

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

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

**For the Year Ended  
June 30, 2012**

## Table of Contents

List of Report Distributions.....	2
Independent Auditors' Report.....	3
Management's Discussion and Analysis.....	5
<b>Basic Financial Statements</b>	
Statement of Net Assets.....	14
Statement of Activities.....	15
Balance Sheet – Governmental Funds.....	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	19
Statement of Net Assets – Proprietary Fund.....	21
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund.....	22
Statement of Cash Flows – Proprietary Fund.....	23
Statement of Fiduciary Net Assets – Fiduciary Funds.....	24
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds.....	25
Notes to Financial Statements.....	26
<b>Supplemental Information</b>	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.....	48
Schedule of Expenditures of Federal Awards and Certain State Grants.....	49
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	53
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.....	55
Schedule of Findings and Questioned Costs.....	57

**List of Report Distribution**

December 10, 2012

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)

In addition, by December 15, an electronic version of the audit report must be filed with the MSRB via EMMA to be in compliance with the Qualified School Construction Bond Program.

Sincerely,

*Kotzan CPA & Associates, P.C.*

Kotzan CPA & Associates, P.C.

## Independent Auditors' Report

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

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Harmony Area School District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Harmony Area School District as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 10, 2012 on our consideration of Harmony Area School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 12 and page 48, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing

standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

*Kotzan CPA & Associates, P.C.*

Kotzan CPA & Associates, P.C.  
December 10, 2012

---

# Management's Discussion and Analysis

## Harmony Area School District

2011-2012

---

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 \$5,763,585 and expenditures of \$5,575,912, resulting in an excess of revenues over expenditures of \$187,673, before transfers, for the year ended June 30, 2012. Transfers out totaled \$207,325, of which \$40,000 was to the Capital Reserve Fund and \$167,325 was to the Debt Service Fund. After these transfers out, the general fund "final" deficiency of revenues over expenditures was \$19,652 for the year ended June 30, 2012. Harmony Area School District's general fund maintains a fund balance of \$1,553,527 at June 30, 2012. In addition to the general fund, the fund balance of the capital reserve fund is \$1,157,098, the fund balance of the capital projects fund is \$5,592,154, and the fund balance of the debt service fund is \$15,172 at June 30, 2012. These amounts are reflected on the fund financial statements (modified accrual basis).

Historical trends indicated that during the 2011-12 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, 2012 as compared to June 30, 2011.

**Table 1**  
**Condensed Schedule of Net Assets**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total School District</b>		<b>Change</b>
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012-2011</b>
<b>Assets</b>							
Current assets	\$ 8,973,239	\$ 3,348,878	\$ 37,249	\$ 36,383	\$ 9,010,488	\$ 3,385,261	\$ 5,625,227
Non-current assets	3,155,599	2,827,116	39,359	20,217	3,194,958	2,847,333	347,625
Total assets	<u>\$ 12,128,838</u>	<u>\$ 6,175,994</u>	<u>\$ 76,608</u>	<u>\$ 56,600</u>	<u>\$ 12,205,446</u>	<u>\$ 6,232,594</u>	<u>\$ 5,972,852</u>
<b>Liabilities</b>							
Current liabilities	\$ 657,742	\$ 612,751	\$ 61,742	\$ 52,112	\$ 719,484	\$ 664,863	\$ 54,621
Long-term liabilities	7,584,865	1,707,803	1,815	1,524	7,586,680	1,709,327	5,877,353
Total liabilities	<u>\$ 8,242,607</u>	<u>\$ 2,320,554</u>	<u>\$ 63,557</u>	<u>\$ 53,636</u>	<u>\$ 8,306,164</u>	<u>\$ 2,374,190</u>	<u>\$ 5,931,974</u>
<b>Net Assets</b>							
Invested in capital assets, net of related debt	\$ 910,052	\$ 1,050,982	\$ 39,359	\$ 20,217	\$ 949,411	\$ 1,071,199	\$ (121,788)
Restricted	1,172,270	1,116,842	0	0	1,172,270	1,116,842	55,428
Unrestricted	1,803,909	1,687,616	(26,308)	(17,253)	1,777,601	1,670,363	107,238
Total net assets	<u>\$ 3,886,231</u>	<u>\$ 3,855,440</u>	<u>\$ 13,051</u>	<u>\$ 2,964</u>	<u>\$ 3,899,282</u>	<u>\$ 3,858,404</u>	<u>\$ 40,878</u>

**Assets, Liabilities and Net Assets – Government-Wide**

Current assets represented 73.8% of the total assets comprised largely of cash and cash equivalents of \$2,982,010, investments of \$5,500,700, taxes receivable of \$300,840, and intergovernmental receivables of \$196,260. Fixed assets including land, site and building improvements, furniture and equipment, and construction in progress represent 24.4% of total assets at \$2,923,379.

