

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

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

**For the Year Ended
June 30, 2010**

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List of Report Distribution

January 4, 2011

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

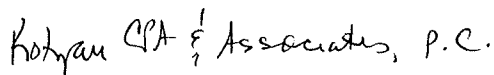
Board Members:

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.

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, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, 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 January 4, 2011 on our consideration of Harmony Area School District's internal control over financial reporting and our test 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 11 and page 44, 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 combining nonmajor governmental fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. 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 also not a required part of the financial statements. The combining nonmajor governmental fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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.
January 4, 2011

Management's Discussion and Analysis

Harmony Area School District

2009-2010

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 three 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's non-major funds are aggregated and reported in a separate column. The District's non-major funds include the Athletic Fund (Special Revenue Fund).

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 \$5,937,222 and expenditures of \$5,562,146, resulting in an excess of revenues over expenditures of \$375,077, before transfers, for the year ended June 30, 2010. Transfers out totaled \$53,542 and were to the Athletic Fund. After this transfer out the general fund "final" excess of revenues over expenditures was \$321,535 for the year ended June 30, 2010. Harmony Area School District's general fund maintains a fund balance of \$1,538,119 at June 30, 2010. In addition to the general fund, the fund balance of the capital reserve fund is \$421,953 and the athletic fund is \$3,486 at June 30, 2010. These amounts are reflected on the fund financial statements (modified accrual basis).

The following factors contributed to the \$321,535 increase in fund balance in 2009-10:

- Net increase in state/federal funding of \$168,849.

Historical trends indicated that during the 2009-10 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, 2010 as compared to June 30, 2009.

Table 1
Condensed Schedule of Net Assets

	Governmental Activities		Business-Type Activities		Total School District	Change
	2010	2009	2010	2009	2010	2010-2009
Assets						
Current assets	\$2,663,613	\$2,114,625	\$28,067	\$12,713	\$2,691,680	\$ 564,342
Non-current assets	<u>2,925,222</u>	<u>3,097,922</u>	<u>12,354</u>	<u>17,080</u>	<u>2,937,576</u>	<u>(177,426)</u>
Total assets	<u>\$5,588,835</u>	<u>\$5,212,547</u>	<u>\$40,421</u>	<u>\$29,793</u>	<u>\$5,629,256</u>	<u>\$ 386,916</u>
Liabilities						
Current liabilities	\$ 617,248	\$ 650,819	\$43,227	\$25,989	\$ 660,475	\$ (16,333)
Long-term liabilities	<u>1,864,677</u>	<u>2,011,936</u>	<u>1,136</u>	<u>822</u>	<u>1,865,813</u>	<u>(146,945)</u>
Total liabilities	<u>\$2,481,925</u>	<u>\$2,662,755</u>	<u>\$44,363</u>	<u>\$26,811</u>	<u>\$2,526,288</u>	<u>\$(163,278)</u>
Net Assets						
Invested in capital assets,						
net of related debt	\$1,017,190	\$1,029,614	\$12,354	\$17,080	\$1,029,544	\$ (17,150)
Unrestricted	<u>2,089,720</u>	<u>1,520,178</u>	<u>(16,296)</u>	<u>(14,098)</u>	<u>2,073,424</u>	<u>567,344</u>
Total net assets	<u>\$3,106,910</u>	<u>\$2,549,792</u>	<u>\$ (3,942)</u>	<u>\$ 2,982</u>	<u>\$3,102,968</u>	<u>\$ 550,194</u>

Assets, Liabilities and Net Assets – Government-Wide

Current assets represented 47.8% of the total assets comprised largely of cash and cash equivalents of \$1,837,366, taxes receivable of \$416,177, and intergovernmental receivables of \$303,571. Fixed assets including land, site and building improvements, furniture and equipment represent 51.1% of total assets at \$5,629,256. Currently no capital construction is in progress at the Harmony Area School District.

The total liability amount of \$2,526,288 consists primarily of bonds payable (\$1,850,000), compensated absences (\$254,393), and accrued salaries and benefits (\$308,799).

The resulting \$3,102,968 in net assets includes \$1,029,544 invested in capital assets, net of related debt and \$2,073,424 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, 2010 compared to the year ended June 30, 2009.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total School District	Change
	2010	2009	2010	2009	2010	2010-2009
Program Revenues:						
Charges for services	\$ 0	\$ 18,100	\$ 91,816	\$ 91,415	\$ 91,816	\$ 109,515
Operating grants and contributions	1,906,528	1,819,143	174,086	135,033	2,080,614	1,954,176
Capital grants and contribution	111,929	107,497	0	0	111,929	107,497
General Revenues:						
Property and other taxes	1,132,949	1,116,058	0	0	1,132,949	1,116,058
Grants and entitlements	2,777,617	2,705,482	0	0	2,777,617	2,705,482
Investment earnings	26,708	37,831	2	0	26,710	37,831
Other	<u>254,505</u>	<u>92</u>	<u>0</u>	<u>0</u>	<u>254,505</u>	<u>92</u>
Total Revenues	<u>6,210,236</u>	<u>5,804,203</u>	<u>265,904</u>	<u>226,448</u>	<u>6,476,140</u>	<u>445,489</u>
Program Expenses:						
Instruction						
Support services:	3,441,624	3,123,779	0	0	3,441,624	3,123,779
Instructional student support	411,220	421,276	0	0	411,220	421,276
Administration and financial	621,787	675,717	0	0	621,787	675,717
Plant operation and maintenance	430,316	472,369	0	0	430,316	472,369
Pupil transportation	515,036	530,585	0	0	515,036	530,585
Student activities	154,602	141,656	0	0	154,602	141,656
Interest on long-term debt	78,533	77,125	0	0	78,533	77,125
Food service	<u>0</u>	<u>0</u>	<u>272,828</u>	<u>248,277</u>	<u>272,828</u>	<u>248,277</u>
Total Expenses	<u>5,653,118</u>	<u>5,442,507</u>	<u>272,828</u>	<u>248,277</u>	<u>5,925,946</u>	<u>5,690,784</u>
Increase (Decrease) in net assets	<u>\$ 557,118</u>	<u>\$ 361,696</u>	<u>\$ (6,924)</u>	<u>\$ (21,829)</u>	<u>\$ 550,194</u>	<u>\$ 339,867</u>
						<u>\$210,327</u>

Revenues increased over the prior year by \$235,162. The increase is attributable to the following: donations from Rosebud Mining for coal mining on school property (\$250,000); additional Title I and IDEA Part B grant funding received as part of Federal Stimulus package (\$133,000); and an increase in the amount of the total Basic Education Subsidy including the Stimulus portion (\$72,000).

