

**Harmony Area School District
5239 Ridge Road
Westover, Pennsylvania**

**Single Audit as required by
OMB Circular A-133**

**For the Year Ended
June 30, 2011**

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List of Report Distribution

December 2, 2011

To the Members of the Board
Harmony Area School District
5239 Ridge Road
Westover, Pennsylvania 16692

Board Members:

Not later than thirty days after receipt of the audit report, Harmony Area School District must distribute the audit report as follows:

One (1) copy to: Commonwealth of Pennsylvania
Bureau of Audits
(submitted electronically)

One (1) copy to: Single Audit Clearinghouse
(submitted electronically)

Sincerely,

Kotzan CPA & Associates, P.C.

Kotzan CPA & Associates, P.C.

Independent Auditors' Report

To the Members of the Board
Harmony Area School District
5239 Ridge Road
Westover, Pennsylvania 16692

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Harmony Area School District, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Harmony Area School District as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 2, 2011 on our consideration of Harmony Area School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 12 and page 46, respectively, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Kotzan CPA & Associates, P.C.

Kotzan CPA & Associates, P.C.
December 2, 2011

Management's Discussion and Analysis

Harmony Area School District

2010-2011

The *Management Discussion & Analysis* (MD&A) of Harmony Area School District's performance provides an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions or conditions. The purpose of the MD&A is to introduce the basic financial statements and to provide an analytical overview of the government's financial activities. Note that comparative data from the previous year is required and is included in this MD&A.

Financial Statements

The accompanying financial statements have been prepared in accordance with GASB Statement Number 34 and present both government-wide and fund level financial statements using the accrual and modified accrual basis of accounting, respectively, as discussed below.

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. These statements are prepared using the accrual basis of accounting. The focus of these statements is long-term.

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

The *Statement of Activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

The government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a portion of their costs through user fees and charges (business-type activities). The governmental activities include all of the District's instructional programs and support services except for its food service operation, which is considered a business-type activity.

Reconciliations of the fund financial statements to the government-wide financial statements outline the accounting changes necessary to convert from modified accrual to the full accrual method of accounting.

Fiduciary Funds including the Student Activities Fund and the Private Purpose Trust Fund (scholarships) are not reflected on the government-wide financial statements. These funds are shown on separate Fiduciary Funds statements.

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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of fund financial statements is short-term. Fund financial statements are prepared using the modified accrual basis of accounting. The District uses several different types of funds but the two most significant types are the governmental and proprietary fund types.

Harmony Area School District
Management's Discussion and Analysis (MD&A)

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 current 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 the District's current 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 current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the District's major funds, which are the General Fund and the Capital Reserve Fund. The District has no non-major funds.

Proprietary Funds

The District accounts for its food service operation in a proprietary fund, which is presented as business-type activities in the government-wide financial statements. The proprietary funds have historically been reported on the accrual basis of accounting. Therefore, there is no difference between the government-wide and fund financial statements with respect to the proprietary fund.

Financial Overview

The Harmony Area School District general fund had revenues of \$5,813,690 and expenditures of \$5,769,670, resulting in an excess of revenues over expenditures of \$44,020, before transfers, for the year ended June 30, 2011. Transfers out totaled \$12,445 and were to the Cafeteria Fund. After this transfer out the general fund "final" excess of revenues over expenditures was \$31,575 for the year ended June 30, 2011. Harmony Area School District's general fund maintains a fund balance of \$1,573,179 at June 30, 2011. In addition to the general fund, the fund balance of the capital projects fund is \$1,116,842 at June 30, 2011. These amounts are reflected on the fund financial statements (modified accrual basis).

Historical trends indicated that during the 2010-11 school year the Harmony Area School District would experience another year of significant increases in cost of instruction for special education and self-insured health benefits. Further projected increases in the Public School Employees Retirement System (PSERS) employer contribution will continue to cause an additional drain on the financial resources of all schools in Pennsylvania. Also, declining student enrollment will have an impact on the school district in the future years.

Harmony Area School District
Management's Discussion and Analysis (MD&A)

Table 1 summarizes the assets, liabilities, and net assets of the District at June 30, 2011 as compared to June 30, 2010.

Table 1
Condensed Schedule of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Change
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011-2010</u>
Assets							
Current assets	\$3,419,908	\$2,663,613	\$36,383	\$ 28,067	\$3,456,291	\$2,691,680	\$ 764,611
Non-current assets	<u>2,827,116</u>	<u>2,925,222</u>	<u>20,217</u>	<u>12,354</u>	<u>2,847,333</u>	<u>2,937,576</u>	<u>(90,243)</u>
Total assets	<u>\$6,247,024</u>	<u>\$5,588,835</u>	<u>\$56,600</u>	<u>\$ 40,421</u>	<u>\$6,303,624</u>	<u>\$5,629,256</u>	<u>\$ 674,368</u>
Liabilities							
Current liabilities	\$ 612,751	\$ 617,248	\$52,112	\$ 43,227	\$ 664,863	\$ 660,475	\$ 4,388
Long-term liabilities	<u>1,707,803</u>	<u>1,864,677</u>	<u>1,524</u>	<u>1,136</u>	<u>1,709,327</u>	<u>1,865,813</u>	<u>(156,486)</u>
Total liabilities	<u>\$2,320,554</u>	<u>\$2,481,925</u>	<u>\$53,636</u>	<u>\$ 44,363</u>	<u>\$2,374,190</u>	<u>\$2,526,288</u>	<u>\$(152,098)</u>
Net Assets							
Invested in capital assets, net of related debt	\$1,050,982	\$1,017,190	\$20,217	\$ 12,354	\$1,071,199	\$1,029,544	\$ 41,655
Restricted	<u>1,116,842</u>	<u>421,953</u>	<u>0</u>	<u>0</u>	<u>1,116,842</u>	<u>421,953</u>	<u>694,889</u>
Unrestricted	<u>1,758,646</u>	<u>1,667,767</u>	<u>(17,253)</u>	<u>(16,296)</u>	<u>1,741,393</u>	<u>1,651,471</u>	<u>89,922</u>
Total net assets	<u>\$3,926,470</u>	<u>\$3,106,910</u>	<u>\$ 2,964</u>	<u>\$ (3,942)</u>	<u>\$3,929,434</u>	<u>\$3,102,968</u>	<u>\$ 826,466</u>

Assets, Liabilities and Net Assets – Government-Wide

Current assets represented 54.9% of the total assets comprised largely of cash and cash equivalents of \$1,299,805, long-term certificates of deposit of \$1,326,131, taxes receivable of \$442,055, and intergovernmental receivables of \$326,561. Fixed assets including land, site and building improvements, furniture and equipment, and construction in progress represent 43.7% of total assets at \$2,759,209.

The total liability amount of \$2,374,190 consists primarily of bonds payable (\$1,690,000), compensated absences (\$246,256), and accrued salaries and benefits (\$321,030).

The resulting \$3,929,434 in net assets includes \$1,071,199 invested in capital assets, net of related debt, \$1,116,842 restricted for capital projects, and \$1,741,393 in unrestricted net assets.

Harmony Area School District
Management's Discussion and Analysis (MD&A)

Table 2 summarizes the revenues, expenses, and changes in net assets of the District for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Change
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011-2010</u>
Program Revenues:							
Charges for services	\$ 5,290	\$ 0	\$ 93,854	\$ 91,816	\$ 99,144	\$ 91,816	\$ 7,328
Operating grants and contributions	1,728,144	1,906,528	157,922	174,086	1,886,066	2,080,614	(194,548)
Capital grants and contribution	112,497	111,929	0	0	112,497	111,929	568
General Revenues:							
Property and other taxes	1,118,533	1,132,949	0	0	1,118,533	1,132,949	(14,416)
Grants and entitlements	2,832,330	2,777,617	0	0	2,832,330	2,777,617	54,713
Investment earnings	7,305	26,708	10	2	7,315	26,710	(19,395)
Transfers between gov'tal, BT activities	(12,445)	0	12,445	0	0	0	0
Other	<u>724,608</u>	<u>254,505</u>	<u>0</u>	<u>0</u>	<u>724,608</u>	<u>254,505</u>	<u>470,103</u>
Total Revenues	<u>6,516,262</u>	<u>6,210,236</u>	<u>264,231</u>	<u>265,904</u>	<u>6,780,493</u>	<u>6,476,140</u>	<u>304,353</u>
Program Expenses:							
Instruction	3,461,362	3,441,624	0	0	3,461,362	3,441,624	19,738
Support services:							
Instructional student support	386,744	411,220	0	0	386,744	411,220	(24,476)
Administration and financial	679,745	621,787	0	0	679,745	621,787	57,958
Plant operation and maintenance	414,326	430,316	0	0	414,326	430,316	(15,990)
Pupil transportation	565,768	515,036	0	0	565,768	515,036	50,732
Student activities	121,849	154,602	0	0	121,849	154,602	(32,753)
Interest on long-term debt	66,908	78,533	0	0	66,908	78,533	(11,625)
Food service	<u>0</u>	<u>0</u>	<u>257,325</u>	<u>272,828</u>	<u>257,325</u>	<u>272,828</u>	<u>(15,503)</u>
Total Expenses	<u>5,696,702</u>	<u>5,653,118</u>	<u>257,325</u>	<u>272,828</u>	<u>5,954,027</u>	<u>5,925,946</u>	<u>28,081</u>
Increase (Decrease) in net assets	<u>\$ 819,560</u>	<u>\$ 557,118</u>	<u>\$ 6,906</u>	<u>\$ (6,924)</u>	<u>\$ 826,466</u>	<u>\$ 550,194</u>	<u>\$ 276,272</u>

Revenues increased over the prior year by \$304,353, or 4.7%. The receipt of royalties from Rosebud Mining Co. accounts for a majority of the increase.

