

**Indiana Area School District
Indiana, 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 19, 2011

To the Members of the Board
Indiana Area School District
Indiana, Pennsylvania 15701

Board Members:

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

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

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

Sincerely,

Kotzan CPA & Associates, P.C.
Kotzan CPA & Associates, P.C.

Independent Auditors' Report

To the Members of the Board
Indiana Area School District
Indiana, Pennsylvania 15701

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 Indiana 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 Indiana 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 19, 2011 on our consideration of Indiana 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 considered in assessing 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 14 and page 50, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses

to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Kotzan CPA & Associates, P.C.
Kotzan CPA & Associates, P.C.
January 19, 2011

Management's Discussion and Analysis

Indiana Area School District

2009-2010

The discussion and analysis of Indiana Area School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

This section of the Indiana Area School District annual financial report provides a discussion and analysis of the School District's financial performance during the fiscal year ended June 30, 2010. This discussion and analysis should be read in conjunction with the School District's accompanying financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

General Fund expenditures were \$40,399,554, which was a decrease over last year of \$316,087 or 1.0%. Salary and benefit costs, which comprise almost three-fourths of total expenditures, increased by \$1,293,240 or 4.1%. The decrease in expenditures was primarily due to: payments to settle past employee grievances declining from \$834,735 to zero and a decrease of \$343,776 on non-staff related operation and maintenance costs. General Fund revenue of \$44,805,773 was an increase of \$1,760,934 or 4.1% over last year. Of the total increase in General Fund revenue, 89.9% or \$1,582,461 came from local sources. State revenue declined \$1,027,200 but was offset by an increase in Federal revenue of \$1,251,673 as a result of ARRA stimulus funds. The school board increased real estate taxes by 4.54 mills, which represents a 4.9% increase.

The General Fund Balance for fiscal year ended 2009-2010 of \$4,242,085 is an increase from the prior year of \$1,414,898 and equates to 9.0% of 2010-2011 budgeted expenditures.

USING THE ANNUAL FINANCIAL REPORT

The annual financial report includes the Management's Discussion and Analysis and a series of financial statements and notes to those statements. These statements are organized so that the reader can understand Indiana Area School District as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The first two statements are government-wide financial statements – the Statement of Net Assets and the Statement of Activities. These provide both long-term and short-term information about the School District's overall financial status.

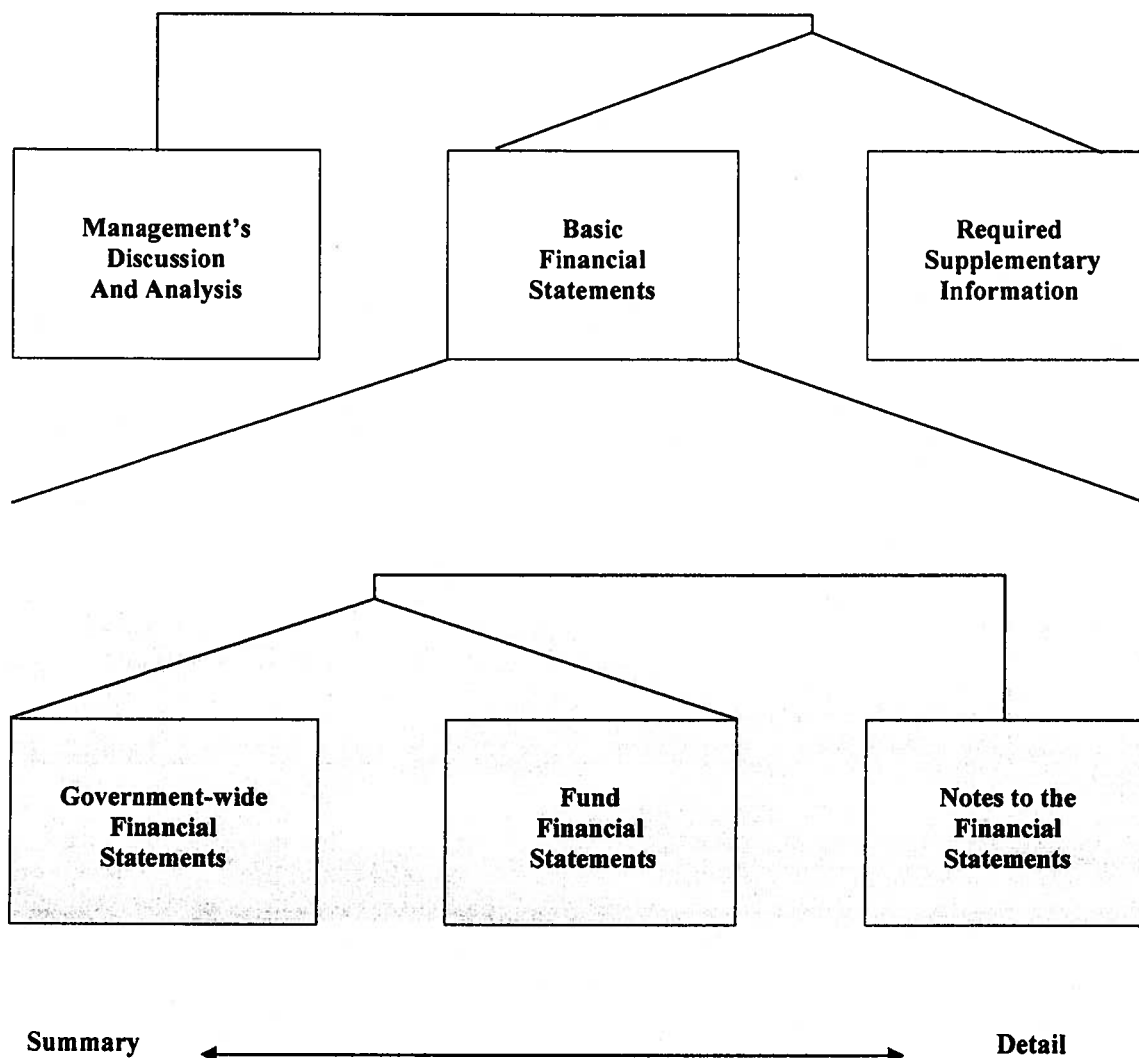
The remaining statements are fund financial statements that focus on individual parts of the School District's operations in more detail than the government-wide statements. The Governmental Funds statements tell how general School District services were financed in the short-term as well as what remains for future spending. Proprietary Fund statements offer short- and long-term financial information about the activities that the School District operates like a business. For this School District this is our Food Service Fund. Fiduciary Fund statements provide information about financial relationships where the School District acts solely as a trustee or agent for the benefit of others to whom the resources in question belong. For this School District these are student activity funds and a scholarship fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

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

Figure A-1 shows how the required parts of the Financial Section are arranged and relate to one another:

**Figure A-1
Required Components of
Indiana Area School District
Financial Report**



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

Figure A-2 summarizes the major features of the School District's financial statements. The remainder of this overview section of the Management's Discussion and Analysis highlights the structure and contents of each of the statements.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School District (except fiduciary funds)	Activities of the School District that are not proprietary or fiduciary, such as general operating, special revenue, capital projects and debt service	Activities the School District operates similar to private businesses, such as food services	Instances in which the School District administers resources on behalf of someone else such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses, and changes in net assets (deficit) • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

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

Government-wide Statements

The Government-wide statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The *Statement of Net Assets* includes all of the School District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when cash is received or paid.

The Government-wide statements report the School District's *net assets* and how they have changed. Net assets – the difference between the School District's assets and liabilities – are one way of measuring the School District's financial health or position. Over time, increases or decreases in the School District's net assets are an indicator of whether its financial position is improving or deteriorating. To assess the School District's overall health, non-financial factors, such as changes in the School District's property tax base and the condition of existing school facilities should be considered.

In the Government-wide financial statements, the School District's activities are divided into two categories as follows:

- **Governmental Activities:** Most of the School District's basic services are included here, such as regular and special education, maintenance and operation of plant services, transportation services and administrative services. Property taxes, along with state formula aid finance most of these activities.
- **Business-type Activities:** The School District charges fees to cover the cost of certain services such as food services programs.

Fund Financial Statements

The fund financial statements provide more detailed information about the School District's funds. These statements focus on the School District's most significant or "major" funds – not the School District as a whole. Funds are accounting components the School District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law and by bond covenants. The School District may establish other funds to control and manage money for particular purposes, such as repaying its long-term debts.

The School District has three types of funds as follows:

Governmental Funds: Most of the School District's basic services are included in Governmental Funds, which generally focus on (1) how cash and other financial assets can readily be converted into cash inflows and outflows and (2) balances left at year-end that are available for spending. Consequently, the Governmental Funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, a reconciliation between the two types of statements is provided to explain the relationship (or differences) between them.