The total liability amount of \$8,306,164 consists primarily of bonds payable (\$7,645,000), compensated absences (\$249,882), and accrued salaries and benefits (\$307,327).

The resulting \$3,899,282 in net assets includes \$949,411 invested in capital assets, net of related debt, \$1,157,098 restricted for capital projects, \$15,172 restricted for debt service and \$1,777,601 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, 2012 compared to the year ended June 30, 2011.

**Table 2**  
**Changes in Net Assets**

	Governmental Activities		Business-type Activities		Total School District		Change
	2012	2011	2012	2011	2012	2011	2012-2011
Program Revenues:							
Charges for services	\$ 3,872	\$ 5,290	\$ 90,872	\$ 93,854	\$ 94,744	\$ 99,144	\$ (4,400)
Operating grants and contributions	1,757,302	1,728,144	195,093	157,922	1,952,395	1,886,066	66,329
Capital grants and contributions	98,490	112,497	0	0	98,490	112,497	(14,007)
General Revenues:							
Property and other taxes	1,138,375	1,118,533	0	0	1,138,375	1,118,533	19,842
Grants and entitlements	2,708,529	2,832,330	0	0	2,708,529	2,832,330	(123,801)
Investment earnings	11,203	7,305	3	10	11,206	7,315	3,891
Transfers between gov'tal, BT activities	0	(12,445)	0	12,445	0	0	0
Other	5,588	724,608	0	0	5,588	724,608	(719,020)
Total Revenues	<u>5,723,359</u>	<u>6,516,262</u>	<u>285,968</u>	<u>264,231</u>	<u>6,009,327</u>	<u>6,780,493</u>	<u>(771,166)</u>
Program Expenses:							
Instruction	3,402,634	3,461,362	0	0	3,402,634	3,461,362	(58,728)
Support services:							
Instructional student support	544,159	386,744	0	0	544,159	386,744	157,415
Administration and financial	690,394	679,745	0	0	690,394	679,745	10,649
Plant operation and maintenance	398,466	414,326	0	0	398,466	414,326	(15,860)
Pupil transportation	415,673	565,768	0	0	415,673	565,768	(150,095)
Student activities/community	160,442	121,849	0	0	160,442	121,849	38,593
Interest on long-term debt	80,800	66,908	0	0	80,800	66,908	13,892
Food Services	0	0	275,881	257,325	275,881	257,325	18,556
Total Expenses	<u>5,692,568</u>	<u>5,696,702</u>	<u>275,881</u>	<u>257,325</u>	<u>5,968,449</u>	<u>5,954,027</u>	<u>\$ 14,422</u>
Increase (decrease) in net assets	<u>\$ 30,791</u>	<u>\$ 819,560</u>	<u>\$ 10,087</u>	<u>\$ 6,906</u>	<u>\$ 40,878</u>	<u>\$ 826,466</u>	<u>\$ (785,588)</u>

Revenues decreased from the prior year by \$771,166, or 11.4%. The revenue received from Rosebud Mining during prior year but not current year accounts for a majority of the decrease.

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

Expenses increased over the prior year by \$14,422. The most significant increases in expenses are due to the fact that, when the budget was approved, all support staff were placed on single health care coverage and two aides in the 1200 function were furloughed. Once the year began for 11-12, the health care was returned to the support staff at whatever level they needed, be it family, husband/wife, or parent child(ren). Also, the two aides were rehired.