Harmony Area School District
Management's Discussion and Analysis (MD&A)

Expenses increased over the prior year by \$28,081. The most significant increases in expenses are reflected in administration and financial (\$57,958), and pupil transportation (\$50,732). Increases in administration and financial were primarily the result of increases in salaries and insurance costs. Increases in pupil transportation were due to transporting the additional special needs students to and from school, and to various alternative education facilities.

Table 3 breaks out general fund expenditures by function per the fund financial statements with a comparison to the prior year as well as current year budget variances.

Table 3
Expenditures by Function – Budget vs. Actual

Function	Description	Actual 2010-11 Expenses	Actual 2009-10 Expenses	(Over)/Under From P/Y	2010-11 Budget	(Over)/Under 2010-11 Budget
1100	Regular Educational Programs	\$2,447,188	\$2,393,850	\$ (53,338)	\$2,335,940	\$(111,248)
1200	Special Education	605,092	562,538	(42,554)	554,652	(50,440)
1300	Vocational Education	173,960	135,840	(38,120)	124,979	(48,981)
1400	Other Instructional Programs	96,728	104,250	7,522	74,626	(22,102)
1800	Accountability and Pre-K	76,174	140,130	63,956	134,852	58,678
2100	Pupil Services	168,652	169,321	669	185,768	17,116
2200	Instructional Staff Services	141,720	159,285	17,565	164,169	22,449
2300	Administration	406,356	366,146	(40,210)	396,742	(9,614)
2400	Health Services	77,331	63,338	(13,993)	67,920	(9,411)
2500	Business	171,683	159,340	(12,343)	172,148	465
2600	Maintenance	407,394	416,656	9,262	511,036	103,642
2700	Transportation	548,719	498,934	(49,785)	450,700	(98,019)
2800/2900	IU Programs	71,704	67,962	(3,742)	21,460	(50,244)
3000	Student Activities	118,177	89,033	(29,144)	100,062	(18,115)
4000	Facilities Acq, Const, and Imp	30,000	0	(30,000)	0	(30,000)
5110	Financing	228,441	228,866	425	240,761	12,320
5130	Refund of Prior Yr. Receipts	352	6,657	6,305	0	(352)
5200	Interfund Transfers	12,445	53,542	41,097	65,000	52,555
5900	Budgetary Reserve	0	0	0	22,378	22,378
	Total expenditures	5,782,116	5,615,688	(166,428)	5,623,193	(158,923)
	Revenues	<u>5,813,690</u>	<u>5,937,222</u>	<u>(123,532)</u>	<u>5,623,193</u>	<u>190,497</u>
	Net Change	<u>\$ 31,574</u>	<u>\$ 321,534</u>	<u>\$(289,960)</u>	<u>\$ 0</u>	<u>\$ 31,574</u>

Harmony Area School District
Management's Discussion and Analysis (MD&A)

DIFFERENCES

Function 1100	Increase in expenses due to increases in salaries and health care costs, partially due to reclassification of ABG salary and benefits from function 1800.
Function 1200	Increase in expenses due to additional aides who were hired to cover services for special needs students.
Function 1300	Increase in expenses due to increased vo-tech costs resulting from increased student participation.
Function 1400	Decrease in expenses reflects slightly decreased tutoring costs.
Function 1800	Decrease in expenses due to a salary and benefits charged to the accountability block grant reclassified to function 1100.
Function 2200	Decrease in expenses due to a reduction in technology equipment and supplies purchases.
Function 2300	Increase in expenses due to an increase in legal services for various staffing issues.
Function 2400	Increase in expenses due to an increase in therapy services provided by the IU, as well as an increase in health insurance costs for the nurse.
Function 2500	Increase due to an increase in professional services, including GASB 45 implementation costs, and an increase in repair costs.
Function 2600	Expenses under budget and decreased from prior year due to the hiring of a new custodian at an hourly rate to replace a salaried custodian who had left the district.
Function 2700	Increase in expenses due to transporting the additional special needs students to and from school and to various alternative education facilities.
Function 3000	Increase in expenses due to the move of the Athletic Fund into the General Fund.
Function 4000	Increase in expenses due to a renovation project fee charged by the architect.
Function 5200	Decrease in expenses due to transfer to the Athletic Fund not being included as an interfund transfer for current year, as Athletic Fund is now part of General Fund.

Capital Assets

Table 4 illustrates changes in capital assets, net of depreciation, by asset type.

Table 4
Capital Assets Net of Depreciation

	Governmental Activities		Business-Type Activities		Total School District		Percentage Change
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011-2010</u>
Land	\$ 5,000	\$ 5,000	\$ 0	\$ 0	\$ 5,000	\$ 5,000	0.0%
Construction in progress	30,000	0	0	0	30,000	0	100.0%
Buildings	2,551,112	2,681,026	0	0	2,551,112	2,681,026	(4.8)%
Equipment and furniture	<u>152,880</u>	<u>181,164</u>	<u>20,217</u>	<u>12,354</u>	<u>173,097</u>	<u>193,518</u>	(10.6)%
Total	<u>\$2,738,992</u>	<u>\$2,867,190</u>	<u>\$20,217</u>	<u>\$12,354</u>	<u>\$2,759,209</u>	<u>\$2,879,544</u>	(4.2)%

Long-Term Debt

Table 5 illustrates a condensed summary of outstanding long-term debt.

Table 5
Outstanding Long-Term Debt

	Total School District		Percentage Change
	<u>2011</u>	<u>2010</u>	
General obligation refunding bonds (Series of 2006)	<u>\$1,690,000</u>	<u>\$1,850,000</u>	8.6%

MAJOR FINANCIAL ISSUES

The financial issues pertaining to the District for the 2010-11 year are as follows:

BUILDING IMPROVEMENTS

Cafeteria tables were purchased as the current tables were in need of major repairs.

The district approved to go forward with a building project utilizing the QSCB (Qualified School Construction Bond) program which would consist of renovating building structure and maintenance. Architect fees were paid to begin this process.

CURRICULUM

EAP grant was used to provide tutoring services to all students in grades 7-12 who did not score proficient or advanced on the 4-Sight benchmark testing that was administered throughout the school year. Teachers in the program tutored students in groups of ten or less based on their needs in the areas of math and reading. This grant was also used to purchase the 4-Sight tests and the Study Island program that was used in conjunction with the tutoring.

New curriculum material was purchased for the students in grades K-6. It is a researched based standard aligned curriculum, which offered tiered instructional strategies as well as a special education component. The program offers a wide variety of materials that were purchased in addition to the core curriculum. Such items include PSSA practice, I-tools for the white board, manipulative, problem solving strategies, and on line test prep.

The middle school and high school purchased new math curriculum materials. New materials included test books, teacher's manuals, accompanying technology pieces and calculators. The new textbooks were needed to align the curriculum to the standards.

TECHNOLOGY

Basic maintenance of internal network connections and overall network communication was an emphasis of district technology upgrades during the 2010-11 school year. Due to an increase in the amount of laptops and other handheld "smart" devices, the most significant need during the fiscal year was incorporation of appropriate managed wireless access points throughout the district complex. Elementary, in particular, was brought up to speed in order to maximize the technology present in classroom environments.

21st Century Classroom Set-ups: The continuation of integrating our classrooms in a student-centered environment continued to occur. Maintaining the usefulness of tools that came with the previous CFF and EETT grant monies fell upon the technology budget. The addition of newer mounted classroom projectors was established so that each classroom throughout the district had this tool available. Likewise, each room now has a whiteboard present and additional resources were needed for those items along with replacement pens and maintenance for the whiteboards.

Harmony Area School District
Management's Discussion and Analysis (MD&A)

Server Back-up: Additional emphasis was put on back up of key servers within the district through BDR (Backup and Disaster Recovery) along with also applying 750 GB portable hard drives to maintain back-up files on file servers. We became much more able to insure ourselves against server failure and/or loss of data with these new mechanisms in place.

Cycling of computer machines: Trying to stay within the mindset of a 5-year cycle, we located machines connected to important functions throughout the district and upgraded older desktop systems to newer desktops, or laptops with a current platform and up-to-date hardware. These hardware upgrades in vital secretarial and office locations are necessary in order to keep up with the demands of software upgrades that are taking place.

Programs: Istation, Study Island, Blended Schools.Net, and the Renaissance series of software were maintained in order to gauge student learning and tutor/remediate areas of need. These assessment tools helped facilitate student needs for proficient scoring on PSSA tests and reaching the needs of district-wide curriculum goals.

Contacting the District Financial Management

This financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional information, please contact Robin Kitchen, Business Manager, Harmony Area School District, 5239 Ridge Road, Westover, PA 16692 or 814-845-7918, extension 154.