Proprietary Funds: Services for which the School District charges a fee are generally reported in Proprietary Funds. Proprietary Funds are reported in the same way as the Government-wide financial statements. The School District's *Enterprise Funds* (one type of Proprietary Fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. The School District currently has one Enterprise Fund, the food service fund.

Fiduciary Funds: The School District is the trustee, or *fiduciary*, for assets that belong to others, such as student activity funds and the scholarship fund. The School District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The School District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

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

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The School District's total net assets were \$12,392,966 at June 30, 2010, which is an increase of \$186,359 over last year. Beginning net assets were reduced by \$1,212,019 as a result of a prior period adjustment in fiscal year 2010. The reduction in net assets was primarily due to the school district's thorough review of its capital assets and removal of computers and computer related equipment below the capitalization threshold that are not capitalized as a group.

Figure A-3
 Fiscal Year ended June 30, 2010
 Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>
Current and other assets	\$ 9,332,328	9,962,509	30,591	26,679	9,362,919	9,989,188
Capital assets	<u>36,522,589</u>	<u>33,450,219</u>	<u>0</u>	<u>0</u>	<u>36,522,589</u>	<u>33,450,219</u>
Total assets	\$ 45,854,917	43,412,728	30,591	26,679	45,885,508	43,439,407
Current and other liabilities	\$ 6,037,474	5,482,023	338,361	240,995	6,375,835	5,723,018
Long-term liabilities	<u>27,303,066</u>	<u>25,323,423</u>	<u>0</u>	<u>0</u>	<u>27,303,066</u>	<u>25,323,423</u>
Total liabilities	\$ 33,340,540	30,805,446	338,361	240,995	33,678,901	31,046,441
Net Assets						
Invested in capital assets, net of related debt	\$ 9,711,020	8,544,984	0	0	9,711,020	8,544,984
Restricted for Capital Projects	0	0	0	0	0	0
Restricted for retirement of long-term debt	1,871	0	0	0	1,871	0
Unrestricted	<u>2,801,486</u>	<u>4,062,298</u>	<u>(307,770)</u>	<u>(214,316)</u>	<u>2,493,716</u>	<u>3,847,982</u>
Total net assets	\$ *12,514,377	12,607,282	(307,770)	(214,316)	12,206,607	12,392,966

*Note that net assets were restated effective July 1, 2009 resulting in a decrease of \$1,212,019. Consequently, beginning net assets per the fiscal 2010 financial statements for governmental activities is \$11,302,358.

Most of the School District's net assets are invested in capital assets (buildings, land, and equipment). The remaining unrestricted net assets are a combination of designated and undesignated amounts. The restricted balances are amounts set aside to fund future purchases or capital projects as planned by the School District.

The results of this year's operations as a whole are reported in the Statement of Activities. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the School District's activities that are supported by other general revenues. The two largest General Fund revenue sources are the Basic Education Subsidy provided by the Commonwealth of Pennsylvania, and local taxes assessed to community taxpayers.

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

Figure A-4 takes the information from the Statement of Activities, rearranges it slightly, so you can see our total revenues for the year.

Figure A-4
 Fiscal Year ended June 30, 2010
 Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>
Revenues						
Charges for services	\$ 321,731	312,743	660,210	646,690	981,941	959,433
Operating grants and contributions	6,159,338	6,819,709	477,401	523,998	6,636,739	7,343,707
Taxes	25,820,694	27,352,207	-0-	-0-	25,820,694	27,352,207
Grants, subsidies and contributions, unrestricted	9,701,752	9,875,511	-0-	-0-	9,701,752	9,875,511
Cap Grants and Contributions	467,994	474,701	-0-	-0-	467,994	474,701
Other	<u>183,386</u>	<u>279,215</u>	<u>7,399</u>	<u>54,449</u>	<u>190,785</u>	<u>333,664</u>
Total revenues	\$ <u>42,654,895</u>	<u>45,114,086</u>	<u>1,145,010</u>	<u>1,225,137</u>	<u>43,799,905</u>	<u>46,339,223</u>
Expenses						
Instruction	\$ 28,699,997	29,182,059	-0-	-0-	28,699,997	29,182,059
Support services	14,255,415	12,768,524	-0-	-0-	14,255,415	12,768,524
Student activities	996,234	1,040,978	-0-	-0-	996,234	1,040,978
Community services	-0-	-0-	-0-	-0-	-0-	-0-
Interest on long-term debt	913,098	817,601	-0-	-0-	913,098	817,601
Long-term debt fiscal charges	-0-	-0-	-0-	-0-	-0-	-0-
Unallocated depreciation expense	-0-	-0-	-0-	-0-	-0-	-0-
Food services	-0-	-0-	1,119,547	1,131,683	1,119,547	1,131,683
Extraordinary Items:						
Accretion of Bond Premium	-0-	-0-	-0-	-0-	-0-	-0-
Amortization of Net Bond Discount	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total expenses	\$ <u>44,864,744</u>	<u>43,809,162</u>	<u>1,119,547</u>	<u>1,131,683</u>	<u>45,984,291</u>	<u>44,940,845</u>
Increase (decrease in net assets)	\$ <u>(2,209,849)</u>	<u>1,304,924</u>	<u>25,463</u>	<u>93,454</u>	<u>(2,184,386)</u>	<u>1,398,378</u>

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

Figure A-5 shows the School District's six largest functions – instruction, support services, other non-instructional services, student activities, community services, and debt service as well as each program's net cost (total cost less revenues generated by the activities). Also presented are the net costs offset by the other unrestricted grants, subsidies and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

Figure A-5
 Fiscal Year ended June 30, 2010
 Governmental Activities

Functions/Programs	Total Cost of Services		Net Cost of Services	
	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>
Instruction	\$28,699,997	\$29,182,059	\$23,390,504	\$23,531,882
Support services	14,255,415	12,768,524	12,693,701	10,853,841
Other non-instructional services	-0-	-0-	-0-	-0
Student activities	996,234	1,040,978	918,378	998,685
Community services	-0-	-0	-0-	-0
Interest on long term debt	913,098	817,601	913,098	817,601
Unallocated depreciation expense	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Governmental Activities	\$44,864,744	\$43,809,162	\$37,915,681	36,202,009
Less:				
Unrestricted grants, subsidies			<u>(9,701,752)</u>	<u>(9,875,511)</u>
Total needs from local taxes and other revenue			<u>\$28,213,929</u>	<u>\$26,326,498</u>

Figure A-6 reflects the activities of the Food Service program, the only Business-type activity of the School District.

Figure A-6
 Fiscal Year ended June 30, 2010
 Business-type Activities

Functions/Programs	Total Cost of Services		Net Cost of Services	
	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>
Food Services	\$1,119,547	\$1,131,683	\$18,064	\$39,005
Total Business-type Activities			<u>\$18,064</u>	<u>\$39,005</u>

The Statement of Revenues, Expenses and Changes in Net Assets (deficit) for this Proprietary Fund will further detail the actual results of operations.

THE SCHOOL DISTRICT FUNDS

At June 30, 2010, the School District's Governmental Funds reported a combined fund balance of \$5,897,200, which is an increase of \$1,347,060 over last year. An analysis of this change is detailed in the following paragraphs:

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

General Fund

The General Fund balance increased by \$1,414,898. When the 2009-2010 budget was adopted, a surplus of \$12,778 was projected. However, by spending \$1,049,282 less than budgeted and receiving \$352,840 more revenue than projected, the School District was able to close out the year with a higher than anticipated surplus.

Special Revenue

The Special Revenue Fund (Capital Reserve Fund) balance decreased by \$65,967. The primary reason for this decrease was that capital equipment purchases from this fund exceeded revenues (interest income and general fund transfers).

Capital Projects

The Capital Projects Fund balance was zero for 2010 and 2009.

Proprietary Fund

The Proprietary Fund Type is used to report the results of operations of the Food Service Program. This year, the results of operations before contributions and transfers resulted in net income of \$43,454. Even though the net asset balance is an accumulated deficit of \$214,316, this marks the fourth consecutive year that the Food Service Program showed a profit.

The Board is aware of the weak financial status of the Food Service Program. The School District opted to contract with a management company ten years ago in an effort to improve the efficiency and quality of the program. Since then the financial performance of the program has improved.

In analyzing food and labor costs, which represent most of the Food Service Program costs, it appears that the School District is operating within industry standards. Increasing prices and student participation may be required to maintain breakeven financial status annually. The School District has discussed contributions from the general fund over time to reduce the accumulated deficit rather than burdening current and future students with price increases for past deficits. The first contribution from the general fund occurred this year in the amount of \$50,000.

General Fund Budget

Budget transfers are required by state law and have been required since the Public School Code was adopted in 1949. Transfers are permitted from one class of expenditures to another without limit, so long as total expenditures of the School District do not exceed the original budget.