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 2011-12 Expenses	Actual 2010-11 Expenses	Over/(Under) From P/Y	2011-12 Budget	(Over)/Under 2011-12 Budget
1100	Regular Educational Programs	\$ 2,266,058	\$ 2,447,188	\$ (181,130)	\$ 2,290,553	\$ 24,495
1200	Special Education	678,281	605,092	73,189	566,027	(112,254)
1300	Vocational Education	185,527	173,960	11,567	140,935	(44,592)
1400	Other Instructional Programs	95,452	96,728	(1,276)	91,472	(3,980)
1800	Accountability and Pre-K	138,664	76,174	62,490	81,922	(56,742)
2100	Pupil Services	182,205	168,652	13,553	178,339	(3,866)
2200	Instructional Staff Services	182,054	141,720	40,334	141,455	(40,599)
2300	Administration	430,132	406,356	23,776	393,282	(36,850)
2400	Health Services	87,274	77,331	9,943	74,872	(12,402)
2500	Business	162,783	171,683	(8,900)	158,519	(4,264)
2600	Maintenance	396,115	407,394	(11,279)	420,607	24,492
2700	Transportation	403,361	548,719	(145,358)	364,132	(39,229)
2800/2900	IU Programs	68,960	71,704	(2,744)	18,304	(50,656)
3000	Student Activities/Community	155,689	118,177	37,512	99,368	(56,321)
4000	Facilities Acq, Const, and Impr	0	30,000	(30,000)	0	0
5110	Financing	143,357	228,441	(85,084)	242,931	99,574
5130	Refund of Prior Year Receipts	0	352	(352)	0	0
5200	Interfund Transfers	207,325	12,445	194,880	74,000	(133,325)
5900	Budgetary Reserve	0	0	0	0	0
	Total Expenditures	5,783,237	5,782,116	1,121	5,336,718	(446,519)
	Revenues	5,763,585	5,813,690	(50,105)	5,336,718	426,867
	Net Change	\$ (19,652)	\$ 31,574	\$ (51,226)	\$ 0	\$ (19,652)

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

**DIFFERENCES**

- Function 1300 Increase in expenses due to increased vo-tech costs resulting from increased student participation.
- Function 1400 Increase in expenses reflects increase in the number of students placed in alternative education.
- Function 2100 Increase in expenses due to increased cost of psychological services through the IU.
- Function 2400 Increase in expenses due to the resignation of the school nurse, and the subsequent cost of numerous substitutes, until a new nurse was hired.
- Function 2700 Increase in expenses due to transporting the additional special needs students and additional alternative education students to and from school and to various alternative education facilities.
- Function 2800/  
2900 Expenses over budget due to the cost of Warner's Learning not being budgeted in the 2900s were the charges were posted.
- Function 3000 Increase in expenses due to the inclusion of the Athletic Fund with the General Fund.

**Capital Assets**

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

**Table 4**  
**Capital Assets Net of Depreciation**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>		<b>Percentage Change 2012-2011</b>
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	
Land	\$ 5,000	\$ 5,000	\$ 0	\$ 0	\$ 5,000	\$ 5,000	0.00%
Construction in progress	335,280	30,000	0	0	335,280	30,000	1017.60%
Buildings	2,421,665	2,551,112	0	0	2,421,665	2,551,112	-5.07%
Equipment and furniture	122,075	152,880	39,359	20,217	161,434	173,097	-6.74%
	<u>\$ 2,884,020</u>	<u>\$ 2,738,992</u>	<u>\$ 39,359</u>	<u>\$ 20,217</u>	<u>\$ 2,923,379</u>	<u>\$ 2,759,209</u>	5.95%

**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**

	Total School District		Percent Change
	2012	2011	
General obligation refunding bonds (Series of 2006)	\$ 0	\$ 1,690,000	-100.00%
QSCB bonds (Series of 2011)	6,000,000	0	100.00%
General obligation refunding bonds (Series of 2011)	<u>1,645,000</u>	<u>0</u>	100.00%
Total	<u>\$ 7,645,000</u>	<u>\$ 1,690,000</u>	352.37%

**MAJOR FINANCIAL ISSUES**

The financial issues pertaining to the District for the 2011-12 year are as follows:

**BUILDING IMPROVEMENTS**

The district did do some major repairs on the roof.

The district approved and will move forward with a renovation project.

**CURRICULUM**

Due to budget constraints, no new curriculum purchases were made with district funds. The Middle/High School did use the EETT competitive grant to purchase on-line courses through Lincoln Interactive to offer students expanded curriculum choices for the school year. Courses were offered in Nutrition, Video Game Design, Spanish, and Mathematics.