BASIC FINANCIAL STATEMENTS

Harmony Area School District
Statement of Net Assets
June 30, 2011

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and equivalents	\$ 2,599,443	\$ 26,493	\$ 2,625,936
Taxes receivable	442,055	0	442,055
Intergovernmental receivables	324,871	1,690	326,561
Other receivables	35,413	0	35,413
Inventories	14,353	8,200	22,553
Other current assets	3,773	0	3,773
Total current assets	<u>3,419,908</u>	<u>36,383</u>	<u>3,456,291</u>
Noncurrent assets:			
Land	5,000	0	5,000
Depreciable capital assets, net	2,703,992	20,217	2,724,209
Construction in progress	30,000	0	30,000
Deferred bond costs, net	52,756	0	52,756
OPEB asset	35,368	0	35,368
Total noncurrent assets	<u>2,827,116</u>	<u>20,217</u>	<u>2,847,333</u>
Total assets	<u>\$ 6,247,024</u>	<u>\$ 56,600</u>	<u>\$ 6,303,624</u>
Liabilities			
Current liabilities:			
Internal balances	\$ (45,130)	\$ 45,130	\$ 0
Accounts payable	75,192	1,725	76,917
Current portion of long-term obligations	224,431	508	224,939
Accrued interest payable	31,421	0	31,421
Accrued salaries and wages	321,030	0	321,030
Deferred revenue	5,807	4,749	10,556
Total current liabilities	<u>612,751</u>	<u>52,112</u>	<u>664,863</u>
Noncurrent liabilities:			
Bonds and notes payable, net of discount	1,522,781	0	1,522,781
Lease purchase obligations	1,854	0	1,854
Long-term portion of compensated absences	183,168	1,524	184,692
Total noncurrent liabilities	<u>1,707,803</u>	<u>1,524</u>	<u>1,709,327</u>
Total liabilities	<u>2,320,554</u>	<u>53,636</u>	<u>2,374,190</u>
Net assets			
Invested in capital assets, net of debt	1,050,982	20,217	1,071,199
Restricted for capital projects (spendable)	1,116,842	0	1,116,842
Unrestricted	1,758,646	(17,253)	1,741,393
Total net assets	<u>3,926,470</u>	<u>2,964</u>	<u>3,929,434</u>
Total liabilities and net assets	<u>\$ 6,247,024</u>	<u>\$ 56,600</u>	<u>\$ 6,303,624</u>

See accompanying notes to the basic financial statements.

**Harmony Area School District
Statement of Activities
For the Year Ended June 30, 2011**

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	\$ 3,461,362	\$ 0	\$ 1,062,117	\$ 0	\$ (2,399,245)	\$ 0	\$ (2,399,245)
Instructional student support	386,744	0	219,753	0	(166,991)	0	(166,991)
Administration and financial support	679,745	0	6,828	0	(672,917)	0	(672,917)
Operations and maintenance of plant	414,326	0	0	112,497	(301,829)	0	(301,829)
Pupil transportation	565,768	0	439,446	0	(126,322)	0	(126,322)
Student activities	121,849	5,290	0	0	(116,559)	0	(116,559)
Interest on long-term debt	66,908	0	0	0	(66,908)	0	(66,908)
Total governmental activities	5,696,702	5,290	1,728,144	112,497	(3,850,771)	0	(3,850,771)
Business-Type Activities:							
Food service	257,325	93,854	157,922	0	0	(5,549)	(5,549)
Total primary government	<u>\$ 5,954,027</u>	<u>\$ 99,144</u>	<u>\$ 1,886,066</u>	<u>\$ 112,497</u>	<u>(3,850,771)</u>	<u>(5,549)</u>	<u>(3,856,320)</u>
General Revenues:							
Taxes levied					1,118,533	0	1,118,533
Grants, subsidies and contributions, not restricted					2,832,330	0	2,832,330
Investment earnings					7,305	10	7,315
Transfers between governmental, BT activities					(12,445)	12,445	0
Miscellaneous					724,608	0	724,608
Total general revenues					4,670,331	12,455	4,682,786
Change in net assets					819,560	6,906	826,466
Net assets, beginning of year					3,106,910	(3,942)	3,102,968
Net assets, end of year					<u>\$ 3,926,470</u>	<u>\$ 2,964</u>	<u>\$ 3,929,434</u>

See accompanying notes to the basic financial statements.

**Harmony Area School District
Balance Sheet
Governmental Funds
June 30, 2011**

	<u>General Fund</u>	<u>Major Fund Capital Projects</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 1,482,601	\$ 1,116,842	\$ 2,599,443
Taxes receivable	442,055	0	442,055
Due from other funds	45,130	0	45,130
Due from other governments	324,871	0	324,871
Other receivables	35,413	0	35,413
Inventories	14,353	0	14,353
Other current assets	<u>3,773</u>	<u>0</u>	<u>3,773</u>
Total assets	<u>\$ 2,348,196</u>	<u>\$ 1,116,842</u>	<u>\$ 3,465,038</u>
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 75,192	\$ 0	\$ 75,192
Accrued salaries and benefits	321,030	0	321,030
Deferred revenue	<u>378,795</u>	<u>0</u>	<u>378,795</u>
Total liabilities	<u>775,017</u>	<u>0</u>	<u>775,017</u>
Fund Balance			
Nonspendable fund balance	14,353	0	14,353
Restricted fund balance	0	1,116,842	1,116,842
Committed fund balance	1,000,000	0	1,000,000
Unassigned fund balance	<u>558,826</u>	<u>0</u>	<u>558,826</u>
Total fund balance	<u>1,573,179</u>	<u>1,116,842</u>	<u>2,690,021</u>
Total liabilities and fund balance	<u>\$ 2,348,196</u>	<u>\$ 1,116,842</u>	<u>\$ 3,465,038</u>

See accompanying notes to the basic financial statements.

Harmony Area School District
Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Assets
June 30, 2011

Total fund balance – governmental funds	\$ 2,690,021
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$7,708,711 and the accumulated depreciation is \$4,969,719.	2,738,992
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Property taxes receivable will be collected in the future, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	372,988
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Bond issue costs are recorded as expenditures in the year of the bond issue in the funds, but represent an asset on the Statement of Net Assets that is amortized to expense over the life of the debt. The bond costs total \$79,136 and the accumulated amortization is \$26,380.	52,756
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Long-term liabilities including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

General obligation bonds	\$(1,690,000)	
Lease obligations	(5,229)	
Compensated absences	(244,224)	
Accrued interest payable	(31,421)	
Bond discount, net of amortization	7,219	
OPEB asset	35,368	(1,928,287)

Net assets of governmental activities	<u>\$ 3,926,470</u>
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See accompanying notes to the basic financial statements.

Harmony Area School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	<u>General Fund</u>	<u>Major Fund Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues			
Local sources	\$ 1,262,146	\$ 694,889	\$ 1,957,035
State sources	3,653,138	0	3,653,138
Federal sources	<u>898,406</u>	<u>0</u>	<u>898,406</u>
Total revenues	<u>5,813,690</u>	<u>694,889</u>	<u>6,508,579</u>
Expenditures			
Instruction	3,399,142	0	3,399,142
Support services	1,993,558	0	1,993,558
Non-instructional services	118,177	0	118,177
Capital outlay	30,000	0	30,000
Debt service (principal and interest)	<u>228,793</u>	<u>0</u>	<u>228,793</u>
Total expenditures	<u>5,769,670</u>	<u>0</u>	<u>5,769,670</u>
Excess of revenues over (under) expenditures	<u>44,020</u>	<u>694,889</u>	<u>738,909</u>
Other financing sources (uses)			
Interfund transfers	<u>(12,445)</u>	<u>0</u>	<u>(12,445)</u>
Total other financing sources (uses)	<u>(12,445)</u>	<u>0</u>	<u>(12,445)</u>
Net change in fund balance	31,575	694,889	726,464
Fund balance, beginning of year, restated	<u>1,541,604</u>	<u>421,953</u>	<u>1,963,557</u>
Fund balance, end of year	<u><u>\$ 1,573,179</u></u>	<u><u>\$ 1,116,842</u></u>	<u><u>\$ 2,690,021</u></u>

See accompanying notes to the basic financial statements.

**Harmony Area School District
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances To the Statement of Activities
For the Year Ended June 30, 2011**

Total net change in fund balance – governmental funds \$ 726,464

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period:

Capital outlay	\$ 41,452	
Depreciation expense	<u>(169,650)</u>	(128,198)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues increased by this amount this year. 20,128

Repayment of bond principal is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets. The 2010-11 debt principal payments were as follows:

Series 2006 Bonds	160,000	160,000
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Interest on long-term debt is recognized in the governmental funds when it is due. In the statement of activities, interest expense is recognized as interest accrues. This amount represents the difference. 2,800

In the governmental funds, compensated absences are measured by the amounts used. The statement of activities measures by the amounts earned. This amount represents the difference. 8,546

Repayment of capital lease obligations is an expenditure in the governmental funds but reduces long-term liabilities in the statement of net assets. This was the amount of the lease payments made in 2010-11 (\$1,751) net of the new lease incurred (\$6,980). (5,229)

Post-employment benefits are recognized as expenditures in the governmental funds when they are paid. In the statement of activities, post-employment benefits are recognized as expenses when incurred. This amount represents the difference. 41,047

Governmental funds report bond costs and bond discounts as expenditures in the year of issue. In the statement of activities, they are amortized over the term of the debt. This is the amount of amortized expense in the current period. (5,998)

Change in net assets of governmental activities **\$ 819,560**

See accompanying notes to the basic financial statements.

Harmony Area School District
Statement of Net Assets
Proprietary Fund
June 30, 2011

	<u>Food Service</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 26,493
Due from other governments	1,690
Inventory	<u>8,200</u>
Total current assets	<u>36,383</u>
Noncurrent assets:	
Machinery and equipment, net	<u>20,217</u>
Total noncurrent assets	<u>20,217</u>
Total assets	<u><u>\$ 56,600</u></u>
Liabilities	
Current liabilities:	
Due to other funds	\$ 45,130
Accounts payable	1,725
Current portion of compensated absences	508
Deferred revenues	<u>4,749</u>
Total current liabilities	<u>52,112</u>
Noncurrent liabilities:	
Long-term portion of compensated absences	<u>1,524</u>
Total noncurrent liabilities	<u>1,524</u>
Total liabilities	<u>53,636</u>
Net assets	
Invested in capital assets	20,217
Unrestricted	<u>(17,253)</u>
Total net assets	<u>2,964</u>
Total liabilities and net assets	<u><u>\$ 56,600</u></u>

See accompanying notes to the basic financial statements.