Over the years, there have been a number of different interpretations on how funds should be transferred and when. Presently, transfers are permitted to be made after the year-end audit adjustments are completed and are not required in connection with Federal program funds. To avoid confusion, we do transfers to cover all account categories regardless of whether or not Federal funds are involved and all transfers are done after the audit is complete.

The budget transfer practice we use lends itself to greater management control. Whenever certain classes of expenditures exceed original budget appropriations, it is easier to manage if original budget figures remain intact. Whenever funds are transferred several times per year, it tends to mask areas where close scrutiny should be exercised, generally weakening management control.

The administration authorizes expenditures of budget categories to be exceeded whenever expenditures vital to the program are required which may not have been contemplated at the time the budget was originally adopted. Examples of these types of expenditures are the addition of employees due to shifts in class sizes, increased textbook orders due to enrollment increases, purchases of equipment vital to the program unforeseen at budget time, emergency maintenance and repair requirements and other expenditures of this nature.

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

The administration realizes that a certain amount of flexibility is necessary in this regard to effectively deliver the educational program. However, prudent management control must be exercised to avoid adverse financial consequences.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the School District has investments of \$33,233,686 in a broad range of capital assets, including land, school buildings, administrative offices, athletic fields, a maintenance building, fixtures and equipment. See Figure A-7. This amount represents a decrease of \$3,043,459 over the previous year and is mostly attributable to a prior period adjustment of \$1,212,019 to remove computer and computer related equipment below the capitalization threshold, and depreciation expense exceeding capital improvements. More detailed information about capital assets can be found in Note 8 to the financial statements. Total depreciation expense for the year amounted to \$2,247,052.

Figure A-7
Capital Assets – Net of Depreciation

	Governmental Activities		Business Activities		Totals	
	2009	2010	2009	2010	2009	2010
Government activities						
Land	\$1,178,015	\$1,178,015	-0-	-0-	\$1,178,015	\$1,178,015
Construction in progress	<u>354,348</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>354,348</u>	<u>-0-</u>
Non-depreciable	<u>1,532,363</u>	<u>1,178,015</u>	<u>-0-</u>	<u>-0-</u>	<u>1,532,363</u>	<u>1,178,015</u>
Depreciable						
Land and site improvements	406,727	1,034,689	-0-	-0-	406,727	1,034,689
Building and building improvements	59,504,113	59,560,649	-0-	-0-	59,504,113	59,560,649
Machinery and equipment	<u>3,994,356</u>	<u>284,977</u>	<u>-0-</u>	<u>-0-</u>	<u>3,994,356</u>	<u>284,977</u>
Depreciable capital assets	63,905,196	60,880,315	-0-	-0-	63,905,196	60,880,315
Accumulated depreciation	<u>29,160,414</u>	<u>28,824,644</u>	<u>-0-</u>	<u>-0-</u>	<u>29,160,414</u>	<u>28,824,644</u>
Net Book Value	34,744,782	32,055,671	-0-	-0-	34,744,782	32,055,671
TOTAL	\$36,277,145	\$33,233,686	\$ -0-	\$ -0-	\$36,277,145	\$33,233,686

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

Debt Administration

As of June 30, 2010, the School District had \$24,915,000 in general obligation bonds outstanding. This is a net decrease of \$1,910,000 as shown in Figure A-8.

Figure A-8
Outstanding Debt

General Obligation Notes/Bonds	2009	2010
General Obligation Bonds Series of 2003	1,735,000	-0-
General Obligation Bonds Series of 2003A	115,000	105,000
General Obligation Bonds Series of 2005	4,985,000	4,980,000
General Obligation Bonds Series of 2008	9,990,000	9,830,000
General Obligation Bonds Series of 2009	10,000,000	10,000,000
Total	\$26,825,000	\$24,915,000

ECONOMIC FACTORS IMPACTING THE FUTURE

At the time these financial statements were prepared, the School District was aware of the following issues that could have significant future fiscal impact:

- The School Board retained the services of an architect to conduct a feasibility study of the district's facilities. The initial study was completed in March 2010, but the architect has been approved for additional analysis related to specific buildings.
- A refunding of the General Obligation Series of 2005 to take advantage of lower interest rates was completed in July 2010.

CONTACTING THE SCHOOL DISTRICT FINANCIAL MANAGEMENT

The financial report is designed to provide the School District's citizens, taxpayers, parents, students, investors and creditors with a general overview of the School District's finances and to demonstrate the Board's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Dale R. Kirsch, Business Manager, Indiana Area School District, 501 East Pike, Indiana, PA 15701.

BASIC FINANCIAL STATEMENTS

**Indiana Area School District
Statement of Net Assets
June 30, 2010**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Current assets:			
Cash and equivalents	\$ 6,726,958	\$ 7,505	\$ 6,734,463
Taxes receivable	1,746,370	0	1,746,370
Intergovernmental receivables	1,200,096	10,188	1,210,284
Other receivables	289,085	68	289,153
Inventories	<u>0</u>	<u>8,918</u>	<u>8,918</u>
Total current assets	<u>\$ 9,962,509</u>	<u>\$ 26,679</u>	<u>\$ 9,989,188</u>
Noncurrent assets:			
Land	1,178,015	0	1,178,015
Depreciable capital assets, net	32,055,671	0	32,055,671
Deferred bond costs, net	<u>216,533</u>	<u>0</u>	<u>216,533</u>
Total noncurrent assets	<u>33,450,219</u>	<u>0</u>	<u>33,450,219</u>
Total assets	<u>\$43,412,728</u>	<u>\$ 26,679</u>	<u>\$ 43,439,407</u>
Liabilities			
Current liabilities:			
Internal balances	\$ (182,751)	\$ 182,751	\$ 0
Accounts payable	348,122	39,409	387,531
Accrued salaries and wages	2,414,215	0	2,414,215
Payroll deductions and withholdings	424,287	0	424,287
Accrued interest payable	216,761	0	216,761
Deferred revenues	12,030	18,835	30,865
Current portion of long-term liabilities	<u>2,249,359</u>	<u>0</u>	<u>2,249,359</u>
Total current liabilities	<u>5,482,023</u>	<u>240,995</u>	<u>5,723,018</u>
Noncurrent liabilities:			
Bonds payable	22,543,702	0	22,543,702
Long-term portion of compensated absences	567,165	0	567,165
Other long-term financing	1,622,016	0	1,622,016
Other post-employment benefits (OPEB)	<u>590,540</u>	<u>0</u>	<u>590,540</u>
Total noncurrent liabilities	<u>25,323,423</u>	<u>0</u>	<u>25,323,423</u>
Total liabilities	<u>30,805,446</u>	<u>240,995</u>	<u>31,046,441</u>
Net assets			
Invested in capital assets, net of debt	8,544,984	0	8,544,984
Unrestricted	<u>4,062,298</u>	<u>(214,316)</u>	<u>3,847,982</u>
Total net assets	<u>12,607,282</u>	<u>(214,316)</u>	<u>12,392,966</u>
Total liabilities and net assets	<u>\$43,412,728</u>	<u>\$ 26,679</u>	<u>\$ 43,439,407</u>

See accompanying notes to the basic financial statements.

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

	Net (Expenses) Revenues and Changes in Net Assets					
	Expenses	Program Revenues		Governmental Activities	Business-Type Activities	Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions			
Governmental Activities:						
Instruction	\$ 29,182,059	\$ 5,379,727	\$ 0	\$ (23,531,882)	\$ 0	\$ (23,531,882)
Instructional student support	2,895,257	11,923	0	(2,883,334)	0	(2,883,334)
Administration and financial support services	4,478,791	326,036	0	(4,152,755)	0	(4,152,755)
Operations and maintenance of plant services	3,776,027	308,495	474,701	(2,992,831)	0	(2,992,831)
Pupil transportation	1,618,449	793,528	0	(824,921)	0	(824,921)
Student activities	1,040,978	42,293	0	(998,685)	0	(998,685)
Interest on long-term debt	817,601	0	0	(817,601)	0	(817,601)
Total governmental activities	43,809,162	6,819,709	474,701	(36,202,009)	0	(36,202,009)
Business-Type Activities:						
Food service	1,131,683	523,998	0	0	39,005	39,005
Total primary government	\$ 44,940,845	\$ 7,343,707	\$ 474,701	(36,202,009)	39,005	(36,163,004)
General Revenues:						
Taxes levied				27,352,207	0	27,352,207
Grants, subsidies and contributions, not restricted				9,875,511	0	9,875,511
Investment earnings				358,574	4,449	363,023
Miscellaneous				(29,359)	0	(29,359)
Transfers between governmental, BT activities				(50,000)	50,000	0
Total general revenues				37,506,933	54,449	37,561,382
Change in net assets				1,304,924	93,454	1,398,378
Net assets beginning of year, restated				11,302,358	(307,770)	10,994,588
Net assets end of year				\$ 12,607,282	\$ (214,316)	\$ 12,392,966

See accompanying notes to the basic financial statements.