**TECHNOLOGY**

The continuation of implementing 21<sup>st</sup> Century educational "best practices" for elementary and secondary classrooms remained a focus during the 2011-12 school year. A major emphasis was the up-keep and regular maintenance of previously purchased hardware items that came via grants and the regular rotation (refresh) of technology. Grants that previously funded new projects and initiatives have since dried up or halted and this creates a significant burden on the budget, particularly during a time period of already having a constrained budget. Another significant budgetary item was the maintenance of classroom visual devices and hardware that was initially purchased by grants. An example is ceiling-mounted projectors, where the internal bulb has a cost of between \$200 and \$250 depending on the model. Each year items such as these projectors have an increased cost of up-keep.

**Programs:** Due to budget constraints, several pieces of software were scaled-back and concentration was put into the study island program, "KnowledgeBox," "i-Station," and the Renaissance series in order to remediate student skills in elementary and secondary. In order to reach state and federally mandated proficiency standards, along with local district-wide curricular needs, these were the programs deemed necessary. The school infrastructure and hardware was able to maintain running these programs, however a future need will soon arise regarding upgrading the servers and hardware that maintain these programs.

**Infrastructure:** The district continues to gradually evolve the network, particularly wireless, with gradual purchases and upgrades each fiscal year. Most hardware items, such as switch hubs, routers, firewalls, and web-blocking units, have a 5-year shelf life, so it is important to keep these various items on a rotating replacement schedule. Priority has been put on maximizing network speed and consistency/up-time so our students and staff do not lose productivity. Another area of value within the infrastructure is reliable back-up of data, and assurance of recovery, in the event of disaster to hardware. Emphasis continued in 2011-12 on "BDR" (Back-up and Disaster Recovery)

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

for the main servers that keep productivity in place within our district. The system in place manages the back-up of key sectors of our data while also assuring us of the ability to restore data in the event of emergency failure of servers.

**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, 2012**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Current assets:			
Cash and equivalents	\$ 2,950,457	\$ 31,553	\$ 2,982,010
Investments	5,500,700	0	5,500,700
Taxes receivable	300,840	0	300,840
Intergovernmental receivables	196,260	0	196,260
Other receivables	6,573	0	6,573
Inventories	14,353	5,696	20,049
Prepaid expenses	1,300	0	1,300
Other current assets	<u>2,756</u>	<u>0</u>	<u>2,756</u>
Total current assets	<u>8,973,239</u>	<u>37,249</u>	<u>9,010,488</u>
Noncurrent assets:			
Land	5,000	0	5,000
Depreciable capital assets, net	2,543,740	39,359	2,583,099
Construction in progress	335,280	0	335,280
Deferred bond costs, net	140,957	0	140,957
OPEB asset	<u>130,622</u>	<u>0</u>	<u>130,622</u>
Total noncurrent assets	<u>3,155,599</u>	<u>39,359</u>	<u>3,194,958</u>
Total assets	<u>\$ 12,128,838</u>	<u>\$ 76,608</u>	<u>\$ 12,205,446</u>
<b>Liabilities</b>			
Current liabilities:			
Internal balances	\$ (56,261)	\$ 56,261	\$ 0
Due to other governments	51,239	0	51,239
Accounts payable	96,098	2,278	98,376
Current portion of long-term obligations	228,719	605	229,324
Accrued interest payable	28,620	0	28,620
Accrued salaries and wages	307,327	0	307,327
Deferred revenue	<u>2,000</u>	<u>2,598</u>	<u>4,598</u>
Total current liabilities	<u>657,742</u>	<u>61,742</u>	<u>719,484</u>
Noncurrent liabilities:			
Bonds and notes payable, net of discount	7,397,747	0	7,397,747
Lease purchase obligations	1,521	0	1,521
Long-term portion of compensated absences	<u>185,597</u>	<u>1,815</u>	<u>187,412</u>
Total noncurrent liabilities	<u>7,584,865</u>	<u>1,815</u>	<u>7,586,680</u>
Total liabilities	<u>8,242,607</u>	<u>63,557</u>	<u>8,306,164</u>
<b>Net assets</b>			
Invested in capital assets, net of debt	910,052	39,359	949,411
Restricted for debt service (spendable)	15,172	0	15,172
Restricted for capital projects (spendable)	1,157,098	0	1,157,098
Unrestricted	<u>1,803,909</u>	<u>(26,308)</u>	<u>1,777,601</u>
Total net assets	<u>3,886,231</u>	<u>13,051</u>	<u>3,899,282</u>
Total liabilities and net assets	<u>\$ 12,128,838</u>	<u>\$ 76,608</u>	<u>\$ 12,205,446</u>

See accompanying notes to the basic financial statements.