Harmony Area School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2011

	<u>Food Service</u>
Operating revenues	
Food service revenue	\$ 93,854
Total operating revenues	<u>93,854</u>
Operating expenses	
Salaries	57,203
Employee benefits	27,815
Purchased property services	11,035
Other purchased services	1,046
Supplies	154,709
Depreciation	4,582
Other operating expenses	<u>935</u>
Total operating expenses	<u>257,325</u>
Operating income (loss)	<u>(163,471)</u>
Nonoperating revenues (expenses)	
Earnings on investments	10
State sources	14,622
Federal sources	<u>143,300</u>
Total nonoperating revenues (expenses)	<u>157,932</u>
Contributions and transfers	
Transfers in (out)	<u>12,445</u>
Total contributions and transfers	<u>12,445</u>
Change in net assets	6,906
Total net assets, beginning of year	<u>(3,942)</u>
Total net assets, end of year	<u>\$ 2,964</u>

See accompanying notes to the basic financial statements.

**Harmony Area School District
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2011**

	<u>Food Service</u>
Cash flows from operating activities	
Cash received from users	\$ 94,623
Cash payments to employees for services	(78,239)
Cash payments to suppliers for goods and services	(165,816)
Cash payments for other operating expenses	<u>(935)</u>
Net cash provided by (used for) operating activities	<u>(150,367)</u>
Cash flows from non-capital financing activities	
State sources	14,484
Federal sources	141,748
Operating transfers in (out) primary government	<u>12,445</u>
Net cash provided by (used for) non-capital financing activities	<u>168,677</u>
Cash flows from capital and related financing activities	
Capital outlay	<u>(12,445)</u>
Net cash provided by (used for) capital and financing activities	<u>(12,445)</u>
Cash flows from investing activities	
Earnings on investments	<u>10</u>
Net cash provided by (used for) investing activities	<u>10</u>
Net increase (decrease) in cash and cash equivalents	5,875
Cash and cash equivalents, beginning of year	<u>20,618</u>
Cash and cash equivalents, end of year	<u><u>\$ 26,493</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	<u>\$ (163,471)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for):	
Depreciation	4,582
(Increase) decrease in inventories	(751)
Increase (decrease) in accounts payable	8,095
Increase (decrease) in accrued salaries/benefits	409
Increase (decrease) in deferred revenue	<u>769</u>
Total adjustments	<u>13,104</u>
Net cash provided by (used for) operating activities	<u><u>\$ (150,367)</u></u>

See accompanying notes to the basic financial statements.

**Harmony Area School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011**

	Agency Fund	Private Purpose Trust	Total Fiduciary Funds
Assets			
Cash and cash equivalents	\$ 32,327	\$ 2,780	\$ 35,107
Investments	<u>0</u>	<u>700</u>	<u>700</u>
Total assets	<u>\$ 32,327</u>	<u>\$ 3,480</u>	<u>\$ 35,807</u>
Liabilities			
Due to students	\$ 32,327	\$ 0	\$ 32,327
Total liabilities	<u>32,327</u>	<u>0</u>	<u>32,327</u>
Net assets			
Held in trust for scholarships	<u>0</u>	<u>3,480</u>	<u>3,480</u>
Total net assets	<u>0</u>	<u>3,480</u>	<u>3,480</u>
Total liabilities and net assets	<u>\$ 32,327</u>	<u>\$ 3,480</u>	<u>\$ 35,807</u>

See accompanying notes to the basic financial statements.

Harmony Area School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2011

	Private Purpose Trust
Additions:	
Other additions	\$ 13
Total additions	<u>13</u>
Deductions:	
Scholarships awarded	<u>250</u>
Total deductions	<u>250</u>
Change in net assets	(237)
Net assets, beginning of year	<u>3,717</u>
Net assets, end of year	<u><u>\$ 3,480</u></u>

See accompanying notes to the basic financial statements.

Harmony Area School District
Notes to Financial Statements
June 30, 2011

1. Description of School District and Reporting Entity

The Harmony Area School District, formed in 1957, is a Local Education Agency of the third class, governed by a nine-member publicly elected board, located in the Commonwealth of Pennsylvania. The District provides educational services to approximately 380 students from Westover Borough and the Townships of Chest and Burnside, all located in Clearfield County, Pennsylvania, and Cherry Tree Borough in Indiana County, Pennsylvania.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Harmony Area School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. The School District has no component units.

2. Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The more significant of these accounting policies are described below.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

Harmony Area School District
Notes to Financial Statements
June 30, 2011

The statement of net assets presents the financial condition of the governmental and business-type activities of the School District at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of goods and services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

Fund financial statements are also provided in the report for all governmental funds, proprietary funds, and the fiduciary funds of the School District. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund statements. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

The School District uses funds to maintain its financial record during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

General Fund – The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects – The capital projects fund is used to account for and report financial resources that are restricted to be used for the acquisition, construction, or renovation of major capital facilities or equipment, and for debt service.

Harmony Area School District
Notes to Financial Statements
June 30, 2011

Proprietary Funds

Proprietary funds focus on the determination of changes in net assets, financial position and cash flows and are classified as either internal service or enterprise funds. Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the School District. There are no internal service funds. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods and services. The following is the School District's major enterprise fund:

Food Service Fund – This fund accounts for the financial transactions related to the food service operation of the School District.

Fiduciary Fund

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust fund is a private purpose trust which accounts for a scholarship program for students. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The School District's agency fund accounts for those student activity programs which have student participation in the activity and have students involved in the management of the program.

C. Measurement Focus

Government-wide Financial Statements

Government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets.

Fund Financial Statements

Fund financial statements are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e. revenues and other financing sources) and uses (i.e. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the proprietary fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in net assets presents increases (i.e. revenues) and decreases (i.e. expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Harmony Area School District
Notes to Financial Statements
June 30, 2011

Proprietary Fund types distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Food Service fund are charges for sales and services. Operating expenses of the Food Service Fund include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 5). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: property taxes available as an advance, interest, tuition, grants, fees and rentals.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Deferred revenue in the government-wide financial statements includes grants and entitlements received before the eligibility requirements were met.

On governmental fund financial statements, receivables that will not be collected within the available period (property taxes) have also been reported as deferred revenue.

Harmony Area School District
Notes to Financial Statements
June 30, 2011

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Data

An operating budget is adopted each year for the General Fund on a modified accrual basis of accounting.

The Pennsylvania School Code dictates specific procedures relative to adoption of the School District's budget and reporting of its financial statements, specifically:

The School District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.

The School District is required to adopt a proposed budget at least thirty (30) days prior to adoption of the annual budget. The proposed budget shall be printed or otherwise made available for public inspection to all persons and shall be made available for duplication to any person, on request, at least twenty (20) days prior to the date set for the adoption of the budget. Final action shall not be taken on the proposed budget until after ten (10) days of public notice.

The Board of Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action. An affirmative vote of two-thirds of all members of the board is required. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2011.

Fund balances in budgetary funds may be appropriated based on resolutions passed by the Board of Education, which authorized the School District to make expenditures. Appropriations lapse at the end of the fiscal period. In order to preserve a portion of an appropriation for which an expenditure has been committed by a purchase order contract or other form of commitment, an encumbrance is recorded.

Included in the General Fund budget are program budgets as prescribed by the State and Federal agencies funding the program. These budgets are approved on a program by program basis by the State or Federal funding agency.

An Enterprise fund budget is not adopted; however, a formal budget is prepared and approved by management and expenditures are controlled on the basis of this budget.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2011, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**Harmony Area School District
Notes to Financial Statements
June 30, 2011**

G. Inventory

On government-wide financial statements inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

Inventories in governmental funds are stated at cost by the first-in, first-out method. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, an estimated value of inventories (\$14,353) is reported as an asset in the General Fund. The inventories in the General Fund are equally offset by nonspendable fund balance, which indicates they do not constitute "available spending resources" even though they are a component of net current assets. The General Fund is the only governmental fund that has material inventory balances as of June 30, 2011.

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2011. The inventory consisted of government donated commodities which are valued at estimated fair market value, and purchased commodities and supplies, both valued at cost using first-in-first-out (FIFO) method. Any unused commodities donated by the federal government at June 30, 2011 are reported as deferred revenue.

H. Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets used by the enterprise fund are reported in both the business-type activities column on the government-wide statement of net assets and in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of fifteen (\$1,500) hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	15 - 40 years
Furniture and Equipment	5 - 20 years

I. Bond Issue Costs

The costs incurred by the District to issue the General Obligation Bonds have been recorded as a deferred asset that is being amortized over the life of the related bonds using a straight-line basis of amortization.

J. Original Issue Discounts and Premiums

Bond premiums and discounts are reported as direct adjustments to the face amount of the bond and are deferred and amortized over the life of the bond using the straight-line method of amortization.

**Harmony Area School District
Notes to Financial Statements
June 30, 2011**

K. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." In governmental fund financial statements, advances between funds are offset by an amount reported as nonspendable fund balance to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are determined to be collectible, and no allowance has been established.

Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.