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

	<u>General Fund</u>	<u>Capital Reserve Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 5,056,724	\$ 1,670,234	\$ 0	\$ 6,726,958
Taxes receivable	1,746,370	0	0	1,746,370
Due from other funds	182,751	0	0	182,751
Due from other governments	1,200,096	0	0	1,200,096
Other receivables	<u>289,085</u>	<u>0</u>	<u>0</u>	<u>289,085</u>
Total assets	<u>\$ 8,475,026</u>	<u>\$ 1,670,234</u>	<u>\$ 0</u>	<u>\$ 10,145,260</u>
Liabilities and Fund Balance				
Liabilities				
Accounts payable	\$ 333,003	\$ 15,119	\$ 0	\$ 348,122
Accrued salaries and benefits	2,414,215	0	0	2,414,215
Payroll deductions and withholding	424,287	0	0	424,287
Deferred revenue	<u>1,061,436</u>	<u>0</u>	<u>0</u>	<u>1,061,436</u>
Total liabilities	<u>4,232,941</u>	<u>15,119</u>	<u>0</u>	<u>4,248,060</u>
Fund Balance				
Reserve for encumbrances	35,845	46,234	0	82,079
Unreserved-undesignated	<u>4,206,240</u>	<u>1,608,881</u>	<u>0</u>	<u>5,815,121</u>
Total fund balance	<u>4,242,085</u>	<u>1,655,115</u>	<u>0</u>	<u>5,897,200</u>
Total liabilities and fund balance	<u>\$ 8,475,026</u>	<u>\$ 1,670,234</u>	<u>\$ 0</u>	<u>\$ 10,145,260</u>

See accompanying notes to the basic financial statements

**Indiana Area School District
Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Assets
June 30, 2010**

Total fund balance – governmental funds \$ 5,897,200

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 the governmental funds. The cost of assets is \$62,058,330 and the accumulated depreciation is \$28,824,644. 33,233,686

Property taxes receivable will be collected in the future, but are not available soon enough to pay for current period's expenditures, and therefore, are deferred in the funds. 1,049,406

Bond issuance costs are expensed in the year of issue in the funds. However, on the government-wide financial statements these costs are deferred and amortized over the term of the bond issue. Bond costs are \$315,417 net of accumulated amortization of \$98,884. 216,533

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:

Bonds payable	\$(24,915,000)	
Unamortized bond discounts	226,298	
Accrued interest payable	(216,761)	
Compensated absences	(583,144)	
Technology Center debt	(1,710,396)	
OPEB obligation	<u>(590,540)</u>	<u>(27,789,543)</u>

Net assets of governmental activities \$12,607,282

See accompanying notes to the basic financial statements.

Indiana Area School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

	<u>General Fund</u>	<u>Capital Reserve Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Revenues				
Local sources	\$ 28,722,982	\$ 357,280	\$ 0	\$ 29,080,262
State sources	13,895,475	0	0	13,895,475
Federal sources	<u>2,187,316</u>	<u>0</u>	<u>0</u>	<u>2,187,316</u>
Total revenues	<u>44,805,773</u>	<u>357,280</u>	<u>0</u>	<u>45,163,053</u>
Expenditures				
Instruction	27,478,594	0	0	27,478,594
Support services	11,872,011	217,096	0	12,089,107
Non-instructional services	984,801	0	0	984,801
Capital outlay	0	326,151	0	326,151
Debt service (principal and interest)	0	0	2,823,192	2,823,192
Refund of prior year receipts	<u>64,148</u>	<u>0</u>	<u>0</u>	<u>64,148</u>
Total expenditures	<u>40,399,554</u>	<u>543,247</u>	<u>2,823,192</u>	<u>43,765,993</u>
Excess of revenues over (under) expenditures	<u>4,406,219</u>	<u>(185,967)</u>	<u>(2,823,192)</u>	<u>1,397,060</u>
Other financing sources (uses)				
Interfund transfers	<u>(2,991,321)</u>	<u>120,000</u>	<u>2,821,321</u>	<u>(50,000)</u>
Total other financing sources (uses)	<u>(2,991,321)</u>	<u>120,000</u>	<u>2,821,321</u>	<u>(50,000)</u>
Net change in fund balance	1,414,898	(65,967)	(1,871)	1,347,060
Fund balance beginning of year	<u>2,827,187</u>	<u>1,721,082</u>	<u>1,871</u>	<u>4,550,140</u>
Fund balance end of year	<u>\$ 4,242,085</u>	<u>\$ 1,655,115</u>	<u>\$ 0</u>	<u>\$ 5,897,200</u>

See accompanying notes to the basic financial statements.

**Indiana 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 \$1,347,060

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 outlays	\$ 415,612	
Depreciation expense	<u>(2,247,052)</u>	(1,831,440)

Because some property taxes will not be collected for several months after the District’s year end, they are not considered as “available” revenues in the governmental funds. Deferred tax revenues increased by this amount this year. 65,181

Interest on long-term debt is recognized in the governmental funds when it is due. In the statement of activities, expense is recognized as interest accrues. Accrued interest expense decreased by this amount this year. 9,366

In the governmental funds, compensated absences are measured by the amounts used. The statement of activities measures by the amount earned. The liability for compensated absences decreased by this amount this year. 16,960

Governmental funds report the effect of bond issuance costs in the year of issuance, whereas these costs are deferred and amortized over the term of the bond issue in the government-wide financial statements. This amount represents current year amortization expense. (28,911)

The actuarial cost of OPEB in excess of premiums paid in the current year. (236,940)

The principal payments on long-term debt consume current financial resources of governmental funds. However, they reduce long-term liabilities on the statements of net assets. Further, the effect of bond discounts and premiums are reported in the funds in the year of issue but are deferred and amortized in the statement of activities. The effect is shown below:

Bond principal payments	\$1,910,000	
Technology Center principal payments	86,225	
Amortization of discounts	(33,007)	
Accretion of bond premium	<u>430</u>	<u>1,963,648</u>

Change in net assets of governmental activities \$1,304,924

See accompanying notes to the basic financial statements.

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

	<u>Food Service</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 7,505
Due from other governments	10,188
Other receivables	68
Inventory	<u>8,918</u>
Total current assets	<u>26,679</u>
Noncurrent assets:	
Machinery and equipment, net	<u>0</u>
Total noncurrent assets	<u>0</u>
Total assets	<u>\$ 26,679</u>
Liabilities	
Current Liabilities:	
Due to other funds	\$ 182,751
Accounts payable	39,409
Deferred revenues	<u>18,835</u>
Total current liabilities	<u>240,995</u>
Noncurrent liabilities:	
Total noncurrent liabilities	<u>0</u>
Total liabilities	<u>240,995</u>
Net assets	
Invested in capital assets	0
Unrestricted	<u>(214,316)</u>
Total net assets	<u>(214,316)</u>
Total liabilities and net assets	<u>\$ 26,679</u>

See accompanying notes to the basic financial statements.

**Indiana 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	\$ 646,690
Total operating revenues	646,690
Operating expenses	
Salaries	283,002
Employee benefits	154,275
Purchased professional and technical services	287,202
Other purchased service	402,977
Supplies	4,227
Total operating expenses	1,131,683
Operating income (loss)	(484,993)
Nonoperating revenues (expenses)	
Earnings on investments	4,449
State sources	54,869
Federal sources	469,129
Total nonoperating revenues (expenses)	528,447
Income (loss) before contributions and transfers	43,454
Contributions and transfers	
Transfers In	50,000
Change in net assets	93,454
Total net assets, beginning of year	(307,770)
Total net assets, end of year	\$ (214,316)

See accompanying notes to the basic financial statements.

**Indiana Area School District
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2010**

	Food Service
Cash flows from operating activities	
Cash received from users	\$ 645,312
Cash payments to employees for services	(283,002)
Cash payments to suppliers for goods and services	<u>(945,042)</u>
Net cash provided by (used for) operating activities	<u>(582,732)</u>
Cash flows from non-capital financing activities	
State sources	54,038
Federal sources	459,772
Operating Transfers In	<u>50,000</u>
Net cash provided by (used for) non-capital financing activities	<u>563,810</u>
Cash flows from investing activities	
Earnings on investments	<u>4,449</u>
Net cash provided by (used for) investing activities	<u>4,449</u>
Net increase (decrease) in cash and cash equivalents	(14,473)
Cash and cash equivalents, beginning of year	<u>21,978</u>
Cash and cash equivalents, end of year	<u>\$ 7,505</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	<u>\$ (484,993)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for):	
Depreciation	0
(Increase) decrease in accounts receivable	31
(Increase) decrease in inventories	(404)
Increase (decrease) in accounts payable	(95,957)
Increase (decrease) in deferred revenue	<u>(1,409)</u>
Total adjustments	<u>(97,739)</u>
Net cash provided by (used for) operating activities	<u>\$ (582,732)</u>

See accompanying notes to the basic financial statements.