Expenses increased over the prior year by \$235,162. The most significant increase in expenses is reflected in instruction (\$317,845) offset by less significant reductions in expenses in various support services. Increases in instructional expenses were primarily the result of the additional Stimulus funding, which allowed for additional expenditures for instructional programs, regular and special education.

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

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 2009-10 Expenses	Actual 2008-09 Expenses	(Over)/Under From PY	2009-10 Budget	(Over)/Under 2009-10 Budget
1100	Regular Educational Programs	\$2,393,850	\$ 2,024,516	\$ (369,334)	\$2,217,170	\$ (176,680)
1200	Special Education	562,538	561,366	(1,172)	593,717	31,179
1300	Vocational Education	135,840	111,252	(24,588)	144,935	9,095
1400	Other Instructional Programs	104,250	80,395	(23,855)	57,630	(46,620)
1800	Accountability and Pre-K	140,130	233,482	93,352	182,613	42,483
2100	Pupil Services	169,321	165,513	(3,808)	190,565	21,244
2200	Instructional Staff Services	159,285	181,641	22,356	111,820	(47,465)
2300	Administration	366,146	409,035	42,889	390,647	24,501
2400	Health Services	63,338	64,927	1,589	66,151	2,813
2500	Business	159,340	159,844	504	157,307	(2,033)
2600	Maintenance	416,656	468,662	52,006	527,944	111,288
2700	Transportation	498,934	512,906	13,972	467,200	(31,734)
2800/2900	IU Programs	67,962	61,257	(6,705)	39,744	(28,218)
3000	Student Activities	89,033	79,282	(9,751)	93,362	4,329
5110	Financing	228,866	223,941	(4,925)	251,977	23,111
5130	Refund of Prior Yr. Receipts	6,657	0	(6,657)	0	(6,657)
5200	Athletic Transfers	53,542	48,783	(4,759)	45,000	(8,542)
5900	Budgetary Reserve	0	0	0	0	0
	Total expenditures	5,615,688	5,386,802	(228,886)	5,537,782	(77,906)
	Revenues	5,937,222	5,777,116	160,106	5,537,782	399,440
	Net Change	\$ 321,534	\$ 390,314	\$ (68,780)	\$ 0	\$ 321,534

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

DIFFERENCES

Function 1100	Increase in expenses as federal expenditures for instruction are included under 1190.
Function 1200	Expenses under budget due to a special education teacher transferred to 4 th grade regular instruction.
Function 1300	Increase in expenses due to increased vo-tech costs resulting from increased student participation.
Function 1400	Increase in expenses reflects increased alternative education costs for students and increased homebound costs.
Function 1800	Decrease in expenses due to the cost of Warner's Learning (\$49,000) was transferred to function 2900.
Function 2100	Increase in expenses due to increased school psychological costs.
Function 2200	Expenses over budget due to the hiring of an employee to assist the technology coordinator. In addition, a network support specialist was hired to keep the network online and transition towards the needs of the school district.
Function 2300	Decrease in expenses due to secretarial staffing changes for the superintendent.
Function 2600	Expenses under budget due to the amount budgeted for new equipment was not entirely utilized for the 2009-10 year. In addition, there was a decrease in expenses resulting from the pre-buying of fuel to save costs as well as a credit outstanding from the previous year which was used prior to purchasing new fuel.
Function 2800/ 2900	Increase in expenses due to the cost of Warner's Learning (\$49,000) was transferred from function 1800.
Function 5200	Increase in expenses due to the co-sponsorship agreement and the transportation of students to the various events and programs.

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
	2010	2009	2010	2009	2010	2009	
Land	\$ 5,000	\$ 5,000	\$ 0	\$ 0	\$ 5,000	\$ 5,000	2010-2009 0.0%
Buildings	2,681,026	2,810,706	0	0	2,681,026	2,810,706	(4.6)%
Equipment and furniture	181,164	218,908	12,354	17,080	193,518	235,988	(18.0)%
Total	<u>\$2,867,190</u>	<u>\$3,034,614</u>	<u>\$12,354</u>	<u>\$17,080</u>	<u>\$2,879,544</u>	<u>\$3,051,694</u>	(5.6)%

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

Long-Term Debt

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

Table 5
Outstanding Long-Term Debt

	<u>Total</u> <u>School District</u>		<u>Percentage</u> <u>Change</u>
	<u>2010</u>	<u>2009</u>	
General obligation refunding bonds (Series of 2006 and Series of 2001)	<u>\$1,850,000</u>	<u>\$2,005,000</u>	7.7%

MAJOR FINANCIAL ISSUES

The financial issues pertaining to the District for the 2009-10 year are as follows:

BUILDING IMPROVEMENTS

Five additional emergency roof repairs were done to the school roof.

Various other areas needed repair as well throughout the school year – the gymnasium, cafeteria, and kindergarten areas, as well as the hallway in the elementary school wing.

CURRICULUM

The middle and high school invested in a new textbook series for mathematics. This included manipulatives, software, new student texts, calculators, and teacher resources.

