)</u>	14,315,003
Deferred charges on refunding of long-term debt are shown as deferred outflows/inflows of resources in the government-wide financial statements; however, this amount is expensed in the governmental fund financial statements.		
		453,863
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 financial statements.		
Accrued interest payable	(673,474)	
Bonds payable	<u>(27,591,498)</u>	<u>(28,264,972)</u>
Net position of governmental activities		<u><u>\$ (10,907,817)</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, 2014**

	Major Funds					Total Governmental Funds
	General	Debt Service 2001	Debt Service 2004	Debt Service 2014	Capital Projects 2004	
REVENUES						
Assessments	\$ 1,554,243	\$ 1,614,042	\$ 743,282	\$ 195,145	\$ -	\$ 4,106,712
Interest	3,425	858	466	7	2	4,758
Other revenues	1,429	-	-	-	-	1,429
Total revenues	1,559,097	1,614,900	743,748	195,152	2	4,112,899
EXPENDITURES						
Current:						
General government	185,447	14,058	-	-	-	199,505
Maintenance and operations	1,235,802	-	-	-	3,397	1,239,199
Parks and recreation	52,710	-	-	-	-	52,710
Debt service:						
Principal	-	460,000	275,000	-	-	735,000
Interest	-	1,043,094	951,750	-	-	1,994,844
Bond issue costs	-	-	-	410,585	-	410,585
Payment to escrow agent from other sources	-	1,923,931	-	-	-	1,923,931
Capital outlay	25,812	-	-	-	-	25,812
Total expenditures	1,499,771	3,441,083	1,226,750	410,585	3,397	6,581,586
Excess (deficiency) of revenues over (under) expenditures	59,326	(1,826,183)	(483,002)	(215,433)	(3,395)	(2,468,687)
OTHER FINANCING SOURCES (USES)						
Transfers in (out)	-	(42,349)	-	42,349	-	-
Bond issue	-	-	-	13,945,000	-	13,945,000
Bond issue discount	-	-	-	(178,502)	-	(178,502)
Payment to refunded bond escrow agent	-	-	-	(12,745,235)	-	(12,745,235)
Total other financing sources (uses)	-	(42,349)	-	1,063,612	-	1,021,263
Net change in fund balances	59,326	(1,868,532)	(483,002)	848,179	(3,395)	(1,447,424)
Fund balances - beginning	797,597	1,868,532	1,366,189	-	3,395	4,035,713
Fund balances - ending	\$ 856,923	\$ -	\$ 883,187	\$ 848,179	\$ -	\$ 2,588,289

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, 2014**

Net change in fund balances - total governmental funds	\$ (1,447,424)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, the cost of capital assets is eliminated in the statement of activities and capitalized in the statement of net position.	25,812
Certain revenues were unavailable for the governmental fund financial statements in the prior fiscal year. In the current fiscal year, these revenues were recorded in the governmental fund financial statements.	(1,973)
The statement of activities reports noncash contributions as revenues, but these revenues are not reported in the governmental fund financial statements.	10,396
Governmental funds report the face amount of Bonds issued as financial resources when debt is first issued, whereas these amounts are eliminated in the statement of activities and recognized as long-term liabilities in the statement of net position.	(13,945,000)
Repayment of long-term liabilities are reported as expenditures in the governmental fund financial statements, but such repayments reduce liabilities in the statement of net position and are eliminated in the statement of activities.	735,000
Governmental funds report amounts transferred to the escrow agent in connection with the issuance of refunding Bonds as a financing use and expenditure, whereas these amounts, net of accrued interest, are eliminated in the statement of activities and reduce long-term liabilities in the statement of net position.	14,418,863
Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	178,502
Expenses reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the funds. The details of the differences are as follows:	
Depreciation of capital assets	(474,646)
Change in accrued interest	158,844
Change in net position of governmental activities	<u>\$ (341,626)</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 ("GASB") Statements. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the District 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, 2004, and 2014

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, 2004, and 2014 Bonds. The debt service fund 2001 was closed during the current fiscal year as the Series 2001 Bonds were refunded.

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. This fund was closed during the current fiscal year.

As a general rule, the effect of 1nterfund 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)

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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity (Continued)

Refundings of Debt

For current refundings and advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources and recognized ratably as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. In connection with the refunding, the estimated amortization for the current year was nominal.

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.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future reporting period(s). For example, the District would record deferred outflows of resources on the statement of net position 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).