L. Fund Balance Classification

Beginning with fiscal year 2011, the District implemented GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance – amounts that are not in spendable form (such as inventory or prepaid items) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., School Board). To be reported as committed, amounts cannot be for any other purpose unless the District takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the District intends to use for a specific purpose. Intent can be expressed by the School Board or by an official or body to which the School Board delegates the authority.
- Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Harmony Area School District
Notes to Financial Statements
June 30, 2011

As of June 30, 2011, fund balance components, other than unassigned, consist of the following:

	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>
General fund:			
Inventory	\$14,353	\$ 0	\$ 0
Future retirement costs	0	0	220,000
Future health care costs	0	0	780,000
Capital projects fund	<u>0</u>	<u>1,116,842</u>	<u>0</u>
Total	<u>\$14,353</u>	<u>\$1,116,842</u>	<u>\$1,000,000</u>

Beginning fund balances for the District's governmental funds have been restated to reflect the above classifications.

The School Board establishes (and modifies or rescinds) fund balance commitments by resolution of the board. A fund balance commitment is further indicated in the budget document as a commitment of the fund. Assigned fund balance is established by the School Board through adoption or amendment of the budget as intended for a specific purpose.

The District would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

M. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Use of Restricted Funds

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

**Harmony Area School District
Notes to Financial Statements
June 30, 2011**

The government-wide statement of net assets reports \$1,116,842 of restricted net assets, which is restricted by enabling legislation for Capital Projects.

O. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

P. Pension Plan

Substantially all full-time and part-time employees of the District participate in a cost-sharing multiple employer defined benefit pension plan. GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* requires an employer that participates in such a plan to recognize annual pension expenditures or expenses equal to its contractually required contributions, subject to the modified accrual basis of accounting in governmental funds. (That is, if contributions from governmental funds are required but not made, the difference would not be reported as an expenditure but as a long-term liability if not payable with expendable, available financial resources.) The District made all required contributions for the year ended June 30, 2011, and has recognized them as expenditures and expenses in the governmental and proprietary funds, respectively.

3. Cash and Cash Equivalents and Investments

Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to invest its monies as follows:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository.

The deposit and investment policy of the school district adheres to state statutes and prudent business practice. Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and include investments with original maturities of three months or less. Cash and cash equivalents consist of demand deposits at a local bank. The market values of deposits are equal to the cost of the deposits.

The District invests in the Pennsylvania School District Liquid Asset Fund (PSDLAF). PSDLAF was established to enable school districts to pool funds for investment in instruments authorized by Section 440.1 of the Pennsylvania School Code of 1949, as amended. These funds have the characteristics of open-end mutual funds and are not subject to credit risk classification.

Harmony Area School District
Notes to Financial Statements
June 30, 2011

The District invests in long-term certificates of deposit at local financial institutions. The investments are stated at cost including accrued interest which approximates market value.

Cash

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk, however, the District's deposits in excess of the FDIC limit are collateralized in accordance with the Pennsylvania Security for Public Deposits Act. As of June 30, 2011, \$2,380,597 of the District's bank balance of \$2,631,297 was exposed to custodial risk as:

Uninsured and uncollateralized	\$ 0
Collateralized with securities held by the pledging financial institution	0
Uninsured and collateral held by the pledging bank's trust department not in the District's name	<u>2,380,597</u>
Total	<u>\$2,380,597</u>

Reconciliation to Financial Statements

Uninsured amount above	\$2,380,597
Add: Insured amount	250,700
Deposit in transit	1,092
Less: Outstanding checks	<u>(34,673)</u>
Carrying amount – bank balances	2,597,716
Add: Petty cash	250
Pooled cash equivalents	63,777
Less: Certificates of deposit considered investments	<u>(700)</u>
Total cash per financial statements	<u>\$2,661,043</u>

Investments

As of June 30, 2011, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
Certificates of Deposit	12 months	\$ 700
PA School District Liquid Asset Fund	N/A	<u>63,777</u>
Total		<u>\$64,477</u>

Interest Rate Risk

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

**Harmony Area School District
Notes to Financial Statements
June 30, 2011**

Credit Risk

The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2011 the District's investments were rated as follows:

<u>Investment</u>	<u>Standard & Poor's</u>
PA School District Liquid Asset Fund	AAAm

Concentration of Credit Risk

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

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral security that are in possession of an outside party. The District has no investment subject to custodial credit risk.

Reconciliation to Financial Statements

Total investments above	\$ 64,477
Less: Deposits in investment pool considered cash equivalent	<u>(63,777)</u>
Total investments per financial statements	<u>\$ 700</u>

4. Real Estate Taxes

Real estate taxes for the School District are collected from Westover and Cherry Tree Boroughs and Chest and Burnside Townships. The tax on real estate for public school purposes for fiscal 2011 was 85.46 mills for Clearfield County and 60.28 mills for Indiana County, as levied by the Board. Assessed valuations of property (\$12,300,433) are determined by Clearfield and Indiana Counties, and the elected tax collectors are responsible for collection. The schedule for real estate taxes levied for each fiscal year is as follows:

August 1	- Levy Date
August 1 – October 31	- 2% Discount Period
November 1 – November 30	- Face Amount Period
December 1 – December 31	- 10% Penalty Period
January 15	- Lien Date

5. Taxes Receivable

The elected tax collectors are required to return any uncollected real estate taxes to the county's tax claim bureau by January 15. It has been determined the amount of outstanding taxes as of June 30, 2011 is \$442,055. The School District, in accordance with accounting principles generally accepted in the United States of America, recognized the delinquent and unpaid taxes receivable. An allowance for uncollectible taxes was not established by the administration. A portion of the amount estimated to be collectible which was measurable and available within 60 days was recognized as revenue and the balance deferred in the fund financial statements.

Harmony Area School District
Notes to Financial Statements
June 30, 2011

Uncollected taxes for the year ended June 30, 2011:

Delinquent Real Estate	\$ 48,692
Earned Income Taxes	15,535
Occupational Tax	1,128
Real Estate Transfer Taxes	<u>3,712</u>
Uncollected Taxes Recognized as Revenue (received within 60 days)	69,067
Real Estate Tax Deferred	<u>372,988</u>
Total Taxes Receivable	<u>\$442,055</u>

6. Deferred Revenues

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. On the fund financial statements, general fund deferred revenues of \$378,795 represent deferred real estate taxes of \$372,988 and deferred grant revenue of \$5,807 at June 30, 2011. Deferred revenues of \$4,749 in the proprietary fund at June 30, 2011 represent donated commodities inventory which will be recognized as both revenue and expense when consumed.

7. Due From Other Governments

Amounts due from other governments represent receivables for revenues earned by the School District or collections made by another governmental unit on behalf of the School District. At June 30, 2011, the following amounts are due from other governmental units:

<u>Due From</u>	<u>General Fund</u>	<u>Proprietary Fund</u>
Federal	\$216,819	\$1,552
State	88,626	138
Local	<u>19,426</u>	<u>0</u>
	<u>\$324,871</u>	<u>\$1,690</u>

Harmony Area School District
Notes to Financial Statements
June 30, 2011

8. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 5,000	\$ 0	\$0	\$ 5,000
Construction in progress	<u>0</u>	<u>30,000</u>	<u>0</u>	<u>30,000</u>
Total capital assets, not being depreciated	<u>5,000</u>	<u>30,000</u>	<u>0</u>	<u>35,000</u>
Capital assets, being depreciated:				
Buildings and improvements	6,596,946	0	0	6,596,946
Furniture and equipment	<u>1,065,313</u>	<u>11,452</u>	<u>0</u>	<u>1,076,765</u>
Total capital assets, being depreciated	<u>7,662,259</u>	<u>11,452</u>	<u>0</u>	<u>7,673,711</u>
Less accumulated depreciation:				
Buildings and improvements	3,915,920	129,913	0	4,045,833
Furniture and equipment	<u>884,149</u>	<u>39,737</u>	<u>0</u>	<u>923,886</u>
Total accumulated depreciation	<u>4,800,069</u>	<u>169,650</u>	<u>0</u>	<u>4,969,719</u>
Total capital assets, being depreciated, net	<u>2,862,190</u>	<u>(158,198)</u>	<u>0</u>	<u>2,703,992</u>
Governmental activities capital assets, net	<u>\$2,867,190</u>	<u>\$(128,198)</u>	<u>\$0</u>	<u>\$2,738,992</u>
Business-Type Activities				
Capital assets, being depreciated:				
Equipment	\$ 220,830	\$ 12,445	\$0	\$ 233,275
Total capital assets, being depreciated	<u>220,830</u>	<u>12,445</u>	<u>0</u>	<u>233,275</u>
Less accumulated depreciation:				
Equipment	<u>208,476</u>	<u>4,582</u>	<u>0</u>	<u>213,058</u>
Total accumulated depreciation	<u>208,476</u>	<u>4,582</u>	<u>0</u>	<u>213,058</u>
Business-type activities capital assets, net	<u>\$ 12,354</u>	<u>\$ 7,863</u>	<u>\$0</u>	<u>\$ 20,217</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Instruction	\$104,306
Instruction support	11,654
Administration and finance	20,484
Operation and maintenance of plant	12,485
Pupil transportation	17,049
Student activities	<u>3,672</u>
Total depreciation expense - governmental activities	<u>\$169,650</u>

Harmony Area School District
Notes to Financial Statements
June 30, 2011

9. Deferred Bond Costs

Deferred bond costs include expenses on the District's 2006 bond issue as presented in the financial statements. These costs are amortized over the life of the respective bond issues.