Through EAP funds, the District provided tutoring services to students in grades 7-12 using 4-Sight Benchmark testing and the Study Island program.

TECHNOLOGY

Classrooms for the Future: the CFF grant was expanded with the Enhancing Education Through Technology (EETT) grant by supplying middle school classrooms with laptops and laptop carts, LCD projectors and interactive whiteboards. Every class is now equipped with this new technology. In addition, the District invested in new technology that now allows our new journalism class to broadcast live morning announcements to every teacher's classroom during the homeroom period.

Stimulus funds were used to upgrade the two computer labs – elementary school and high school. Active Boards, computer desktops and monitors were also purchased.

A new web blocker/fire wall was installed.

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, 2010

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and equivalents	\$ 1,816,748	\$ 20,618	\$ 1,837,366
Investments	64,438	0	64,438
Taxes receivable	416,177	0	416,177
Intergovernmental receivables	303,571	0	303,571
Other receivables	45,967	0	45,967
Inventories	14,353	7,449	21,802
Other Current Assets	2,359	0	2,359
Total current assets	<u>2,663,613</u>	<u>28,067</u>	<u>2,691,680</u>
Noncurrent assets:			
Land	5,000	0	5,000
Depreciable capital assets, net	2,862,190	12,354	2,874,544
Deferred bond costs, net	58,032	0	58,032
Total noncurrent assets	<u>2,925,222</u>	<u>12,354</u>	<u>2,937,576</u>
Total assets	<u>\$ 5,588,835</u>	<u>\$ 40,421</u>	<u>\$ 5,629,256</u>
Liabilities			
Current liabilities:			
Internal balances	\$ (38,760)	\$ 38,760	\$ 0
Accounts payable	77,157	0	77,157
Current portion of long-term obligations	235,831	487	236,318
Accrued interest payable	34,221	0	34,221
Accrued salaries and wages	308,799	0	308,799
Deferred revenue	0	3,980	3,980
Total current liabilities	<u>617,248</u>	<u>43,227</u>	<u>660,475</u>
Noncurrent liabilities:			
Bonds and notes payable, net of debt	1,682,059	0	1,682,059
Long-term portion of compensated absences	176,939	1,136	178,075
Other post-employment benefits (OPEB)	5,679	0	5,679
Total noncurrent liabilities	<u>1,864,677</u>	<u>1,136</u>	<u>1,865,813</u>
Total liabilities	<u>2,481,925</u>	<u>44,363</u>	<u>2,526,288</u>
Net assets			
Invested in capital assets, net of debt	1,017,190	12,354	1,029,544
Unrestricted	2,089,720	(16,296)	2,073,424
Total net assets	<u>3,106,910</u>	<u>(3,942)</u>	<u>3,102,968</u>
Total liabilities and net assets	<u>\$ 5,588,835</u>	<u>\$ 40,421</u>	<u>\$ 5,629,256</u>

See accompanying notes to the basic financial statements.

Harmony Area School District
Statement of Activities
For the Year Ended June 30, 2010

	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	\$ 3,441,624	\$ 0	\$ 1,122,315	\$ 0	\$ (2,319,309)	\$ 0	\$ (2,319,309)
Instructional student support	411,220	0	285,383	0	(125,837)	0	(125,837)
Administration and financial support	621,787	0	6,609	0	(615,178)	0	(615,178)
Operations and maintenance of plant	430,316	0	0	111,929	(318,387)	0	(318,387)
Pupil transportation	515,036	0	492,221	0	(22,815)	0	(22,815)
Student activities	154,602	0	0	0	(154,602)	0	(154,602)
Interest on long-term debt	78,533	0	0	0	(78,533)	0	(78,533)
Total governmental activities	5,653,118	0	1,906,528	111,929	(3,634,661)	0	(3,634,661)
Business-Type Activities:							
Food service	272,828	91,816	174,086	0	0	(6,926)	(6,926)
Total primary government	\$ 5,925,946	\$ 91,816	\$ 2,080,614	\$ 111,929	(3,634,661)	(6,926)	(3,641,587)
General Revenues:							
Taxes levied							
Grants, subsidies and contributions, not restricted					1,132,949	0	1,132,949
Investment earnings					2,777,617	0	2,777,617
Miscellaneous					26,708	2	26,710
					254,505	0	254,505
Total general revenues					4,191,779	2	4,191,781
Change in net assets					557,118	(6,924)	550,194
Net assets, beginning of year					2,549,792	2,982	2,552,774
Net assets, end of year					\$ 3,106,910	\$ (3,942)	\$ 3,102,968

See accompanying notes to the basic financial statements.

**Harmony Area School District
Balance Sheet
Governmental Funds
June 30, 2010**

	General Fund	Major Fund Capital Reserve	Other Non-Major Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,434,466	\$ 375,985	\$ 6,296	\$ 1,816,747
Investments	64,438	0	0	64,438
Taxes receivable	416,177	0	0	416,177
Due from other funds	41,570	0	0	41,570
Due from other governments	303,571	0	0	303,571
Other receivables	0	45,968	0	45,968
Inventories	14,353	0	0	14,353
Other current assets	2,359	0	0	2,359
Total assets	<u>\$ 2,276,934</u>	<u>\$ 421,953</u>	<u>\$ 6,296</u>	<u>\$ 2,705,183</u>
Liabilities and Fund Balance				
Liabilities				
Due to other funds	\$ 0	\$ 0	\$ 2,810	\$ 2,810
Accounts payable	77,157	0	0	77,157
Accrued salaries and benefits	308,799	0	0	308,799
Deferred revenue	352,859	0	0	352,859
Total liabilities	<u>738,815</u>	<u>0</u>	<u>2,810</u>	<u>741,625</u>
Fund Balance				
Reserved for inventories	14,353	0	0	14,353
Unreserved-designated	657,000	0	0	657,000
Unreserved-undesignated	866,766	421,953	3,486	1,292,205
Total fund balance	<u>1,538,119</u>	<u>421,953</u>	<u>3,486</u>	<u>1,963,558</u>
Total liabilities and fund balance	<u>\$ 2,276,934</u>	<u>\$ 421,953</u>	<u>\$ 6,296</u>	<u>\$ 2,705,183</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, 2010**