Deferred inflows of resources represent an acquisition of net position that applies to future reporting period(s). For example, when an asset is recorded in the governmental fund financial statements, but the revenue is unavailable, the District reports a deferred inflow of resources on the balance sheet 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity (Continued)

Fund Equity/Net Position (Continued)

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, 2014:

	Fair Value	Credit Risk	Maturities
US Bank N.A. Open Commercial Paper	\$ 860,550	S&P A-1+	N/A
First American Government Obligation Class Z	797,148	S&PAAAm	Weighted average of the fund portfolio: 43 days
Certificate of Deposit	100,000	N/A	2/3/2015
	\$ 1,757,698		

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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 TRANSFERS

Interfund transfers for the fiscal year ended September 30, 2014 were as follows:

Fund	Transfer in	Transfer Out
Debt service 2001	\$ -	\$ 42,349
Debt service 2014	42,349	-
Total	\$ 42,349	\$ 42,349

Transfers are used to move revenues from the fund where collection occurs to the fund where funds have been reallocated for use. In the case of the District, transfers from the debt service fund 2001 to the debt service fund 2014 were made to close out the debt service fund 2001 upon the refunding of the Series 2001 Bonds.

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2014 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	\$ 1,396	\$ -	\$ 8,544,996
Total capital assets, not being depreciated	8,543,600	1,396	-	8,544,996
Capital assets, being depreciated				
Infrastructure	5,148,381	-	-	5,148,381
Improvement	-	9,000	-	9,000
Recreational facilities	3,751,220	25,812	-	3,777,032
Equipment	87,465	-	-	87,465
Total capital assets, being depreciated	8,987,066	34,812	-	9,021,878
Less accumulated depreciation for:				
Infrastructure	1,983,131	341,137	-	2,324,268
Improvement	-	50	-	50
Recreational facilities	750,923	126,245	-	877,168
Equipment	43,171	7,214	-	50,385
Total accumulated depreciation	2,777,225	474,646	-	3,251,871
Total capital assets, being depreciated, net	6,209,841	(439,834)	-	5,770,007
Governmental activities capital assets, net	\$ 14,753,441	\$ (438,438)	\$ -	\$ 14,315,003

NOTE 6 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to function/program as follows:

Maintenance and operations	\$	348,401
Parks and recreation		126,245
Total depreciation expense	\$	<u>474,646</u>

Interlocal Agreement

During the current fiscal year, 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 agreed to 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 revisionary 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. The parcels have an area of 0.39 acres, more or less, and have been estimated at \$1,396.

Developer Contribution and Lease

During the current fiscal year, the Developer donated a trailer estimated at \$9,000 to the District to serve as office space for the District Manager and onsite field staff. Shortly after, the District entered into a leasing agreement with the Developer for the leasing of the land where the trailer is located. The initial term of the lease will be for a period of twelve (12) months, unless otherwise terminated or extended in accordance with the provisions of the lease. The District agreed to pay the Developer one dollar (\$1.00) as rent for each twelve (12) month period of term. The District will not be required to post any deposit with the Developer.

NOTE 7 - LONG TERM LIABILITIES

Series 2014

On June 30, 2014, the District issued \$13,945,000 of Capital Improvement Revenue Refunding Bonds Series 2014. The Series 2014 Bonds consist of a \$6,845,000 term bond due May 1, 2025, with a fixed interest rate of 5.00%; and a \$7,100,000 term bond due May 1, 2032, with a fixed interest rate 5.250%. The Bonds were issued to refund a portion of the District's outstanding Capital Improvement Revenue Bonds, Series 2001 (the "Refunded Bonds"). Interest is to be paid semiannually on each May 1 and November 1 commencing May 1, 2015. Principal on the Bonds is to be paid serially commencing May 1, 2015 through May 1, 2032.

The Series 2014 Bonds are subject to redemption at the option of the District prior to maturity on May 1, 2024 and any date thereafter. The Series 2014 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 as well as other restrictions and requirements relating principally to the use of proceeds to pay for the 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 was in compliance with the requirements at September 30, 2014.

Refunded Bonds

The District refunded the Series 2001 Capital Improvement Revenue Bonds, which had an outstanding balance of \$13,965,000 at the time of the refunding with the proceeds from the Series 2014 Bonds. The refunding was a current refunding and resulted in a difference in cash flows required to pay the respective debt service of \$2,407,562. The refunding resulted in a net present value savings of \$1,196,825. The Refunded Bonds have been paid off as of September 30, 2014.

NOTE 7 - LONG TERM LIABILITIES (Continued)

Capital Improvement Revenue Bonds Series 2004

On December 10, 2004 the District issued \$15,490,000 of Capital Improvement Revenue Bonds Series 2004, due 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, 2014.