**Harmony Area School District**  
**Statement of Activities**  
**For the Year Ended June 30, 2012**

	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
<b>Governmental Activities:</b>							
Instruction	\$ 3,402,634	\$ 0	\$ 1,015,033	\$ 0	\$ (2,387,601)	\$ 0	\$ (2,387,601)
Instructional student support	544,159	0	222,682	0	(321,477)	0	(321,477)
Administration and financial support	690,394	0	6,484	0	(683,910)	0	(683,910)
Operations and maintenance of plant	398,466	0	0	98,490	(299,976)	0	(299,976)
Pupil transportation	415,673	0	401,167	0	(14,506)	0	(14,506)
Student activities	159,543	3,872	0	0	(155,671)	0	(155,671)
Community	899	0	0	0	(899)	0	(899)
Interest on long-term debt	80,800	0	111,936	0	31,136	0	31,136
Total governmental activities	5,692,568	3,872	1,757,302	98,490	(3,832,904)	0	(3,832,904)
<b>Business-Type Activities:</b>							
Food service	275,881	90,872	195,093	0	0	10,084	10,084
Total primary government	<u>\$ 5,968,449</u>	<u>\$ 94,744</u>	<u>\$ 1,952,395</u>	<u>\$ 98,490</u>	<u>(3,832,904)</u>	<u>10,084</u>	<u>(3,822,820)</u>
<b>General Revenues:</b>							
Taxes levied					1,138,375	0	1,138,375
Grants, subsidies and contributions, not restricted					2,708,529	0	2,708,529
Investment earnings					11,203	3	11,206
Miscellaneous					5,588	0	5,588
Total general revenues					<u>3,863,695</u>	<u>3</u>	<u>3,863,698</u>
Change in net assets					30,791	10,087	40,878
Net assets, beginning of year, restated					<u>3,855,440</u>	<u>2,964</u>	<u>3,858,404</u>
Net assets, end of year					<u>\$ 3,886,231</u>	<u>\$ 13,051</u>	<u>\$ 3,899,282</u>

See accompanying notes to the basic financial statements.



**Harmony Area School District  
Balance Sheet  
Governmental Funds  
June 30, 2012**

	General Fund	Major Fund Capital Projects	Non-Major Fund Debt Service	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 1,686,033	\$ 1,249,252	\$ 15,172	\$ 2,950,457
Investments	700	5,500,000	0	5,500,700
Taxes receivable	300,840	0	0	300,840
Due from other funds	56,261	0	0	56,261
Due from other governments	196,260	0	0	196,260
Other receivables	6,573	0	0	6,573
Inventories	14,353	0	0	14,353
Prepaid expenses	1,300	0	0	1,300
Other current assets	2,756	0	0	2,756
<b>Total assets</b>	<b><u>\$ 2,265,076</u></b>	<b><u>\$ 6,749,252</u></b>	<b><u>\$ 15,172</u></b>	<b><u>\$ 9,029,500</u></b>
<b>Liabilities and Fund Balance</b>				
<b>Liabilities</b>				
Due to other governments	\$ 51,239	\$ 0	\$ 0	\$ 51,239
Accounts payable	96,098	0	0	96,098
Accrued salaries and benefits	307,327	0	0	307,327
Deferred revenue	256,885	0	0	256,885
<b>Total liabilities</b>	<b><u>711,549</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>711,549</u></b>
<b>Fund Balance</b>				
Nonspendable fund balance	15,653	0	0	15,653
Restricted fund balance	0	6,749,252	15,172	6,764,424
Committed fund balance	590,820	0	0	590,820
Unassigned fund balance	947,054	0	0	947,054
<b>Total fund balance</b>	<b><u>1,553,527</u></b>	<b><u>6,749,252</u></b>	<b><u>15,172</u></b>	<b><u>8,317,951</u></b>
<b>Total liabilities and fund balance</b>	<b><u>\$ 2,265,076</u></b>	<b><u>\$ 6,749,252</u></b>	<b><u>\$ 15,172</u></b>	<b><u>\$ 9,029,500</u></b>