Total fund balance – governmental funds		\$ 1,963,558
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 \$7,667,259 and the accumulated depreciation is \$4,800,069.		2,867,190
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.		352,859
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 \$21,104.		58,032
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	\$(1,850,000)	
Compensated absences	(252,770)	
Accrued interest payable	(34,221)	
Bond discount, net of amortization	7,941	
OPEB obligation	<u>(5,679)</u>	<u>(2,134,729)</u>
Net assets of governmental activities		<u>\$ 3,106,910</u>

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, 2010

	General Fund	Capital Reserve	Other Non-Major Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 1,266,113	\$ 258,807	\$ 7,567	\$ 1,532,487
State sources	3,822,870	0	0	3,822,870
Federal sources	848,239	0	0	848,239
Total revenues	<u>5,937,222</u>	<u>258,807</u>	<u>7,567</u>	<u>6,203,596</u>
Expenditures				
Instruction	3,336,607	0	0	3,336,607
Support services	1,900,982	0	0	1,900,982
Non-instructional services	89,033	0	60,735	149,768
Debt service (principal and interest)	228,866	0	0	228,866
Refund of prior year receipts	6,657	0	0	6,657
Total expenditures	<u>5,562,145</u>	<u>0</u>	<u>60,735</u>	<u>5,622,880</u>
Excess of revenues over (under) expenditures	<u>375,077</u>	<u>258,807</u>	<u>(53,168)</u>	<u>580,716</u>
Other financing sources (uses)				
Interfund transfers	<u>(53,542)</u>	<u>0</u>	<u>53,542</u>	<u>0</u>
Total other financing sources (uses)	<u>(53,542)</u>	<u>0</u>	<u>53,542</u>	<u>0</u>
Net change in fund balance	321,535	258,807	374	580,716
Fund balance, beginning of year	<u>1,216,584</u>	<u>163,146</u>	<u>3,112</u>	<u>1,382,842</u>
Fund balance, end of year	<u>\$ 1,538,119</u>	<u>\$ 421,953</u>	<u>\$ 3,486</u>	<u>\$ 1,963,558</u>

**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, 2010**

Total net change in fund balance – governmental funds		\$580,716
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 cost of those assets is 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	\$ 6,685	
Depreciation expense	<u>(174,109)</u>	(167,424)
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.		6,639
Repayment of bond principal is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets. The 2008-09 debt principal payments were as follows:		
Series 2006 Bonds	\$155,000	155,000
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.		2,712
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.		(9,126)
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 2009-10.		277
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.		(5,679)
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.		<u>(5,997)</u>
Change in net assets of governmental activities		<u>\$557,118</u>

See accompanying notes to the basic financial statements.

**Harmony Area School District
Statement of Net Assets
Proprietary Fund
June 30, 2010**

	<u>Food Service</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 20,618
Inventory	<u>7,449</u>
Total current assets	<u>28,067</u>
Noncurrent assets:	
Machinery and equipment, net	<u>12,354</u>
Total noncurrent assets	<u>12,354</u>
Total assets	<u><u>\$ 40,421</u></u>
Liabilities	
Current liabilities:	
Due to other funds	\$ 38,760
Current portion of compensated absences	487
Deferred revenues	<u>3,980</u>
Total current liabilities	<u>43,227</u>
Noncurrent liabilities:	
Long-term portion of compensated absences	<u>1,136</u>
Total noncurrent liabilities	<u>1,136</u>
Total liabilities	<u>44,363</u>
Net assets	
Invested in capital assets	12,354
Unrestricted	<u>(16,296)</u>
Total net assets	<u>(3,942)</u>
Total liabilities and net assets	<u><u>\$ 40,421</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, 2010

	<u>Food Service</u>
Operating revenues	
Food service revenue	\$ 91,816
Total operating revenues	<u>91,816</u>
Operating expenses	
Salaries	59,050
Employee benefits	27,875
Purchased property services	10,719
Other purchased services	885
Supplies	169,116
Depreciation	4,726
Other operating expenses	<u>457</u>
Total operating expenses	<u>272,828</u>
Operating income (loss)	<u>(181,012)</u>
Nonoperating revenues (expenses)	
Earnings on investments	2
State sources	12,368
Federal sources	<u>161,718</u>
Total nonoperating revenues (expenses)	<u>174,088</u>
Change in net assets	(6,924)
Total net assets, beginning of year	<u>2,982</u>
Total net assets, end of year	<u><u>\$ (3,942)</u></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, 2010**

	<u>Food Service</u>
Cash flows from operating activities	
Cash received from users	\$ 93,591
Cash payments to employees for services	(70,454)
Cash payments to suppliers for goods and services	(183,694)
Cash payments for other operating expenses	<u>(457)</u>
Net cash provided by (used for) operating activities	<u>(161,014)</u>
Cash flows from non-capital financing activities	
State sources	12,368
Federal sources	<u>161,718</u>
Net cash provided by (used for) non-capital financing activities	<u>174,086</u>
Cash flows from investing activities	
Earnings on investments	<u>2</u>
Net cash provided by (used for) investing activities	<u>2</u>
Net increase (decrease) in cash and cash equivalents	13,074
Cash and cash equivalents, beginning of year	<u>7,544</u>
Cash and cash equivalents, end of year	<u><u>\$ 20,618</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	<u>\$(181,012)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for):	
Depreciation	4,726
(Increase) decrease in inventories	(2,280)
Increase (decrease) in accounts payable	15,580
Increase (decrease) in accrued salaries/benefits	197
Increase (decrease) in deferred revenue	<u>1,775</u>
Total adjustments	<u>19,998</u>
Net cash provided by (used for) operating activities	<u><u>\$(161,014)</u></u>

See accompanying notes to the basic financial statements.