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

	<u>Agency Fund</u>	<u>Private Purpose Trust</u>	<u>Total Fiduciary Funds</u>
Assets			
Cash and cash equivalents	\$ 100,241	\$ 0	\$ 100,241
Investments	<u>10,000</u>	<u>0</u>	<u>10,000</u>
Total assets	<u>\$ 110,241</u>	<u>\$ 0</u>	<u>\$ 110,241</u>
Liabilities			
Due to students	<u>\$ 110,241</u>	<u>\$ 0</u>	<u>\$ 110,241</u>
Total liabilities	<u>110,241</u>	<u>0</u>	<u>110,241</u>
Net assets			
Held in trust for scholarships	<u>0</u>	<u>0</u>	<u>0</u>
Total net assets	<u>0</u>	<u>0</u>	<u>0</u>
Total liabilities and net assets	<u>\$ 110,241</u>	<u>\$ 0</u>	<u>\$ 110,241</u>

See accompanying notes to the basic financial statements.

**Indiana Area School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2010**

	Private Purpose Trust
Additions:	
Earnings on investments	\$ <u>102</u>
Total additions	<u>102</u>
Deductions:	
Transfer to Foundation	<u>5,184</u>
Total deductions	<u>5,184</u>
Change in net assets	(5,082)
Net assets, beginning of year	<u>5,082</u>
Net assets, end of year	<u><u>\$ 0</u></u>

See accompanying notes to the basic financial statements.

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

1. Description of School District and Reporting Entity

The Indiana Area School District is a Local Education Agency of the second class, governed by a nine-member publicly elected board, located in the Commonwealth of Pennsylvania. The District has approximately 2,750 enrolled students and operates four elementary schools, one junior high school and one senior high school. The District also participates in a local area vocational/technical school with various other districts.

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 Indiana 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.

**Indiana 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 program, 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 Fund – Accounts for surplus moneys in the general fund that can be used for capital improvements, deferred maintenance thereon, and for debt service.

Debt Service Fund – Accounts for resources accumulated to provide for payment of general long-term debt principal and interest.

**Indiana 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. However, the remaining funds in the trust were transferred to the Education Foundation in fiscal year 2010, closing out the District's trust fund. 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.

**Indiana 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 for enterprise funds 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 on 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.

**Indiana 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 by footnote disclosure.

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.

Budgets are not legally required for capital improvements reported in the Special Revenue Funds. However, the Board formally adopts an internal budget. Additionally, transactions not included on the adopted budget are approved by the Board prior to commitment thereby achieving further budgetary control.

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.

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

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.

G. Inventory

On government-wide financial statements inventories are presented at the lower 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. Due to immateriality, an inventory balance is not reported for the governmental funds.

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2010. The inventory consisted of purchased commodities and supplies, valued at cost using the first-in, first-out (FIFO) method. The School District receives cash in lieu of government donated commodities.

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 proprietary 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 retirement 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 ten thousand dollars (\$10,000). 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	25 - 50 years
Furniture and Equipment	5 - 20 years
Site improvements	15 - 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.

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

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.

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 reported a reserve for encumbrances of \$82,079.

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.

**Indiana 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 checking and savings accounts and certificates of deposit at local financial institutions and cash on hand of \$650. The market values of deposits are equal to the cost of the deposits. The investments are stated at cost including accrued interest which approximates market value.

Cash

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk, however the District's deposits in excess of the FDIC limit are collateralized in accordance with the Pennsylvania Security for Public Deposit Act. As of June 30, 2010, \$6,708,168 of the District's bank balance of \$6,997,217 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>6,708,168</u>
Total	<u>\$6,708,168</u>

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

Reconciliation to Financial Statements

Uninsured amount above	\$6,708,168
Plus: Insured amount	289,049
Less: Outstanding checks	<u>(153,163)</u>
Carrying amount – bank balances	6,844,054
Plus: Cash on hand	650
Certificate of deposit considered investment	<u>(10,000)</u>
Total cash per financial statements	<u>\$6,834,704</u>

Investments

As of June 30, 2010, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
Certificate of Deposit	182 days	<u>\$10,000</u>
Total investments per financial statements		<u>\$10,000</u>

Interest Rate Risk

In order to manage its interest rate risk, the School District's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. In addition, currently the School District's excess funds are deposited into checking accounts with rate of return adjustable to the applicable federal funds rate (FFR).

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 consisted of a certificate of deposit held by a local financial institution.

Concentration of Credit Risk

The School District places no limit on the amount the School District may invest in any one issuer. The School District's investment policy minimizes credit risk by limiting investments to the safest types of securities, pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District does business.

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.

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

4. Real Estate Taxes

Real estate taxes for the School District are collected from the Boroughs of Indiana and Shelocta and the Townships of Armstrong and White. The tax on real estate for public school purposes for fiscal 2010 was 97.39 mills (\$97.39 per \$1,000 of assessed valuation) as levied by the Board. Assessed valuations of property (\$253,773,990) are determined by Indiana County and the elected tax collectors are responsible for collection. The schedule for real estate taxes levied for each fiscal year is as follows:

July 15	- Levy Date
July 15 - September 15	- 2% Discount Period
September 16 - November 15	- Face Payment Period
November 16 - December 31	- 10% Penalty Period
January 15	- Lien Date

5. Taxes Receivable

The elected tax collectors are required to return any uncollected 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 \$1,746,370. 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.

Uncollected taxes for the year ended June 30, 2010:

Delinquent Real Estate	\$ 225,414
Earned Income Taxes	<u>471,550</u>
Uncollected Taxes Recognized as Revenue (received within 60 days)	696,964
Real Estate Taxes - Deferred	<u>1,049,406</u>
Total Taxes Receivable	<u>\$1,746,370</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 \$1,061,436 represent deferred real estate taxes (\$1,049,406), deferred grant revenue (\$11,092) and other deferred revenue (\$938) at June 30, 2010. Deferred revenues of \$18,835 in the Proprietary Fund represent credits on student cafeteria accounts at June 30, 2010.

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

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	\$ 793,292	\$ 9,357
State	289,178	831
Local	<u>117,626</u>	<u>0</u>
	<u>\$1,200,096</u>	<u>\$10,188</u>

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>Transfers</u>	<u>Ending Balance</u>
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 1,178,015	\$ 0	\$0	\$ 0	\$ 1,178,015
Construction in progress	<u>354,348</u>	<u>0</u>	<u>0</u>	<u>(354,348)</u>	<u>0</u>
Total capital assets, not being depreciated	<u>1,532,363</u>	<u>0</u>	<u>0</u>	<u>(354,348)</u>	<u>1,178,015</u>
Capital assets, being depreciated:					
Buildings and improvements	59,504,114	56,535	0	0	59,560,649
Furniture and equipment	199,514*	85,463	0	0	284,977
Site improvements	<u>406,727</u>	<u>273,614</u>	<u>0</u>	<u>354,348</u>	<u>1,034,689</u>
Total capital assets, being depreciated	<u>60,110,355</u>	<u>415,612</u>	<u>0</u>	<u>354,348</u>	<u>60,880,315</u>
Less accumulated depreciation:					
Buildings and improvements	26,320,343	2,176,483	0	0	28,496,826
Furniture and equipment	37,616*	33,368	0	0	70,984
Site improvements	<u>219,633</u>	<u>37,201</u>	<u>0</u>	<u>0</u>	<u>256,834</u>
Total accumulated depreciation	<u>26,577,592</u>	<u>2,247,052</u>	<u>0</u>	<u>0</u>	<u>28,824,644</u>
Total capital assets, being depreciated, net	<u>33,532,763</u>	<u>(1,831,440)</u>	<u>0</u>	<u>354,348</u>	<u>32,055,671</u>
Governmental activities capital assets, net	<u>\$35,065,126</u>	<u>\$(1,831,440)</u>	<u>\$0</u>	<u>\$ 0</u>	<u>\$33,233,686</u>

*Restated – see Note 21. The District modified their capitalization policy to exclude computer equipment and minor furniture from capital assets, deeming such items supplies (disposable inventory).