Long-term debt activity

Changes in long-term liability activity for the fiscal year ended September 30, 2014 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
Series 2001	\$ 14,425,000	\$ -	\$ 14,425,000	\$ -	\$ -
Series 2004	14,100,000	-	275,000	13,825,000	290,000
Series 2014	-	13,945,000	-	13,945,000	260,000
Bond issue discount	-	(178,502)	-	(178,502)	-
	<u>\$ 28,525,000</u>	<u>\$ 13,766,498</u>	<u>\$ 14,700,000</u>	<u>\$ 27,591,498</u>	<u>\$ 550,000</u>

At September 30, 2014, the scheduled debt service requirements on the long-term debt were as follows:

Year ending September 30:	Governmental Activities		
	Principal	Interest	Total
2015	\$ 550,000	\$ 1,531,007	\$ 2,081,007
2016	830,000	1,615,613	2,445,613
2017	875,000	1,568,688	2,443,688
2018	930,000	1,519,163	2,449,163
2019	985,000	1,466,450	2,451,450
2020-2024	5,845,000	6,424,800	12,269,800
2025-2029	7,755,000	4,540,788	12,295,788
2030-2034	7,780,000	2,041,538	9,821,538
2035-2036	2,220,000	227,475	2,447,475
Total	<u>\$ 27,770,000</u>	<u>\$ 20,935,522</u>	<u>\$ 48,705,522</u>

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, 2014 totaled \$934,428 for the general fund and \$1,376,009 for the Series 2001, 2004, and 2014 Bonds, of which \$67,413 was outstanding as of September 30, 2014. See Note 6 above for other Developer transactions.

In addition, the Developer provides field management services to the District. For the fiscal year ended September 30, 2014, the Developer was paid \$181,348 for these services.

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 (\$10,907,817) as of September 30, 2014. 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 capital 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 (1) The District has contracted with a management company to perform management advisory services, which include financial and accounting advisory services. Certain employees of the management company also serve as officers (Board appointed non-voting positions) of the District. Under the agreement, the District compensates the management company for management, accounting, financial reporting, and other administrative costs.

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.

**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, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Assessments - Tax collector	\$ 1,545,386	\$1,545,386	\$1,554,243	\$ 8,857
Interest and other revenues	2,500	4,350	4,854	504
Total revenues	1,547,886	1,549,736	1,559,097	9,361
EXPENDITURES				
Current:				
General government	184,221	203,721	185,447	18,274
Maintenance and operations	1,286,165	1,491,429	1,235,802	255,627
Parks and recreation	65,500	65,500	52,710	12,790
Capital outlay	12,000	12,000	25,812	(13,812)
Total expenditures	1,547,886	1,772,650	1,499,771	272,879
Excess (deficiency) of revenues over (under) expenditures	-	(222,914)	59,326	282,240
OTHER FINANCING SOURCES (USES)				
Use of fund balance	-	222,914	-	(222,914)
Total other financing sources (uses)	-	222,914	-	(222,914)
Net change in fund balances	\$ -	\$ -	59,326	\$ 59,326
Fund balance - beginning			797,597	
Fund balance - ending			\$ 856,923	

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, 2014 was amended to increase revenues by \$1,850, appropriations by \$224,764 and use of fund balance by \$222,914. The increase in revenues is primarily the result of slightly greater interest and miscellaneous revenues than originally anticipated. The increase in appropriations is primarily due to additional costs related to the installation of streetlights. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2014.

The variance between budgeted and actual general fund revenues for the current fiscal year is the result of greater than anticipated assessments being collected due to fewer people taking advantage of the discount for early payment than expected. 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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our opinion thereon dated April 13, 2015.

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.

Grant Associates
April 13, 2015



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE
REQUIREMENTS OF SECTION 218.415, FLORIDA STATUTES, REQUIRED BY
RULE 10.556(10) OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA**

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

We have examined Harmony Community Development District, Osceola County, Florida's ("District") compliance with the requirements of Section 218.415, Florida Statutes, in accordance with Rule 10.556(10) of the Auditor General of the State of Florida during the fiscal year ended September 30, 2014. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the fiscal year ended September 30, 2014.

This report 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, 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.

Grau & Associates

April 13, 2015



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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

Report on the Financial Statements

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, 2014, and have issued our report thereon dated April 13, 2015.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Florida Auditor General.

Other Reports and Schedule

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 Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated April 13, 2015, should be considered in conjunction with this management letter.

Purpose of this 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

April 13, 2015