Harmony Area School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010

	Agency Fund	Private Purpose Trust	Total Fiduciary Funds
Assets			
Cash and cash equivalents	\$ 31,120	\$ 3,717	\$ 34,837
Total assets	<u>\$ 31,120</u>	<u>\$ 3,717</u>	<u>\$ 34,837</u>
Liabilities			
Due to students	\$ 31,120	\$ 0	\$ 31,120
Total liabilities	<u>31,120</u>	<u>0</u>	<u>31,120</u>
Net assets			
Held in trust for scholarships	<u>0</u>	<u>3,717</u>	<u>3,717</u>
Total net assets	<u>0</u>	<u>3,717</u>	<u>3,717</u>
Total liabilities and net assets	<u>\$ 31,120</u>	<u>\$ 3,717</u>	<u>\$ 34,837</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, 2010

	Private Purpose Trust
Additions:	
Other additions	\$ 9
Total additions	<u>9</u>
Deductions:	
Scholarships awarded	<u>250</u>
Total deductions	<u>250</u>
Change in net assets	(241)
Net assets, beginning of year	<u>3,958</u>
Net assets, end of year	<u><u>\$ 3,717</u></u>

See accompanying notes to the basic financial statements.

Harmony Area School District
Notes to Financial Statements
June 30, 2010

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, 2010

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 Reserve – The capital reserve fund accounts for surplus moneys in the general fund that can be used only for capital improvements, deferred maintenance thereon, and for debt service.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

Harmony Area School District
Notes to Financial Statements
June 30, 2010

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, 2010

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, 2010

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 2010.

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. Encumbrances outstanding at year end are reported as reservations of fund balances.

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, 2010, 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, 2010**

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 a fund balance reserve 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, 2010.

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2010. 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, 2010 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, 2010

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due To/From Other Funds". These amounts are eliminated in the governmental and business-type columns of the Statement of Net Assets, except for the net residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

L. Encumbrances

Encumbrances at year end are reported in the fund financial statements as reservations of fund balance since they do not constitute expenditures or liabilities, but serve as authorization for expenditures in the subsequent year. As of June 30, 2010, the District had no encumbrances.

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.

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.

Harmony Area School District
Notes to Financial Statements
June 30, 2010

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, 2010, 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.

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.

Harmony Area School District
Notes to Financial Statements
June 30, 2010

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, 2010, \$1,754,315 of the District's bank balance of \$2,005,018 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>1,754,315</u>
Total	<u>\$1,754,315</u>

Reconciliation to Financial Statements

Uninsured amount above	\$1,754,315
Add: Insured amount	250,703
Deposit in transit	966
Less: Outstanding checks	<u>(133,331)</u>
Carrying amount – bank balances	1,872,653
Add: Petty cash	250
Less: Certificates of deposit considered investments	<u>(700)</u>
Total cash per financial statements	<u>\$1,872,203</u>

Investments

As of June 30, 2010, 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>63,738</u>
Total		<u>\$64,438</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.

Credit Risk

The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2010 the District's investments were rated as follows:

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

**Harmony Area School District
Notes to Financial Statements
June 30, 2010**

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	<u>\$64,438</u>
Total investments per financial statements	<u>\$64,438</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 2010 was 87.14 mills for Clearfield County and 60.21 mills for Indiana County, as levied by the Board. Assessed valuations of property (\$11,957,122) 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, 2010 is \$416,777. 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, 2010

Uncollected taxes for the year ended June 30, 2010:

Delinquent Real Estate	\$ 45,404
Earned Income Taxes	16,165
Delinquent Per Capita	33
Occupational Tax	942
Real Estate Transfer Taxes	<u>774</u>
Uncollected Taxes Recognized as Revenue (received within 60 days)	63,318
Real Estate Tax Deferred	<u>352,859</u>
Total Taxes Receivable	<u>\$416,177</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 \$352,859 represent deferred real estate taxes at June 30, 2010. Deferred revenues of \$3,980 in the proprietary fund at June 30, 2010 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, 2010, the following amounts are due from other governmental units:

<u>Due From</u>	<u>General Fund</u>	<u>Proprietary Fund</u>
Federal	\$216,546	\$0
State	56,884	0
Local	<u>30,141</u>	<u>0</u>
	<u>\$303,571</u>	<u>\$0</u>

Harmony Area School District
Notes to Financial Statements
June 30, 2010

8. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2010, 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
Total capital assets, not being depreciated	<u>5,000</u>	<u>0</u>	<u>0</u>	<u>5,000</u>
Capital assets, being depreciated:				
Buildings and improvements	6,596,946	0	0	6,596,946
Furniture and equipment	1,058,628	6,685	0	1,065,313
Total capital assets, being depreciated	<u>7,655,574</u>	<u>6,685</u>	<u>0</u>	<u>7,662,259</u>
Less accumulated depreciation:				
Buildings and improvements	3,786,240	129,680	0	3,915,920
Furniture and equipment	839,720	44,429	0	884,149
Total accumulated depreciation	<u>4,625,960</u>	<u>174,109</u>	<u>0</u>	<u>4,800,069</u>
Total capital assets, being depreciated, net	<u>3,029,614</u>	<u>(167,424)</u>	<u>0</u>	<u>2,862,190</u>
Governmental activities capital assets, net	<u>\$3,034,614</u>	<u>\$(167,424)</u>	<u>\$0</u>	<u>\$2,862,190</u>
Business-Type Activities				
Capital assets, being depreciated:				
Equipment	\$ 220,830	\$ 0	\$0	\$ 220,830
Total capital assets, being depreciated	<u>220,830</u>	<u>0</u>	<u>0</u>	<u>220,830</u>
Less accumulated depreciation:				
Equipment	203,750	4,726	0	208,476
Total accumulated depreciation	<u>203,750</u>	<u>4,726</u>	<u>0</u>	<u>208,476</u>
Business-type activities capital assets, net	<u>\$ 17,080</u>	<u>\$ (4,726)</u>	<u>\$0</u>	<u>\$ 12,354</u>