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Bond costs	\$79,136	\$ 0	\$0	\$79,136
Less: accumulated amortization	<u>21,104</u>	<u>5,276</u>	<u>0</u>	<u>26,380</u>
Total	<u>\$58,032</u>	<u>\$(5,276)</u>	<u>\$0</u>	<u>\$52,756</u>

10. Defined Benefit Pension Plan

Plan Description

The District contributes to a governmental cost-sharing multiple-employer defined benefit pension plan administered by Pennsylvania Public School Employee's Retirement System (PSERS). Benefit provisions of the plan are established under the provisions of the Pennsylvania Public School Employees' Retirement Code (the Code) and may be amended by an act of the Pennsylvania State Legislature. The plan provides retirement and disability, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants. It also provides for refunds of a member's accumulated contribution upon termination of a member's employment in the public school sector. PSERS issues a publicly available financial report that includes financial statements for the plan. That report may be obtained by writing to Diane J. Wert, Office of Financial Management, Public School Employees' Retirement System, P.O. Box 125, Harrisburg, Pennsylvania 17108-0125. This report is also available on the publication section of the PSERS website at www.psers.state.pa.us.

Funding Policy

The contribution policy is set by the Code and requires contributions by active members, employers and the Commonwealth. Plan members are required to contribute 5.25 or 6.5 percent of their qualifying compensation if they joined the plan before July 22, 1983. Members who joined the system on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25 percent or 7.5 percent of their qualifying compensation. Members who joined the system after June 30, 2001, contribute 7.5 percent. For all new hires, the higher contribution rates began with service rendered on or after January 1, 2002. The contribution required of participating employers is based on an actuarial valuation and is expressed as a percentage of annual covered payroll during the period for which the amount is determined. Before July 1, 1995, the school district and the Commonwealth shared the employer contribution rate equally. Since July 1, 1995, school districts are required to pay the entire employer contribution rate and are reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the market value/personal income aid ratio (as defined in Act 29 of 1994), which is at least one-half of the total employer rate. For the fiscal year June 30, 2011, the rate of the employer's contribution was 5.64 percent of covered payroll. The 5.64 percent rate is composed of a pension contribution rate of 5.00 percent for pension benefits and 0.64 percent for healthcare insurance premium assistance. Harmony Area School District's contributions to PSERS for the years ending June 30, 2011, 2010 and 2009 were \$142,114, \$114,154, and \$122,156, respectively. Those amounts are equal to the required contribution for each year.

Harmony Area School District
Notes to Financial Statements
June 30, 2011

11. Post-employment Healthcare Benefits

The Public School Employees' Retirement System (PSERS) provides a health insurance premium assistance program (premium assistance), a post-employment healthcare plan as defined in the Public School Employees' Retirement Code and amended by Act 29. The program is available to all eligible annuitants who elect to participate. Under this program, an employer contribution rate for premium assistance was established to provide reserves in the Health Insurance Account that are sufficient for the payment of premium assistance benefits.

Participating eligible annuitants are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their monthly insurance premium. In order to receive premium assistance, eligible annuitants must obtain their health insurance through their employer or the System's Health Options Program (HOP), in which the system acts as a conduit between the insurance companies and the eligible annuitant.

12. Long-Term Obligations

During the fiscal year ended June 30, 2011, general long-term obligations changed as follows:

	Bonds Payable	Compensated Absences	Capital Lease Obligations	Total General Long-Term Obligations
Beginning of the year	\$1,850,000	\$254,393	\$ 0	\$2,104,393
Issuance of debt	0	0	6,980	6,980
Principal retirement	(160,000)	0	(1,751)	(161,751)
Changes in compensated absences	0	(8,137)	0	(8,137)
End of year	1,690,000	246,256	5,229	1,941,485
Unamortized original issue discount	(7,219)	0	0	(7,219)
	1,682,781	246,256	5,229	1,934,266
Less: current portion	(160,000)	(61,564)	(3,375)	(224,939)
Long-term liabilities	<u>\$1,522,781</u>	<u>\$184,692</u>	<u>\$ 1,854</u>	<u>\$1,709,327</u>

The future annual payments required to amortize outstanding bonds payable as of June 30, 2011, including total interest payments are as follows:

Year Ended June 30,	General Obligation Bonds		
	Interest	Principal	Total
2012	\$ 62,841	\$ 160,000	\$ 222,841
2013	57,242	170,000	227,242
2014	51,121	170,000	221,121
2015	45,001	180,000	225,001
2016	38,476	185,000	223,476
2017-2020	81,444	825,000	906,444
	<u>\$336,125</u>	<u>\$1,690,000</u>	<u>\$2,026,125</u>

Harmony Area School District
Notes to Financial Statements
June 30, 2011

General Obligation Refunding Bonds, Series of 2006

In December 2006, the District issued \$2,455,000 of general obligation refunding bonds (Series of 2006) to refund the Series of 2001 general obligation bonds and to pay all costs incidental to the issuance of these bonds. The bonds bear interest rates ranging from 3.50% to 3.90% with annual principal maturities from January 2006 through January 2020. The projected savings from the refinancing was \$56,639. The balance outstanding at June 30, 2011 was \$1,690,000. The Series of 2006 bonds were refunded in November 2011. See Note 25.

Accumulated Compensated Absences

In accordance with accounting principles generally accepted in the United States of America, the District accrues liabilities for compensated absences. Compensated absences reflect the potential cost of sick leave earned by employees at June 30, 2011. Faculty and support staff are compensated at the per diem rate of \$90.00 and \$25.00, respectively, for unused sick days. The School District has computed a liability of \$246,256 at June 30, 2011 with \$244,224 reflected in the general fund and \$2,032 reflected in the proprietary fund for unused sick days. The District has estimated \$61,564 as current and \$184,692 as long term. Due to the nature of the obligation for accrued separation benefits, annual requirements to amortize such obligations are not determinable and have not been presented.

General obligation bonds issued for governmental activity purposes are liquidated by the general fund. Compensated absences liabilities for governmental activities will be paid by the general fund; whereas, those related to business-type activities will be paid by the proprietary fund.

13. Capital Leases

The School District leases equipment under lease-to-own (capital) lease agreements. The gross amount of assets capitalized under capital leases is \$6,980. Future minimum lease payments are as follows:

Year Ended	
<u>June 30,</u>	<u>Payment</u>
2012	\$3,375
2013	<u>1,854</u>
	<u>\$5,229</u>

14. Operating Leases

The School District entered into noncancellable operating leases for computers and copiers. Rental expenditures under all operating lease agreements were \$30,295 for fiscal year 2011. Future minimum rental payments required under operating leases that have remaining lease terms as of June 30 are as follows:

Year Ended	
<u>June 30,</u>	<u>Payment</u>
2012	\$30,295
2013	29,265
2014	16,761
2015	5,728

Harmony Area School District
Notes to Financial Statements
June 30, 2011

15. Post-employment benefits

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended June 30, 2010, the District recognizes the cost of postemployment healthcare in the year when employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the District's future cash flows. Because the District is adopting the requirements of GASB Statement No. 45 prospectively, recognition of the liability accumulated from prior years will be phased in over 20 years, commencing with the 2010 liability.

Plan Descriptions: The District provides continuation of individual medical insurance coverage to employees who retire from the District until the retiree reaches age 65 or becomes eligible for Medicare, whichever occurs first. Retirees are eligible for the District incentive upon retirement after attaining either 1) age 55 with 25 years of PSERS service and 10 years of service with the District or 2) 30 years of service at any age with the District. The District pays the full premium for the first year of retirement for the employee only. Any increases in the cost of the monthly premium for individual medical insurance above and beyond the premium rate at retirement shall be paid by the employee. In addition, the employee can purchase additional coverage, at the cost of the employee.

All contracts with the District's union employees will be renegotiated at various times in the future and, thus, costs and benefits are subject to change.

OPEB benefits are administered by District personnel. No separate financial statements are issued.

The number of participants as of June 30, 2010, the effective date of the triennial OPEB valuation, follows. There have been no significant changes in the number covered or the type of coverage since that date.

	District
Active employees	53
Retired employees	<u>11</u>
Total	<u>64</u>

Funding Policy: The District currently pays for postemployment health care benefits on a pay-as-you-go basis, and these financial statements assume that pay-as-you-go funding will continue.

Annual OPEB Cost and Net OPEB Obligation: The District's annual other post-employment (OPEB) cost is calculated based on the annual required contribution (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers with fewer than 100 total members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed, and changes in the District's net OPEB obligation.

Harmony Area School District
Notes to Financial Statements
June 30, 2011

	District
Annual required contribution (ARC)	\$ 118,512
Interest on Net OPEB Obligation	227
Adjustment to ARC	(284)
Annual OPEB cost (expense)	118,455
Contribution for the fiscal year	(159,502)
Increase in Net OPEB Asset	(41,047)
Net OPEB Obligation June 30, 2010	5,679
Net OPEB Asset June 30, 2011	\$ (35,368)
Percent of annual OPEB cost contributed	134.70%

As of June 30, 2011, the actuarial accrued liability for benefits was \$921,659, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$2,709,000, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 34.02 percent.

Since this is the second year of implementation for GASB Statement 45, prior year data has been omitted for the second preceding year. The District's annual OPEB cost contributed to the plan and the net OPEB obligation of the fiscal years ending June 30, 2011 and 2010 for the benefits were as follows:

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 118,455	134.70%	\$ (35,368)
June 30, 2010	\$ 113,954	95.00%	\$ 5,679
June 30, 2009	\$ 0	0.00%	\$ 0

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 57, or at the first subsequent year in which the member would qualify for benefits.

Mortality – Life expectancies were based on mortality tables from the National Center for Health Statistics. The RP2000 Mortality Table for Males and Females Projected 10 years was used.