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, 2012**

<b>Total fund balance – governmental funds</b>		<b>\$ 8,317,951</b>
 <b>Amounts reported for governmental activities in the statement of net assets are different because:</b>		
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 \$8,019,956 and the accumulated depreciation is \$5,135,936.		2,884,020
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.		254,885
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 \$177,320 and the accumulated amortization is \$36,363.		140,957
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	\$(7,645,000)	
Lease obligations	(3,375)	
Compensated absences	(247,462)	
Accrued interest payable	(28,620)	
Bond discount, net of amortization	82,253	
OPEB asset	<u>130,622</u>	<u>(7,711,582)</u>
<b>Net assets of governmental activities</b>		<b><u>\$ 3,886,231</u></b>

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, 2012**

	General Fund	Major Fund Capital Projects	Non-Major Fund Debt Service	Total Governmental Funds
<b>Revenues</b>				
Local sources	\$ 1,274,606	\$ 6,844	\$ 0	\$ 1,281,450
State sources	3,927,770	0	0	3,927,770
Federal sources	<u>557,444</u>	<u>0</u>	<u>0</u>	<u>557,444</u>
Total revenues	<u>5,759,820</u>	<u>6,844</u>	<u>0</u>	<u>5,766,664</u>
<b>Expenditures</b>				
Instruction	3,363,982	0	0	3,363,982
Support services	1,912,884	69,330	33,606	2,015,820
Non-instructional services	155,689	0	0	155,689
Capital outlay	0	305,280	0	305,280
Debt service (principal and interest)	<u>143,357</u>	<u>0</u>	<u>199,087</u>	<u>342,444</u>
Total expenditures	<u>5,575,912</u>	<u>374,610</u>	<u>232,693</u>	<u>6,183,215</u>
Excess of revenues over (under) expenditures	<u>183,908</u>	<u>(367,766)</u>	<u>(232,693)</u>	<u>(416,551)</u>
<b>Other financing sources (uses)</b>				
Bonds issued	0	6,000,000	0	6,000,000
Refunding bonds issued	0	0	1,810,000	1,810,000
Interfund transfers	(207,325)	40,000	167,325	0
Sale/compensation for fixed assets	3,765	0	0	3,765
Debt service-refunded bond issues	0	0	(1,690,000)	(1,690,000)
Debt service-bond discounts	<u>0</u>	<u>(39,824)</u>	<u>(39,460)</u>	<u>(79,284)</u>
Total other financing sources (uses)	<u>(203,560)</u>	<u>6,000,176</u>	<u>247,865</u>	<u>6,044,481</u>
Net change in fund balance	(19,652)	5,632,410	15,172	5,627,930
Fund balance, beginning of year	<u>1,573,179</u>	<u>1,116,842</u>	<u>0</u>	<u>2,690,021</u>
Fund balance, end of year	<u>\$ 1,553,527</u>	<u>\$ 6,749,252</u>	<u>\$ 15,172</u>	<u>\$ 8,317,951</u>

See accompanying notes to the basic financial statements.

**Harmony Area School District  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances To the Statement of Activities  
For the Year Ended June 30, 2012**

**Total net change in fund balance – governmental funds** \$ 5,627,930

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

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

Capital outlay	\$ 311,245	
Depreciation expense	<u>(166,217)</u>	145,028

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 decreased by this amount this year. (118,102)

Repayment of bond principal is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets. Issuance of bonds is an other financing source in the governmental funds, but increases long-term liabilities in the statement of net assets. The effect of these transactions on the statement of activities is shown below.

Repayment of bond principal	\$ 165,000	
Issuance of new bonds – QSCB		
Series of 2011	(6,000,000)	
Refund of Series 2006	1,690,000	
Issuance of new bonds – Series of 2011	<u>(1,810,000)</u>	(5,955,000)

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. 2,799

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. (3,237)

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 2011-12. 1,854

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. 95,254

**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, 2012**

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 by which new bond costs (\$98,184) and bond discounts (\$79,285) exceeded amortization expense (\$14,234) in the current period.	163,235
Refund of prior year expenditures represents current financial resources in the fund financial statements. However, in the statement of activities, this represents a prior year adjustment to net assets.	<u>71,030</u>
<b>Change in net assets of governmental activities</b>	<b><u>\$ 30,791</u></b>

See accompanying notes to the basic financial statements.