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

Governmental Activities:

Instruction	\$107,475
Instruction support	12,842
Administration and finance	19,418
Operation and maintenance of plant	13,438
Pupil transportation	16,102
Student activities	4,834
Total depreciation expense - governmental activities	<u>\$174,109</u>

Harmony Area School District
Notes to Financial Statements
June 30, 2010

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, 2009	Additions	Deletions	Balance June 30, 2010
Bond costs	\$79,136	\$ 0	\$0	\$79,136
Less: accumulated amortization	<u>15,828</u>	<u>5,276</u>	<u>0</u>	<u>21,104</u>
Total	<u>\$63,308</u>	<u>\$5,276</u>	<u>\$0</u>	<u>\$58,032</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, 2009, the rate of the employer's contribution was 4.78 percent of covered payroll. The 4.78 percent rate is composed of a pension contribution rate of 4.00 percent for pension benefits and 0.78 percent for healthcare insurance premium assistance. Harmony Area School District's contributions to PSERS for the years ending June 30, 2010, 2009 and 2008 were \$114,154, \$122,156, and \$158,252, respectively. Those amounts are equal to the required contribution for each year.

Harmony Area School District
Notes to Financial Statements
June 30, 2010

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, 2010, general long-term obligations changed as follows:

	Bonds Payable	Compensated Absences	Capital Lease Obligations	Total General Long-Term Obligations
Beginning of the year	\$2,005,000	\$245,070	\$ 277	\$2,250,347
Principal retirement	(155,000)	0	(277)	(155,277)
Changes in compensated absences	<u>0</u>	<u>9,323</u>	<u>0</u>	<u>9,323</u>
End of year	1,850,000	254,393	0	2,104,393
Unamortized original issue discount	(7,941)	0	0	(7,941)
Less: current portion	<u>(160,000)</u>	<u>(76,318)</u>	<u>0</u>	<u>(236,318)</u>
Long-term liabilities	<u>\$1,682,059</u>	<u>\$178,075</u>	<u>\$ 0</u>	<u>\$1,860,134</u>

The future annual payments required to amortize outstanding bonds payable as of June 30, 2010, including total interest payments are as follows:

	<u>General Obligation Bonds</u>		
Year Ended <u>June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2011	\$ 68,441	\$160,000	\$ 228,441
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
2016-2020	<u>119,920</u>	<u>1,010,000</u>	<u>1,129,920</u>
	<u>\$404,566</u>	<u>\$1,850,000</u>	<u>\$2,254,566</u>

Harmony Area School District
Notes to Financial Statements
June 30, 2010

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, 2010 was \$1,850,000.

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, 2010. 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 \$254,393 at June 30, 2010 with \$252,770 reflected in the general fund and \$1,623 reflected in the proprietary fund for unused sick days. The District has estimated \$76,318 as current and \$178,075 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.

13. Operating Leases

The School District entered into noncancellable operating leases for computers and copiers. Rental expenditures under all operating lease agreements were \$27,951 for fiscal year 2010. Future minimum rental payments required under operating leases that have remaining lease terms as of June 30 are as follows:

<u>Year Ended</u>	<u>Payment</u>
<u>June 30,</u>	
2011	\$27,771
2012	27,771
2013	26,740
2014	15,521
2015	5,728

14. 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.

Harmony Area School District
Notes to Financial Statements
June 30, 2010

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, 2010

	District
ARC Normal Cost	\$ 66,028
Amortization of UAAL	<u>47,926</u>
Annual required contribution (ARC)	113,954
Interest on Net OPEB Obligation	0
Adjustment to ARC	<u>0</u>
Annual OPEB cost (expense)	113,954
Contribution for the fiscal year	<u>(108,275)</u>
Increase in Net OPEB Obligation	5,679
Net OPEB Obligation June 30, 2009	<u>0</u>
Net OPEB Obligation June 30, 2010	<u>\$ 5,679</u>
Percent of annual OPEB cost contributed	95.0%

As of June 30, 2010, 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 \$2,644,800, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 34.85 percent.

In future years, three-year trend information will be presented. Fiscal year 2010 was the year of implementation of GASB Statement No. 45 and the District elected to implement prospectively, therefore, prior year comparative data is not available.

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.

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

Harmony Area School District
Notes to Financial Statements
June 30, 2010

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.

15. Interfund Transactions

The following is a summary of interfund receivables and payables at June 30, 2010:

	<u>Receivables</u>	<u>Payables</u>
General Fund (Major Fund)	\$41,570	\$ 0
Athletic Fund (Nonmajor Fund)	0	2,810
Proprietary Fund – Food Service (Major Fund)	0	38,760
	<u>\$41,570</u>	<u>\$41,570</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. The balances between the General Fund and the Athletic Fund represent expenditures paid from General Fund on behalf of the Athletic Fund.

Interfund transfers during the year ended June 30, 2010 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Athletic Fund (Non-major Fund)	\$53,542	\$ 0
General Fund (Major Fund)	0	53,542
	<u>\$53,542</u>	<u>\$53,542</u>

The District transfers amounts annually from the General Fund to the Athletic Fund to subsidize the Athletic Fund expenditures.

16. 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 2009-10 is 3.36%. The District's portion of tuition expense for its students attending the Vo-Tech for fiscal 2010 was \$135,840.