Harmony Area School District
Notes to Financial Statements
June 30, 2011

Turnover – The District's turnover is based on the Standard Turnover Assumptions from GASB 45, paragraph 35b.

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums was based on the Gentzen Model promulgated by the Society of Actuaries for use in long-term trend projections. A rate of 8.0 percent initially, reduced to an ultimate rate of 5.2 percent after six years, was used.

Health insurance premiums – Health insurance premiums for fiscal year 2010 were used as the basis for calculation of the present value of total benefits to be paid.

Payroll growth rate – The expected long-term payroll growth rate was assumed to be 4.0 percent, based on historical trends.

In the June 30, 2010 actuarial valuation, the liabilities were computed using a simplified version of the entry age actuarial cost method and level percentage of payroll amortization. The actuarial assumptions utilized a 4% discount rate. Because the plan is unfunded, reference to the general assets, which are short-term in nature (such as money market funds), was considered in the selection of the 4% rate.

16. Interfund Transactions

The following is a summary of interfund receivables and payables at June 30, 2011:

	<u>Receivables</u>	<u>Payables</u>
General Fund (Major Fund)	\$45,130	\$ 0
Proprietary Fund – Food Service (Major Fund)	<u>0</u>	<u>45,130</u>
	<u>\$45,130</u>	<u>\$45,130</u>

The interfund balances above between the General Fund and the Food Service Fund represent Food Service salaries and benefits paid by the General Fund.

Interfund transfers during the year ended June 30, 2011 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Proprietary Fund-Food Service (Major Fund)	\$12,445	\$ 0
General Fund (Major Fund)	<u>0</u>	<u>12,445</u>
	<u>\$12,445</u>	<u>\$12,445</u>

The District transfers amounts annually from the General Fund to the Proprietary Fund to subsidize the Proprietary Fund (Cafeteria) expenses.

17. Jointly Governed Organization

The School District governs, with five other school districts, a vocational-technical school. Each district is represented on the Vo-Tech's school board. However, no on-going financial interest or responsibility exists between the School District and the Vo-Tech, other than a share in paying the debt service on the bond issues, which is included in tuition expense. Harmony Area School District's share of this debt service for 2010-11 is 3.36%. The District's portion of tuition expense for its students attending the Vo-Tech for fiscal 2011 was \$173,960.

**Harmony Area School District
Notes to Financial Statements
June 30, 2011**

18. Contingent Liabilities

Grant Programs

The School District participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The School District is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

19. Self-Insurance - Medical Insurance

The School District is participating in the insurance consortium with the HDH Group Health Consortium to provide for the medical care for eligible employees and their dependents. The consortium, which administers the plan, monitors the School's deposit into the school district trust account to be held for the benefits described above and Highmark Services, the plan administrator, processes and pays the claims. The consortium limits its liability by stop-loss insurance coverage. Harmony Area School District's liability at June 30, 2011, for unpaid claims incurred prior to fiscal year end is not readily determinable. No liability has been recorded for these claims at June 30, 2011, as the District recognizes medical claim expenses as claims are paid.

20. Risk Management

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has purchased various insurance policies to safeguard its assets from risk of loss. Insurance coverage appears to be consistent with previous years. During the year ended June 30, 2011 and the two previous fiscal years, no settlements exceeded insurance coverage.

21. Related Party Transactions

Intermediate Unit Participation

The District is a member of Central (CIU) Intermediate Unit 10. The District avails itself of various services provided by this membership including special education, curriculum development, and certain internal service functions. The total of services provided to Harmony Area School District for the year ended June 30, 2011 for CIU programs amounted to \$47,327. The amount due to the IU at June 30, 2011 is \$250.

Technology Center School Participation

The District is served by the Clearfield County Career and Technology Center. Students of the District have available at the Technology Center courses and curriculums related to the technical training fields. Harmony Area School District made tuition payments totaling \$173,960 for the current year. The amount due from the Technology Center at June 30, 2011, based on a final reconciliation for the year, is \$16,945.

**Harmony Area School District
Notes to Financial Statements
June 30, 2011**

22. Economic Dependency

Harmony Area School District receives approximately 60% of its revenue from the State of Pennsylvania in the form of state subsidies. Changes in funding levels by the State could have a material effect on future operations of the District.

23. Nonmonetary Transactions

The District receives one of its federal program subsidies by means of noncash transfer. The U.S. Department of Agriculture, through the Pennsylvania Department of Agriculture, provides food commodities under the National School Lunch Program. These nonmonetary commodity items are valued at market values and recorded as revenue as received. The total food commodities donated by the federal government for the fiscal year 2011 totaled \$13,264.

24. Restatement of Beginning Fund Balance

The provisions of GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*," require the restatement of fund balance for former Special Revenue Funds no longer meeting the definition. Consequently, the District's beginning fund balance for General Fund was increased by \$3,486, from \$1,538,118 to \$1,541,604, and the fund balance of the Other Non-Major Governmental Funds was eliminated. This restatement affects the fund financial statements only.

25. Subsequent Events

State Public School Building Authority, Series of 2011

In November 2011, the District entered into a loan agreement with the State Public School Building Authority (Authority) for the financing of a capital project. The Authority has a program to provide financing for capital projects for schools in Pennsylvania through its issuance of qualified school construction bonds, pursuant to a Trust Indenture between the Authority and Wells Fargo Bank, N.A. In accordance with Section 6431 of the Internal Revenue Code of 1986, as amended, the United States will provide a direct interest subsidy under the Federal Qualified School Construction bond program, which the Authority will pass through to the borrowers in proportion to their participation in the program.

The District has been approved by the Pennsylvania Department of Education to receive financing from proceeds of the QSCBs to finance the District's project. The loan of \$6,000,000 will be used for building renovations, including a new roof, boiler system, electrical wiring and security entry ways, as well as for payment of all costs incidental to the issuance of this loan. The loan bears interest at a rate of 5.088%, with annual principal maturities from September 2012 through September 2029. However, due to the interest subsidy, the effective interest rate is 0.00%.

General Obligation Bonds, Series of 2011

In November 2011, the District also refunded the Series of 2006 Bonds with the Series of 2011 Bonds (\$1,810,000). The District will realize savings of \$31,171 on the refinancing.

Harmony Area School District
Statement of Revenues, Expenditures and Changes
In Fund Balance – Budget and Actual
General Fund
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final
	Original	Final	(Budgetary Basis)	Budget Favorable (Unfavorable)
Revenues				
Local sources	\$ 1,089,417	\$ 1,089,417	\$ 1,262,146	\$ 172,729
State sources	4,106,989	4,106,989	3,653,138	(453,851)
Federal sources	426,787	426,787	898,406	471,619
Total revenues	<u>5,623,193</u>	<u>5,623,193</u>	<u>5,813,690</u>	<u>190,497</u>
Expenditures				
Instruction:				
Regular programs	2,335,940	2,335,940	2,447,188	(111,248)
Special programs	554,652	554,652	605,092	(50,440)
Vocational education programs	124,979	124,979	173,960	(48,981)
Other instructional programs	74,626	74,626	96,728	(22,102)
Pre-kindergarten	134,852	134,852	76,174	58,678
Support services:				
Pupil personnel	185,768	185,768	168,652	17,116
Instructional staff	164,169	164,169	141,720	22,449
Administration	396,742	396,742	406,356	(9,614)
Pupil health	67,920	67,920	77,331	(9,411)
Business	172,148	172,148	171,683	465
Operation and maintenance of plant	511,036	511,036	407,394	103,642
Student transportation	450,700	450,700	548,718	(98,018)
Central	21,460	21,460	22,347	(887)
Other support services	0	0	49,357	(49,357)
Operation of noninstructional services:				
Student activities	100,062	100,062	118,177	(18,115)
Facilities acquisition, construction, and improvement	0	0	30,000	(30,000)
Debt service:				
Principal and interest	240,761	240,761	228,441	12,320
Refund of prior year receipts	0	0	352	(352)
Total expenditures	<u>5,535,815</u>	<u>5,535,815</u>	<u>5,769,670</u>	<u>(233,855)</u>
Excess (deficiency) of revenues over expenditures	<u>87,378</u>	<u>87,378</u>	<u>44,020</u>	<u>(43,358)</u>
Other financing sources (uses)				
Interfund transfers	(65,000)	(65,000)	(12,445)	52,555
Budgetary Reserve	(22,378)	(22,378)	0	22,378
Total other financing sources (uses)	<u>(87,378)</u>	<u>(87,378)</u>	<u>(12,445)</u>	<u>74,933</u>
Net change in fund balance	0	0	31,575	31,575
Fund balance, beginning of year, restated	<u>300,000</u>	<u>300,000</u>	<u>1,541,604</u>	<u>1,241,604</u>
Fund balance, end of year	<u>\$ 300,000</u>	<u>\$ 300,000</u>	<u>\$ 1,573,179</u>	<u>\$ 1,273,179</u>