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

Business-Type Activities

Capital assets, being depreciated:				
Equipment	<u>\$194,288</u>	<u>\$0</u>	<u>\$0</u>	<u>\$194,288</u>
Total capital assets, being depreciated	<u>194,288</u>	<u>0</u>	<u>0</u>	<u>194,288</u>
Less accumulated depreciation:				
Equipment	<u>194,288</u>	<u>0</u>	<u>0</u>	<u>194,288</u>
Total accumulated depreciation	<u>194,288</u>	<u>0</u>	<u>0</u>	<u>194,288</u>
Business-type activities capital assets, net	<u>\$ 0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$ 0</u>

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

Governmental Activities:

Instruction	\$1,525,748
Instruction support	150,552
Administration and finance	233,693
Operation and maintenance of plant	195,494
Pupil transportation	85,388
Student activities	<u>56,177</u>

Total depreciation expense - governmental activities \$2,247,052

9. Deferred Bond costs

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

	Balance <u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2010</u>
Bond costs	\$315,417	\$ 0	\$0	\$315,417
Less: accumulated amortization	<u>(69,973)</u>	<u>(28,911)</u>	<u>0</u>	<u>(98,884)</u>
Total	<u>\$245,444</u>	<u>\$(28,911)</u>	<u>\$0</u>	<u>\$216,533</u>

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

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 plan members and beneficiaries. 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 and required supplementary information 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, PA, 17108-0125. This publication is also available on the PSERS website at www.psers.state.pa.us/publications/cafr/index.htm.

Funding Policy

The contribution policy is set by the Code and requires contributions by active employees, 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, the 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 ended June 30, 2010, 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. Indiana Area School District's contributions to PSERS for the years ending June 30, 2010, 2009 and 2008 were \$1,101,431, \$1,111,025, and \$1,425,946, respectively. This amount is equal to the required contribution for each year.

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

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

12. Compensated Absences

Employees of the School District are entitled to paid vacation and paid sick leave depending on length of service with the Pennsylvania Public School Employees' Retirement System and the School District. Unused vacation amounts are believed nominal; sick leave is granted as appropriate (medical evidence required) with budgetary provision being made annually for the estimated cost of substitute personnel. Contractual provisions with teachers require payment at the time of retirement, an amount computed by multiplying the number of such employee's unused accumulated sick days by the dollar amount of \$60.00 per day. Contractual provisions with support personnel require payment at the time of retirement, an amount computed by multiplying the number of such employee's unused accumulated sick days by amounts ranging from \$8.00 to \$50.00 per day. However, the liability for support staff has been deemed immaterial and excluded from the calculation of the compensated absence liability at June 30, 2010. Employees may elect at time of retirement to receive health insurance coverage, in lieu of cash payments. Employees may not receive the cash compensation for sick days used for additional insurance coverage.

The School District has accrued \$583,144 for accumulated vacation and sick leave for employees that have met the required length of service and are entitled to receive the benefits described above as of June 30, 2010. The current portion of the liability has been estimated at \$15,979 with the long-term portion at \$567,165 at June 30, 2010.

13. 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, 2009, 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 adopted the requirements of GASB Statement No. 45 prospectively, recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2009 liability.

Plan Description

The District provides continuation of medical, dental and vision benefits to employees who retire from the District. Further, the District offers retirement cash bonuses. A summary of benefit programs by employee group is as follows:

	<u>Teachers</u>	<u>Administrators</u>	<u>Support Staff</u>
Medical	PPO/Indemnity	PPO	PPO
Dental	No	Yes	No
Vision	No	Yes	No
Retirement Cash Bonus	\$5,000	Pay and service related	None

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

Eligibility

Age and service requirements for retirement vary by group as shown below. No benefits are provided upon termination of employment if retirement conditions are not met at termination. No benefits are provided to surviving dependents upon death if employee has not retired.

Teachers:	25 years of PSERS service, including at least 10 years with the Indiana Area School District
Administrators:	Eligibility for PSERS superannuation retirement
Support Staff:	Eligibility for PSERS superannuation retirement

Duration of Healthcare Benefits

Teachers:	Retirees receive coverage for the lesser of 5 years or until age 65 or qualification for Medicare. Spouse coverage ceases with the cessations of retiree coverage, or upon spouse's attainment of age 65 if earlier. Retiring teachers may extend coverage at the rate of one year for each block of 30 unused sick days relinquished upon retirement.
Administrators:	Retirees receive coverage until the earlier of age 65 or qualification for Medicare. Spouse coverage ceases with the cessation of retiree coverage, or upon spouse's attainment of age 65 if earlier.
Support Staff:	Retiring support staff may obtain coverage at the rate of one year for each block of 40 unused sick days relinquished upon retirement.

Participant Contributions

Teachers:	None in the PPO plan. For retired teachers and spouses in the Indemnity plan, a contribution is required of the excess of the Indemnity plan deposit rate over the PPO deposit rate.
Administrators:	None
Support Staff:	None

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 July 1, 2006, the effective date of the biennial OPEB valuation, follows. There have been no significant changes in the number covered or the type of coverage since that date.

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

	District
Active employees	480
Retired employees	51
Spouses of retired employees	<u>28</u>
Total	<u>559</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 Other Postemployment Benefit Cost

For the fiscal year ended June 30, 2010, the District's annual OPEB cost (i.e., expense) of \$1,133,640 is equal to the Annual Required Contribution. Considering the District's annual OPEB cost as well as the payment of current health insurance premiums, which totaled \$896,700, the result was an increase in the District's Net OPEB Obligation of \$236,940 for the year ended June 30, 2010.

	District
Actuarial Accrued Liability (AAL)	
Retired employees	\$ 3,122,900
Active employees	<u>9,424,400</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$12,547,300</u>
Normal cost at beginning of year	\$ 533,700
Amortization factor based on 30 years	27.4557
Annual covered payroll	To be determined
UAAL as % of covered payroll	To be determined

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

	District
ARC Normal Cost	\$ 630,060
Amortization of UAAL	<u>502,570</u>
Annual required contribution (ARC)	1,132,630
Interest on Net OPEB Obligation	0
Adjustment to ARC	<u>1,010</u>
Annual OPEB cost (expense)	1,133,640
Contribution for the fiscal year	<u>(896,700)</u>
Increase in Net OPEB Obligation	236,940
Net OPEB Obligation June 30, 2009	<u>353,600</u>
Net OPEB Obligation June 30, 2010	<u>\$ 590,540</u>
Percent of annual OPEB cost contributed	79.1%

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

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$1,133,640	79.1%	\$590,540
6/30/2009	\$1,088,100	67.5%	\$353,600
6/30/2008	\$ 0	0.0%	\$ 0

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. Most included coverages are "community-rated" and annual premiums for community-rated coverages were used as a proxy for claims costs without age adjustment. The unfunded actuarial accrued liability is being amortized over 30 years on a level percent of payroll basis.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial 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.

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

In the June 30, 2009 actuarial valuation, the liabilities were computed using the projected unit credit method and level percent 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. The valuation assumes a 9.5% healthcare cost trend increase for fiscal year 2010-11, reduced by decrements to a rate of 5.0% by 2020.

14. Long-Term Obligations

During the fiscal year ended June 30, 2010, general long-term obligations changed as follows:

	<u>Bonds Payable</u>	<u>Other Long-Term Financing</u>	<u>Compensated Absences</u>	<u>Total General Long-Term Obligations</u>
Beginning of the year	\$26,825,000	\$1,796,621	\$600,104	\$29,221,725
Principal retirement	(1,910,000)	(86,225)	0	(1,996,225)
Changes in compensated absences	<u>0</u>	<u>0</u>	<u>(16,960)</u>	<u>(16,960)</u>
End of year	24,915,000	1,710,396	583,144	27,208,540
Less: Current portion	(2,145,000)	(88,380)	(15,979)	(2,249,359)
Less: Original issue discount, net	<u>(226,298)</u>	<u>0</u>	<u>0</u>	<u>(226,298)</u>
Long-term liabilities	<u>\$22,543,702</u>	<u>\$1,622,016</u>	<u>\$567,165</u>	<u>\$24,732,883</u>

The future annual payments required to amortize all outstanding debt and obligations, except for the compensated absences, as of June 30, 2010, including total interest payments are as follows:

Year Ended <u>June 30,</u>	<u>General Obligation Bonds/Notes</u>		
	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2011	\$ 788,843	\$ 2,233,380	\$ 3,022,223
2012	733,803	2,290,485	3,024,288
2013	671,995	2,349,693	3,021,688
2014	604,330	2,416,798	3,021,128
2015	534,288	2,481,006	3,015,294
2016-2020	1,504,977	12,757,639	14,262,616
2021-2025	<u>99,061</u>	<u>2,096,395</u>	<u>2,195,456</u>
	<u>\$4,937,297</u>	<u>\$26,625,396</u>	<u>\$31,562,693</u>

General Obligation Bonds, Series of 2009

The District issued General Obligation Bonds, Series of 2009, dated February 9, 2009, in the principal amount of \$10,000,000. The proceeds of the bonds were used to advance refund a portion of the District's General Obligation Bonds, Series of 2003A (\$9,805,000) and to pay all costs incidental to the issuance of these bonds. The present value of the net economic gain the School District realized as a result of partially advance refunding the Series 2003A Bonds is \$304,825. The bonds bear interest rates ranging from 3.00% to 3.55% with annual principal maturities from September 2010 through September 2020. The balance outstanding at June 30, 2010 was \$10,000,000.