Harmony Area School District
Notes to Financial Statements
June 30, 2010

17. 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 term of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

Projected Retirement Rate Increase

One of the most publicized events at PSERS over the past several years has been the employer contribution rate increase that is projected to occur in the 2012-2013 fiscal year. The rate increase was first reflected in the June 30, 2003 actuarial valuation. This valuation took into consideration the actuarial impact of the pension benefit enhancement enacted in 2001 (Act 9 of 2001), a major downturn in the investment markets between 2001 and 2003 and a series of legislative actions (Act 38 of 2002 and Act 40 of 2003) that changed the basic funding methodologies for PSERS and suppressed the employer contribution rate below the employer normal cost rate and average member contribution rate for a period of ten years.

The June 30, 2009 actuarial valuation has projected the fiscal year 2013 rate to be 29.22%. The majority of the projected fiscal year 2013 rate increase is devoted to the payment of unfunded liabilities that have accumulated since 2001.

18. 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, 2010, for unpaid claims incurred prior to fiscal year end is not readily determinable. No liability has been recorded for these claims at June 30, 2010, as the District recognizes medical claim expenses as claims are paid.

19. 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, 2010 and the two previous fiscal years, no settlements exceeded insurance coverage.

Harmony Area School District
Notes to Financial Statements
June 30, 2010

20. 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, 2010 for CIU programs amounted to \$28,374.

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 \$135,840 for the current year.

21. Economic Dependency

Harmony Area School District receives approximately 64% 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.

22. 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 2010 totaled \$13,645.

23. Designation of Fund Balance

The School Board approved the following designations of fund balance in the General Fund: \$657,000 for the purpose of mitigating and financially planning for imminent increases in the post employment benefits and capital costs.

Harmony Area School District
Statement of Revenues, Expenditures and Changes
In Fund Balance – Budget and Actual
General Fund
For the Year Ended June 30, 2010

	Budgeted Amounts Original	Final	Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Local sources	\$1,128,703	\$1,128,703	\$1,266,113	\$ 137,410
State sources	4,072,979	4,072,979	3,822,870	(250,109)
Federal sources	336,100	336,100	848,239	512,139
Total revenues	<u>5,537,782</u>	<u>5,537,782</u>	<u>5,937,222</u>	<u>399,440</u>
Expenditures				
Instruction:				
Regular programs	2,217,170	2,217,170	2,393,849	(176,679)
Special programs	593,717	593,717	562,538	31,179
Vocational education programs	144,935	144,935	135,840	9,095
Other instructional programs	57,630	57,630	104,250	(46,620)
Pre-kindergarten	182,613	182,613	140,130	42,483
Support services:				
Pupil personnel	190,565	190,565	169,321	21,244
Instructional staff	111,820	111,820	159,285	(47,465)
Administration	390,647	390,647	366,146	24,501
Pupil health	66,151	66,151	63,338	2,813
Business	157,307	157,307	159,340	(2,033)
Operation and maintenance of plant	527,944	527,944	416,656	111,288
Student transportation	467,200	467,200	498,934	(31,734)
Central	39,744	39,744	18,719	21,025
Other support services	0	0	49,243	(49,243)
Operation of noninstructional services:				
Student activities	93,362	93,362	89,033	4,329
Debt service:				
Principal and interest	251,977	251,977	228,866	23,111
Refund of prior year receipts	<u>0</u>	<u>0</u>	<u>6,657</u>	<u>(6,657)</u>
Total expenditures	<u>5,492,782</u>	<u>5,492,782</u>	<u>5,562,145</u>	<u>(69,363)</u>
Excess (deficiency) of revenues over expenditures	<u>45,000</u>	<u>45,000</u>	<u>375,077</u>	<u>330,077</u>
Other financing sources (uses)				
Interfund transfers	<u>(45,000)</u>	<u>(45,000)</u>	<u>(53,542)</u>	<u>(8,542)</u>
Total other financing sources (uses)	<u>(45,000)</u>	<u>(45,000)</u>	<u>(53,542)</u>	<u>(8,542)</u>
Net change in fund balance	0	0	321,535	321,535
Fund balance, beginning of year	<u>700,000</u>	<u>700,000</u>	<u>1,216,584</u>	<u>516,584</u>
Fund balance, end of year	<u>\$ 700,000</u>	<u>\$ 700,000</u>	<u>\$1,538,119</u>	<u>\$ 838,119</u>

See accompanying notes to the basic financial statements.

**Harmony Area School District
Combining Balance Sheet –
All Non-Major Governmental Funds
June 30, 2010**

	<u>Special Revenue Fund</u>
	Student Athletics Fund
Assets	
Cash and cash equivalents	\$ 6,296
Total assets	<u>\$ 6,296</u>
Liabilities and Fund Balance	
Liabilities	
Due to other funds	\$ 2,810
Total liabilities	<u>2,810</u>
Fund Balance	
Unreserved-undesignated	<u>3,486</u>
Total fund balance	<u>3,486</u>
Total liabilities and fund balance	<u>\$ 6,296</u>

See accompanying notes to basic financial statements.

Harmony Area School District
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances – All Non-Major Governmental Funds
For the Year Ended June 30, 2010

	<u>Special Revenue Fund</u>
	Student Athletics Fund
Revenues	
Local sources:	
Revenues from student athletics	\$ 7,567
Total revenues	<u>7,567</u>
Expenditures	
Operation of noninstructional services	<u>60,735</u>
Total expenditures	<u>60,735</u>
Other Financing Sources (Uses)	
Intefund transfers	<u>53,542</u>
Total other financing sources (uses)	<u>53,542</u>
Net change in fund balance	374
Fund balance, beginning of year	<u>3,112</u>
Fund balance, end of year	<u>\$ 3,486</u>

See accompanying notes to basic financial statements.