See accompanying notes to the basic financial statements

Harmony Area School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Federal/Grant Project Title	Source Code	Federal C.F.D.A. Number	Pass Through Grantors Number	Grant Period Beginning/End Date	Program Or Award Amount	Total Received For the Year	Accrued (Deferred) Revenue at July 1, 2010	Revenue Recognized	Expenditures	Adjustments	Accrued (Deferred) Revenue June 30, 2011
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>											
Passed through the Pennsylvania Department of Public Welfare Medical Assistance Program - Reimbursement:											
SBAP Admin. Reimbursement	I	93.778	N/A	07/01/10-06/30/11	N/A	\$ 11,970	\$ 0	\$ 11,970	\$ 11,970	\$ 0	\$ 0
Total U.S. Department of Health and Human Services						11,970	0	11,970	11,970	0	0
<u>U.S. DEPARTMENT OF EDUCATION</u>											
Passed through the Pennsylvania Department of Education:											
ECIA Title I	I	84.010	(1) 013-110183	07/01/10-09/30/11	\$ 179,247	155,376	0	162,180	162,180	0	6,804
ECIA Title I	I	84.010	(1) 013-100183	07/01/09-09/30/10	181,441	24,485	24,485	0	0	0	0
ARRA - ECIA Title I	I	84.389	(1) 127-100183	05/14/09-09/30/11	102,481	36,104	33,976	2,128	2,128	0	0
ECIA Title I Academic Achievement	I	84.010	(1) 077-100183	07/01/09-09/30/10	3,600	2,880	880	2,000	2,000	0	0
ECIA Title II Part A	I	84.367	020-110183	07/01/10-09/30/11	52,166	52,166	0	47,619	47,619		(4,547)
ECIA Title II Part A	I	84.367	020-100183	07/01/09-09/30/10	51,918	10,384	5,509	4,875	4,875	0	0
ECIA Title II Part A	I	84.367	020-090183	07/01/08-09/30/09	46,128	10,563	3,875	6,688	6,688	0	0
ECIA Title II Part D		84.318	055-100183	07/01/09-09/30/10	50,000	40,000	32,098	6,642	6,642		(1,260)
ARRA - Fiscal Stabilization	I	84.394	126-110183	07/01/10-06/30/11	311,892	311,892	0	311,892	311,892	0	0
Education Jobs Fund	I	84.410	140-159386	08/01/10-09/30/11	184,791	184,791	0	184,791	184,791		0
Safe and Drug Free Schools		84.186A	100-100569	07/01/10-09/30/11	1,525	572	0	615	615	0	43
Safe and Drug Free Schools		84.186A	100-100183	07/01/09-09/30/10	2,430	1,122	297	825	825	0	0
Passed through Central Intermediate Unit10:											
IDEA Part B	I	84.027	(2) N/A	07/01/10-06/30/11	69,838	0	0	69,838	69,838	0	69,838
IDEA Part B	I	84.027	(2) N/A	07/01/09-06/30/10	68,650	68,650	68,139	0	0	(511)	0
ARRA - IDEA Part B	I	84.391	(2) N/A	02/17/09-09/30/11	81,553	2,457	2,457	41,592	41,592	0	41,592
Total U.S. Department of Education					1,387,660	901,442	171,716	841,685	841,685	(511)	112,470

(1) Title I, Part A Cluster
(2) Special Education Cluster (IDEA)

See accompanying notes to the basic financial statements.

Harmony Area School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Federal/Grant Project Title	Source Code	Federal C.F.D.A. Number	Pass Through Grantors Number	Grant Period Beginning/End Date	Program Or Award Amount	Total Received For the Year	Accrued (Deferred) Revenue at July 1, 2010	Revenue Recognized	Expenditures	Adjustments	Accrued (Deferred) Revenue June 30, 2011	
U.S. DEPARTMENT OF AGRICULTURE												
Passed through the Pennsylvania Department of Agriculture:												
USDA Commodities	I	10.555	(3)	N/A	07/01/10-06/30/11	N/A	(a) 13,264	(b) (3,980)	(c) 12,495		(d) 12,495	
Passed through the Pennsylvania Department of Education:												
National School Lunch	I	10.555	(3)	N/A	07/01/10-06/30/11	N/A	84,445	0	85,459	85,459	0	
Severe Needs Breakfast	I	10.553	(3)	N/A	07/01/10-06/30/11	N/A	31,334	0	31,872	31,872	1,014	
Fresh Fruit and Vegetable	I	10.582		N/A	07/01/10-06/30/11	N/A	13,473	0	13,473	13,473	538	
State Matching Funds	S	N/A		N/A	07/01/10-06/30/11	N/A	12,334	0	12,472	12,472	0	
Total U.S. Department of Agriculture						154,850	(3,980)	155,771	155,771	0	138	
Total Financial Assistance						\$1,387,660	\$1,068,262	\$ 167,736	\$1,009,426	\$1,009,426	\$ (511)	\$ 109,411

(3) Child Nutrition Cluster

See accompanying notes to the basic financial statements.

**Harmony Area School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011**

Notes to Schedule of Expenditures of Federal Awards

Note A – Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

Note B – Donated Commodities

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2011, the District had food commodities totaling \$4,749 in inventory.

- (a) Total amount of commodities received from the Department of Agriculture.
- (b) Beginning inventory at July 1, 2010.
- (c) Total amount of commodities used.
- (d) Ending inventory at June 30, 2011.

Note C – Direct/Indirect Funding

The following source codes reflect program funding:

- D = Direct Funding
- I = Indirect Funding
- F = Federal Share
- S = State Share

Note D – Reconciliation to Financial Statements

Total Federal Sources reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances	\$ 898,406
Less: School Based Access Medicaid Reimbursement Program	(156,182)
Plus: IDEA-B passed through, recorded as Local Sources	<u>111,430</u>
Total Federal Expenditures – Governmental Funds	<u>853,654</u>
Total Federal Sources reported on Statement of Revenues, Expenses, and Changes in Fund Net Assets	<u>143,300</u>
Total Federal Expenditures – Proprietary Fund	<u>143,300</u>
Total Federal Expenditures	<u>\$ 996,954</u>

**Harmony Area School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011**

Notes to Schedule of Expenditures of Federal Awards

Note E – Test of 50% Rule

Total Expenditures	\$1,009,426	
Less: State's share of National School Lunch and Severe Needs Breakfast Programs	<u>(12,472)</u>	
Total Federal Expenditures	<u>\$ 996,954</u>	
ARRA – State Fiscal Stabilization Fund	\$ 311,892	
Education Jobs Fund	184,791	
Safe and Drug Free Schools	<u>1,440</u>	
Tested	<u>\$ 498,123</u>	
Total Federal Expenditures	\$ 996,954	= 50.0%

**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 Members of the Board
Harmony Area School District
5239 Ridge Road
Westover, Pennsylvania 16692

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Harmony Area School District as of and for the year ended June 30, 2011, which collectively comprise Harmony Area School District's basic financial statements and have issued our report thereon dated December 2, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs, that we consider to be a significant deficiency in internal control over financial reporting (#2011-1). 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harmony Area School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Harmony Area School District in a separate letter dated December 2, 2011.

Harmony Area School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Harmony Area School District's response, and accordingly, we express no opinion on it.

This report is intended for the information and use of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Kotzan CPA & Associates, P.C.

Kotzan CPA & Associates, P.C.
December 2, 2011

**Report on Compliance with Requirements That Could Have a
Direct and Material Effect on Each Major Program and on
Internal Control Over Compliance in Accordance
with OMB Circular A-133**

To the Members of the Board
Harmony Area School District
5239 Ridge Road
Westover, Pennsylvania 16692

Compliance

We have audited Harmony Area School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Harmony Area School District's major federal programs for the year ended June 30, 2011. Harmony Area School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Harmony Area School District's management. Our responsibility is to express an opinion on Harmony Area School District's compliance based on our audit.

We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harmony Area School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Harmony Area School District's compliance with those requirements.

In our opinion, Harmony Area School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of Harmony Area School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Harmony Area School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion of the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal courses of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended for the information and use of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Kotzan CPA & Associates, P.C.

Kotzan CPA & Associates, P.C.
December 2, 2011

**Harmony Area School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency identified not
considered to be material weaknesses?

 X Yes _____ None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency identified not
considered to be material weakness(es)?

_____ Yes X None reported

Type of auditors' report issued on
compliance for major programs:

unqualified

Any audit findings disclosed that are required
to be reported in accordance with Circular
A-133, Section .510(a)?

_____ Yes X No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.394

ARRA - Fiscal Stabilization Fund

84.410

Education Jobs Fund

84.186A

Safe and Drug Free Schools

Dollar threshold used to distinguish
between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

_____ Yes X No

**Harmony Area School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011**

Section II – Financial Statement Findings

INTERNAL CONTROL OVER FINANCIAL REPORTING

Finding #2011-1

CONDITION:

A lack of segregation of duties continues to exist in the accounting department at Harmony Area School District. The Business Manager performs or is involved with nearly all transactions with regard to cash receipts, cash disbursements, payroll, receivables, payables and financial reporting.

CRITERIA:

Internal controls are designed to safeguard assets and help to detect losses from employee dishonesty or error. A fundamental concept in an effective system of internal control is the segregation of duties. Although the size of the District's business office staff prohibits complete adherence to this concept, certain steps could be taken to separate incompatible duties.

CAUSE:

The cause of this internal control deficiency is the small size of the District's business office staff. Consequently, there are few options for segregation of duties. Small districts such as Harmony Area School District often cannot afford to add staff for internal control purposes.

EFFECT:

The effect of this lack of segregation of duties is an increased risk of misappropriation of funds and concealment of such activity. In addition, there is an increased risk of undetected errors, both intentional and unintentional.

RECOMMENDATION:

We recommend that the District investigate options available to delegate certain duties and/or reviews, relating to the aforementioned financial transactions, to others within the district, such as other secretaries or the superintendent. We have provided management with options for more specific ways to segregate these duties in a separate communication.

MANAGEMENT RESPONSE:

Management agrees with the recommendation. Management will review the duties of the business manager and the business office staff, as well as the options for segregating these duties.

Section III – Federal Award Findings and Questioned Costs – No findings or questioned costs.