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

General Obligation Bonds, Series of 2008

The District issued General Obligation Bonds, Series of 2008, dated April 1, 2008, in the principal amount of \$9,990,000. The proceeds of the bonds were used to advance refund the District's General Obligation Bonds, Series of 2002A (\$9,825,000) and to pay all costs incidental to the issuance of these bonds. The present value of the net economic gain the School District realized as a result of advance refunding the Series 2002A Bonds is \$215,197. The bonds bear interest rates ranging from 2.0% to 3.0% with annual principal maturities from September 2009 through September 2014. The balance outstanding at June 30, 2010 was \$9,830,000.

General Obligation Bonds, Series of 2005

On October 15, 2005, the School District issued \$5,000,000 of General Obligation Bonds, Series 2005 to be used to finance renovations and alterations to the gymnasium, fitness center, locker rooms and restrooms for the Indiana Area Senior High School and to pay the costs of issuing the bonds. Interest rates on the bonds range from 3.75% to 3.80% with annual principal maturities from November 2006 through November 2020. The balance outstanding at June 30, 2010 was \$4,980,000.

General Obligation Bonds, Series A of 2003

On December 15, 2003, the School District issued \$9,940,000 of General Obligation Bonds, Series A of 2003 to be used to finance renovations and alterations to the Indiana Area Junior High School and to pay the costs of issuing the bonds. A portion of these bonds were advance refunded on February 9, 2009 with General Obligation Bonds, Series of 2009. These remaining bonds bear interest rates ranging from 2.75% to 3.55% with annual principal maturities from September 2009 through September 2013. The balance outstanding at June 30, 2010 was \$105,000.

General Obligation Bonds, Series of 2003

On August 15, 2003 the School District issued \$8,200,000 of General Obligation Bonds, Series of 2003. The proceeds of the bonds were used to advance refund the District's Series of 1998 General Obligation Bonds. The present value of the net economic gain the School District realized as a result of advance refunding the Series of 1998 Bonds is \$555,135. The bonds bear interest rates ranging from 2.0% to 2.4% with annual principal maturities from August 2005 through August 2009. The balance outstanding at June 30, 2010 was \$0.

Other Long-Term Financing: Indiana County Technology Center

In May 2004, Indiana County Technology Center Project issued \$5,025,000 of Series 2004 Bonds. The proceeds of the bonds are to be used toward the cost of acquiring, designing, constructing, furnishing and equipping alterations, additions, renovations and other improvements to the Indiana County Technology Center's existing school building and other related facilities, and to pay the costs of issuing the bonds. The bonds were issued pursuant to the State Public School Building Authority Act of 1947 and secured by a Trust Indenture entered into between the State Public School Building Authority (the Authority) and a financial institution as Trustee.

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

The bonds will be payable from, and secured by an assignment of the amounts payable to the Authority by the School District and four other area school districts, as named in the agreement, as borrowers under the Loan Agreement dated May 2004 among the Authority. The Authority entered into a Loan Agreement with the school districts and the Joint Operating Committee pursuant to which the Authority will lend the proceeds of the bonds to the school districts for the purpose of financing the above project. Under the Loan Agreement, the school districts agree to repay such loan in such amounts and at such times as will provide sufficient funds to meet the debt service requirements on the bonds. Each school district will deliver its general obligation promissory note dated as of May 2004 to the Authority, evidencing its obligations under the Loan Agreement. Pursuant to the Articles of Agreement for the Establishment and Operation of the Indiana County Technology Center, dated March 1978, the school districts have agreed to a formula for the allocations of each of the school districts' share of the debt service payments, which are not joint but several obligations of the school districts.

As such, Indiana Area School District paid \$65,143 in interest and \$86,225 in principal (\$151,368 total) for the year ended June 30, 2010.

The bonds bear interest rates ranging from 3.0% to 4.25% with annual principal maturities from November 2005 through November 2014. Indiana Area School District's outstanding balance at June 30, 2010 was \$1,710,396.

Accumulated Compensated Absences

In accordance with accounting principles generally accepted in the United States of America, the District accrues liabilities for compensated absences. The District's policy on compensated absences is discussed in Footnote 12. 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.

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)	\$182,751	\$ 0
Enterprise Fund – Food Service (Major Fund)	<u>0</u>	<u>182,751</u>
	<u>\$182,751</u>	<u>\$182,751</u>

The School District typically pays employees of the Food Service Fund and subsequently charges the fund for reimbursement in order to assist the fund in providing meals. It is the District's intent to collect amounts owed by Food Service when adequate funds are available.

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

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

	<u>Transfer in</u>	<u>Transfer out</u>
General Fund (Major Fund)	\$ 0	\$2,821,321
Debt Service Fund (Major Fund)	2,821,321	0
General Fund (Major Fund)	0	120,000
Capital Reserve Fund (Major Fund)	120,000	0
General Fund (Major Fund)	0	50,000
Food Service Fund (Proprietary Fund)	<u>50,000</u>	<u>0</u>
Total	<u>\$2,991,321</u>	<u>\$2,991,321</u>

The School District pays its debt service out of the Debt Service Fund, therefore, the General Fund transfers amounts each year to pay the annual debt service. The School District typically transfers funds each year from the General Fund to the Capital Reserve Fund to fund future capital improvements. The Food Service Fund has an accumulated deficit that the District plans to reduce over time by transferring available General Fund budgetary reserve funds.

16. Operating Leases

The School District entered into noncancellable operating leases for office equipment. Rental expenditures under all operating lease agreements were \$98,137 for fiscal year 2010. Future minimum rental payments required under operating leases that have remaining lease terms as of June 30 are as follows:

For the year ended	<u>Payment</u>
<u>June 30,</u>	
2011	\$94,194
2012	93,726
2013	47,953
2014	30,301

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.

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

Transportation Subsidy

The District is currently undergoing a state audit of their fiscal year 2008 transportation reimbursement. It appears that the District received excess transportation reimbursement for fiscal year 2008. Accordingly, the District is reviewing transportation information for fiscal years 2009 and 2010 to determine the amount of potential excess reimbursement received. It is probable that the District will have to repay the excess state funds over fiscal years 2011 and 2012, however, the total amount of the liability is not yet known.

Legal Matters

Senior Choice, Inc., a nursing home, appealed the Order of the Indiana County Board of Assessment Appeals, denying it a real estate tax exemption as a purely public charity. In December 2010, the Court of Common Pleas of Indiana County reversed the decision of the Board and ordered the taxing bodies to refund all property taxes paid for the years 2003-2010. The School District would owe \$362,040. The attorney who represented the District in this case is reviewing the Order to determine if the Board should file an appeal.

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 Armstrong-Indiana Insurance Trust to provide for the medical care for eligible employees and their dependents. The consortium, which administers the plan, monitors the District's deposit in the Trust to be held for the benefits described above and Crown Benefits, the plan administrator, processes and pays the claims. The consortium limits its liability by stop-loss insurance coverage. Indiana 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. Related Party Transactions

Intermediate Unit Participation

The District is a member of the Armstrong Indiana (ARIN) Intermediate Unit 28. 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 Indiana Area School District for the year ended June 30, 2010 for ARIN programs amounted to \$446,962.

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

Jointly Governed Organization

The School District governs, with four other school districts, the Indiana County Technology Center. Each district is represented on the Technology Center's school board. Students of the Indiana Area School District have available at the Technology Center courses and curriculums related to the technical training field. Indiana Area School District's debt service and obligation with regards to the Technology Center is outlined in Footnote 13. The district's portion of tuition payments for its students attending the Technology Center for fiscal 2010 was \$511,595.

20. Risk Management

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has purchased various insurance policies to safeguard its assets from risk of loss. Insurance coverage appears to be consistent with previous years. During the year ended June 30, 2010 and the two previous fiscal years, no settlements exceeded insurance coverage.

21. Net Asset Restatement

The following net asset restatement is effective July 1, 2009 and affects the governmental activities of the District as follows:

Governmental Activities: Net assets were restated as a result of a change in the District's capitalization policy resulting in a decrease in net assets of \$1,212,019.

This adjustment is reflected on the government-wide financial statements only.