Harmony Area School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Federal/Grant Project Title	Source Code	Federal C.F.D.A. Number	Pass Through Grants Number	Grant Period Beginning/End Date	Program Or Award Amount	Total Received For the Year	Accrued (Deferred) Revenue at July 1, 2009	Revenue Recognized	Expenditures	Adjustment	Accrued (Deferred) Revenue June 30, 2010
<u>U.S. DEPARTMENT OF EDUCATION</u>											
Passed through the Pennsylvania Department of Education:											
ECIA Title I	I	84.010	(1)	013-100183	07/01/09-09/30/10	\$ 156,956	\$ 0	\$ 181,441	\$ 181,441	\$ 0	\$ 24,485
ECIA Title I	I	84.010	(1)	013-090183	07/01/08-09/30/09	12,179	12,179	0	0	0	0
ARRA - ECIA Title I	I	84.389	(1)	127-100183	05/14/09-09/30/10	66,377	0	100,353	100,353	0	33,976
ECIA Title I Academic Achievement	I	84.010	(1)	077-100183	07/01/09-09/30/10	1,920	(800)	3,600	3,600	0	880
ECIA Title II Part A	I	84.367		020-100183	07/01/09-09/30/10	41,534	0	47,043	47,043	0	5,509
ECIA Title II Part A	I	84.367		020-090183	07/01/08-09/30/09	3,521	7,396	0	0	0	3,875
ECIA Title II Part D	I	84.318		055-100183	07/01/09-09/30/10	10,000	0	42,098	42,098	0	32,098
ECIA Title II Part D	I	84.318		055-090183	07/01/08-09/30/09	21,000	21,000	0	0	0	0
ARRA - Fiscal Stabilization	I	84.394		126-100183	07/01/09-06/30/10	319,627	0	319,627	319,627	0	0
Safe and Drug Free Schools	I	84.186A		100-100183	07/01/09-09/30/10	1,308	0	1,605	1,605	0	297
Safe and Drug Free Schools	I	84.186A		100-090183	07/01/08-09/30/09	611	611	0	0	0	0
Passed through Central Intermediate Unit 10:											
IDEA Part B	I	84.027	(2)	N/A	07/01/09-06/30/10	0	0	68,139	68,139	0	68,139
IDEA Part B	I	84.027	(2)	N/A	07/01/08-06/30/09	15,037	15,347	0	0	(310)	0
ARRA - IDEA Part B	I	84.391	(2)	N/A	05/14/09-09/30/11	29,680	0	32,137	32,137	0	2,457
Total U.S. Department of Education						679,750	55,733	796,043	796,043	(310)	171,716

(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, 2010

<u>Federal/Grant Project Title</u>	<u>Source Code</u>	<u>Federal C.F.D.A. Number</u>	<u>Pass Through Grantors Number</u>	<u>Grant Period Beginning/End Date</u>	<u>Program Or Award Amount</u>	<u>Total Received For the Year</u>	<u>Accrued (Deferred) Revenue at July 1, 2009</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Adjustment</u>	<u>Accrued (Deferred) Revenue June 30, 2010</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>											
Passed through the Pennsylvania Department of Agriculture:											
USDA Commodities	I	10.550	N/A	07/01/09-06/30/10	N/A	13,645	(2,205)	11,870	11,870	0	(3,980)
Passed through the Pennsylvania Department of Education:											
National School Lunch	I	10.555	N/A	07/01/09-06/30/10	N/A	136,268	0	136,268	136,268	0	0
Severe Needs Breakfast	I	10.553	N/A	07/01/09-06/30/10	N/A					0	0
Fresh Fruit and Vegetable	I	10.582	N/A	07/01/09-06/30/10	N/A	13,221	0	13,221	13,221	0	
State Matching Funds	S	N/A	N/A	07/01/09-06/30/10	N/A	12,368	0	12,368	12,368	0	0
Total U.S. Department of Agriculture						175,502	(2,205)	173,727	173,727	0	(3,980)
TOTAL FINANCIAL ASSISTANCE						\$ 1,188,939	\$ 53,528	\$ 969,770	\$ 969,770	\$ (310)	\$ 167,736

(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, 2010**

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, 2010, the District had food commodities totaling \$3,980 in inventory.

- (a) Total amount of commodities received from the Department of Agriculture.
- (b) Beginning inventory at July 1, 2009.
- (c) Total amount of commodities used.
- (d) Ending inventory at June 30, 2010.

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 – Test of 50% Rule

Total Expenditures	\$969,770	
Less: State's share of National School Lunch and Severe Needs Breakfast Programs	<u>(12,368)</u>	
Total Federal Expenditures	<u>\$957,402</u>	
ARRA – State Fiscal Stabilization Fund	\$319,627	
Title I Cluster (including ARRA)	<u>285,394</u>	
Tested	<u>\$605,021</u>	
Total Federal Expenditures	\$957,402	= 63.2%

**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 aggregate remaining fund information of Harmony Area School District as of and for the year ended June 30, 2010, which collectively comprise Harmony Area School District's basic financial statements and have issued our report thereon dated January 4, 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 audit 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 would not necessarily identify all deficiencies in internal control 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 significant deficiencies in internal control over financial reporting (#2010-1). 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 January 4, 2011.

Harmony Area School District's response to the findings 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.

January 4, 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, 2010. 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. 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 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, 2010.

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 in order to determine our 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 would 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.

January 4, 2011

**Harmony Area School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010**

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *unqualified*

Internal control over financial reporting:

Material weakness (es) identified? ☐ Yes ☒ No

Significant deficiency (ies) identified
not considered to be material weaknesses? ☒ Yes ☐ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified ☐ Yes ☒ No

Significant deficiency identified
not considered to be material weakness(es)? ☐ Yes ☒ 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 ☒ No

Identification of major programs:

CFDA Number(s)
84.394
84.010/84.84.389

Name of Federal Program or Cluster
ARRA – State Fiscal Stabilization Fund
Title I Cluster (including ARRA)

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

Section II – Financial Statement Findings

INTERNAL CONTROL OVER FINANCIAL REPORTING

Finding #2010-1

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.

**Harmony Area School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010**

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.