Indiana 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		Actual	Variance with Final
	Original	Final	(Budgetary Basis)	Budget Favorable (Unfavorable)
Revenues				
Local sources	\$ 27,878,744	\$ 27,878,744	\$ 28,722,982	\$ 844,238
State sources	15,081,589	15,081,589	13,895,475	(1,186,114)
Federal sources	1,492,600	1,492,600	2,187,316	694,716
Total revenues	<u>44,452,933</u>	<u>44,452,933</u>	<u>44,805,773</u>	<u>352,840</u>
Expenditures				
Instruction:				
Regular programs	22,753,255	22,229,881	22,220,577	9,304
Special programs	4,053,799	4,478,280	4,303,058	175,222
Vocational education programs	790,000	513,948	513,947	1
Other instructional programs	565,610	426,679	420,596	6,083
Nonpublic school programs	0	12,536	12,536	0
Adult education programs	6,900	8,113	7,881	232
Support services:				
Pupil personnel	1,390,008	1,480,137	1,479,078	1,059
Instructional staff	1,336,856	1,365,478	1,243,206	122,272
Administration	2,003,233	2,260,220	2,140,510	119,710
Pupil health	645,838	691,911	667,991	23,920
Business	435,892	478,489	427,057	51,432
Operation and maintenance of plant	4,026,308	3,713,762	3,545,938	167,824
Student transportation	1,561,159	1,586,360	1,533,061	53,299
Central	751,028	802,721	694,487	108,234
Other support services	137,900	140,683	140,683	0
Operation of noninstructional services:				
Student activities	865,084	1,043,422	834,737	208,685
Community services	113,985	150,086	150,063	23
Refund of prior year receipts	10,000	64,149	64,148	1
Total expenditures	<u>41,446,855</u>	<u>41,446,855</u>	<u>40,399,554</u>	<u>1,047,301</u>
Excess (deficiency) of revenues over expenditures	<u>3,006,078</u>	<u>3,006,078</u>	<u>4,406,219</u>	<u>1,400,141</u>
Other financing sources (uses)				
Interfund transfers, net	(2,893,300)	(2,993,300)	(2,991,321)	1,979
Budgetary reserve	(100,000)	0	0	0
Total other financing sources (uses)	<u>(2,993,300)</u>	<u>(2,993,300)</u>	<u>(2,991,321)</u>	<u>1,979</u>
Net change in fund balance	12,778	12,778	1,414,898	1,402,120
Fund balance beginning of year	<u>2,481,909</u>	<u>2,481,909</u>	<u>2,827,187</u>	<u>345,278</u>
Fund balance end of year	<u>\$ 2,494,687</u>	<u>\$ 2,494,687</u>	<u>\$ 4,242,085</u>	<u>\$ 1,747,398</u>

See accompanying notes to the basic financial statements.

**Indiana 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 Grantors Number	Grant Period Beginning/End Date	Program Or Award Amount	Total Received For the Year	Accrued (Deferred) Revenue at July 1, 2009	Recognized Revenue	Expenditures	Accrued (Deferred) Revenue June 30, 2010
U.S. DEPARTMENT OF EDUCATION										
Passed through the Pennsylvania Department of Education:										
ECIA Title I - Low Income	I	84.010	(1)	013-010196	07/01/09-09/30/10	\$ 546,371	\$ 0	\$ 406,283	\$ 406,283	\$ 150,524
ECIA Title I - Low Income	I	84.010	(1)	013-090196	07/01/08-09/30/09	477,509	64,975	0	0	0
ARRA - Title I Part A	I	84.389	(1)	127-100196	05/22/09-09/30/10	306,938	47,560	258,326	258,326	(1,852)
ECIA Title I - Academic Achievement Award	I	84.010	(1)	077-100196	07/01/09-09/30/10	7,200	0	7,200	7,200	7,200
ECIA Title I - Academic Achievement Award	I	84.010	(1)	077-090196	07/01/08-09/30/09	5,000	3,000	0	0	0
Title III Language Inst. LEP	I	84.365		010-100196	07/01/09-09/30/10	24,457	0	1,877	1,877	(9,240)
Title III Language Inst. LEP	I	84.365		010-090196	07/01/08-09/30/09	10,645	969	3,466	3,466	1,774
Title II Improving Teacher Quality	I	84.367		020-100196	07/01/09-09/30/10	198,361	0	188,241	188,241	16,328
Title II Improving Teacher Quality	I	84.367		020-090196	07/01/08-09/30/09	194,599	25,947	0	0	0
ARRA - State Fiscal Stabilization Fund	I	84.394		126-100196	07/01/09-06/30/10	1,047,854	0	1,047,854	1,047,854	611,248
Passed through the ARIN Intermediate Unit #28:										
IDEA-B	I	84.027	(2)	062-100028	07/01/09-06/30/10	419,080	0	419,080	419,080	0
IDEA-B	I	84.027	(2)	062-090028	07/01/08-06/30/09	405,725	273,206	0	0	0
ARRA - IDEA Part B	I	84.391A	(2)	128-100028	02/17/09-09/30/11	488,778	0	295,670	295,670	0
Safe and Drug Free Schools	I	84.186A		N/A	07/01/09-06/30/10	9,315	0	3,678	3,678	0
Safe and Drug Free Schools	I	84.186A		N/A	07/10/08-06/30/09	10,060	0	744	744	0
Total U.S. Department of Education						4,151,892	415,657	2,632,419	2,632,419	775,982

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

See accompanying notes to the basic financial statements.

**Indiana 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 Grantors 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	Accrued (Deferred) Revenue June 30, 2010	
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>											
Passed through the Pennsylvania Department of Public Welfare:											
Medical Assistance Program-Reimbursement SBAP Administration Reimbursement	I	93.778	N/A	07/01/09-06/30/10	N/A	2,569	0	2,569	2,569	0	
Total U.S. Department of Health and Human Services											
<u>FEDERAL EMERGENCY MANAGEMENT AGENCY</u>											
Passed through the Pennsylvania Emergency Management Agency:											
Public Assistance Grants	I	97.036	N/A	02/06/10-02/08/10	N/A	0	0	4,046	4,046	4,046	
Total Federal Emergency Management Agency											
<u>U.S. DEPARTMENT OF AGRICULTURE</u>											
Passed through the Pennsylvania Department of Education:											
National School Lunch	I	10.555 (3)	N/A	07/01/09-06/30/10	N/A	333,283	0	340,410	340,410	7,127	
School Breakfast Program	I	10.553 (3)	N/A	07/01/09-06/30/10	N/A	80,288	0	82,518	82,518	2,230	
State Matching Funds	S	N/A	N/A	07/01/09-06/30/10	N/A	36,814	0	37,645	37,645	831	
Passed through the Pennsylvania Department of Agriculture:											
Cash in lieu of donated commodities	I	10.550	N/A	07/01/09-06/30/10	N/A	46,200	0	46,200	46,200	0	
Total U.S. Department of Agriculture											
							496,585	506,773	506,773	10,188	
Total Financial Assistance							\$ 4,151,892	\$ 2,771,248	\$ 3,145,807	\$ 3,145,807	\$ 790,216

(3) Child Nutrition Cluster

See accompanying notes to the basic financial statements.

**Indiana 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 – Direct/Indirect Funding

The following source codes reflect program funding:

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

Note C – Test of 25% Rule (Low Risk)

Total Expenditures	\$3,145,807	
Less: State's share of National School Lunch Program and Severe Need Breakfast Program	<u>(37,645)</u>	
Total Federal Expenditures	<u>\$3,108,162</u>	
Title I, Part A Cluster	671,809	
Special Education Cluster (IDEA)	714,750	
ARRA – State Fiscal Stabilization Fund	<u>1,047,854</u>	
Tested	<u>\$2,434,413</u>	= 78.3%
Total Federal Expenditures	\$3,108,162	

**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
Indiana Area School District
Indiana, Pennsylvania 15701

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of Indiana Area School District as of and for the year ended June 30, 2010, which collectively comprise Indiana Area School District's basic financial statements and have issued our report thereon dated January 19, 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 Indiana 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Indiana 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*.

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 19, 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
Indiana Area School District
Indiana, Pennsylvania 15701

Compliance

We have audited Indiana Area School District's compliance with the types of compliance requirements described in the *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Indiana Area School District's major federal programs for the year ended June 30, 2010. Indiana 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 Indiana Area School District's management. Our responsibility is to express an opinion on Indiana 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 Indiana 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 Indiana Area School District's compliance with those requirements.

In our opinion, Indiana 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 Indiana 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 Indiana 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 19, 2011

**Indiana 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 (ies) 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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I, Part A Cluster
84.389	Title I, Part A Cluster
84.394	ARRA – State Fiscal Stabilization Fund
84.027	Special Education Cluster (IDEA)
84.391A	Special Education Cluster (IDEA)

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 No Findings

Section III - Federal Award Findings and Questioned Costs No Findings or Questioned Costs