

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

**Audit Report**

**For the Year Ended  
June 30, 2019**

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**List of Report Distribution**

February 20, 2020

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

Board Members:

Not later than six months after fiscal year end, or in this case, upon receipt, Harmony Area School District must distribute the audit report as follows:

One (1) copy to:

Department of Education  
Bureau of Budget and  
Fiscal Management  
333 Market Street  
Harrisburg, PA 17126-0333

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

Sincerely,

*Kotzan CPA and Associates, P.C.*

Kotzan CPA & Associates, P.C.

## **Independent Auditors' Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Harmony Area School District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Harmony Area School District as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, historical pension and OPEB information, and budgetary comparison information on pages 5-13, pages 60-63, and page 64, 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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2020, on our consideration of Harmony Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Harmony Area School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harmony Area School District's internal control over financial reporting and compliance.

*Kotzan CPA and Associates, P.C.*

Kotzan CPA & Associates, P.C.  
Johnstown, Pennsylvania  
February 20, 2020

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# Management's Discussion and Analysis

## *Harmony Area School District*

2018-2019

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

### **Financial Statements**

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

#### Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting. The focus of these statements is long-term.

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

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

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

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

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

#### Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of fund financial statements is short-term. Fund financial statements are prepared using the modified accrual basis of accounting. The District uses several different types of funds but the two most significant types are the governmental and proprietary fund types.

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

**Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's current financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the District's major funds, which are the General Fund and the Capital Projects Fund. The District's non-major funds are aggregated and reported in a separate column. The District's non-major fund is the Debt Service Fund.

**Proprietary Funds**

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

**Financial Overview**

The Harmony Area School District general fund had revenues of \$6,198,870 and expenditures of \$5,592,557, resulting in an excess of revenues over expenditures of \$606,313, before transfers, for the year ended June 30, 2019. The transfers out totaled \$667,186, of which \$442,449 was to the Capital Projects Fund for bond interest payments and sinking fund deposits, and \$224,737 was to the Debt Service Fund to cover bond payments (principal and interest). After the transfers out and before special items, the general fund's "final" excess of expenditures over revenues was \$60,873 for the year ended June 30, 2019. After special items, there was a net decrease in fund balance of \$20,373. Harmony Area School District's general fund maintains a fund balance of \$2,135,610 at June 30, 2019. In addition to the general fund, the fund balance of the capital projects fund is \$1,832,153, and the fund balance of the debt service fund is \$3,423 at June 30, 2019. These amounts are reflected on the fund financial statements (modified accrual basis).

With limited funding increases and a low tax base, the School District continues to struggle with the increasing needs and high costs of alternative education, mandated special education requirements, cyber/charter school recruitment and rising retirement costs. Projected increases in the Public School Employees Retirement System (PSERS) employer contribution rates will continue to cause an additional drain on the financial resources of all schools in Pennsylvania. The District has experienced declining enrollment due to properties being sold to families whose children attend non-public schools within the District.

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

Table 1 summarizes the assets and deferred outflows of resources, the liabilities and deferred inflows of resources, and net position of the District at June 30, 2019 as compared to June 30, 2018.

**Table 1**  
**Condensed Schedule of Net Position**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total School District</b>		<b>Change</b>
	<b>2019</b>	<b>2018 *</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2018-19</b>
<b>Assets</b>							
Current assets	\$ 4,993,991	\$ 4,737,121	\$ 51,537	\$ 63,634	\$ 5,045,528	\$ 4,800,755	\$ 244,773
Non-current assets	6,523,739	6,926,067	28,022	35,192	6,551,761	6,961,259	(409,498)
Total assets	11,517,730	11,663,188	79,559	98,826	11,597,289	11,762,014	(164,725)
Deferred outflows of resources	974,002	1,199,744	60,892	69,695	1,034,894	1,269,439	(234,545)
Total assets and deferred outflows	<u>\$ 12,491,732</u>	<u>\$ 12,862,932</u>	<u>\$ 140,451</u>	<u>\$ 168,521</u>	<u>\$ 12,632,183</u>	<u>\$ 13,031,453</u>	<u>\$ (399,270)</u>
<b>Liabilities</b>							
Current liabilities	\$ 884,541	\$ 861,995	\$ 78,512	\$ 66,482	\$ 963,053	\$ 928,477	\$ 34,576
Long-term liabilities	15,125,244	15,858,212	213,043	227,277	15,338,287	16,085,489	(747,202)
Total liabilities	16,009,785	16,720,207	291,555	293,759	16,301,340	17,013,966	(712,626)
Deferred inflows of resources	973,629	1,093,288	24,390	27,581	998,019	1,120,869	(122,850)
<b>Net Position</b>							
Invested in capital assets, net of related debt	315,982	508,647	28,022	35,192	344,004	543,839	(199,835)
Restricted	1,835,576	1,557,127	0	0	1,835,576	1,557,127	278,449
Unrestricted	(6,643,240)	(7,016,337)	(203,516)	(188,011)	(6,846,756)	(7,204,348)	357,592
Total net position	<u>(4,491,682)</u>	<u>(4,950,563)</u>	<u>(175,494)</u>	<u>(152,819)</u>	<u>(4,667,176)</u>	<u>(5,103,382)</u>	<u>436,206</u>
Total liabilities, deferred inflows and net position	<u>\$ 12,491,732</u>	<u>\$ 12,862,932</u>	<u>\$ 140,451</u>	<u>\$ 168,521</u>	<u>\$ 12,632,183</u>	<u>\$ 13,031,453</u>	<u>\$ (399,270)</u>

\* Restated prior year amounts for the 2018-19 prior year adjustment.

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

Current assets represented 43.51% of the total assets comprised largely of cash and cash equivalents of \$2,902,060, investments of \$1,156,354, taxes receivable of \$279,537, and intergovernmental receivables of \$589,904. Fixed assets including land, site and building improvements, furniture and equipment, and infrastructure assets represent 56.49% of total assets at \$6,551,761.

The total liability amount of \$16,301,340 consists primarily of bonds payable (\$6,189,803), net pension liability (\$7,873,000), net other post-employment benefits (\$1,374,000), compensated absences (\$159,084), vendor accounts payable (\$288,766), and accrued salaries and benefits (\$349,685).



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

The resulting negative \$4,667,176 in net position includes \$344,004 invested in capital assets, net of related debt, \$1,832,153 restricted for capital projects, \$3,423 restricted for debt service and negative \$6,846,756 in unrestricted net position. The large negative net position is caused by the recording of the net pension and net OPEB liabilities on the government-wide statements under GASB 68, *Accounting and Financial Reporting for Pensions*, and GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, respectively.

Table 2 summarizes the revenues, expenses, and changes in net position of the District for the year ended June 30, 2019 compared to the year ended June 30, 2018.

**Table 2**  
**Changes in Net Position**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total School District</b>		<b>Change</b>
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2018-19</b>
Program Revenues:							
Charges for services	\$ 9,642	\$ 6,755	\$ 35,048	\$ 36,860	\$ 44,690	\$ 43,615	\$ 1,075
Operating grants and contributions	1,996,667	1,966,966	194,189	224,394	2,190,856	2,191,360	(504)
Capital grants and contributions	141,950	191,532	0	0	141,950	191,532	(49,582)
General Revenues:							
Property and other taxes	1,171,721	1,244,413	0	0	1,171,721	1,244,413	(72,692)
Grants and entitlements	2,835,826	2,840,110	0	0	2,835,826	2,840,110	(4,284)
Investment earnings	155,668	(4,158)	251	115	155,919	(4,043)	159,962
Transfers between gov'tal, BT activities	0	0	0	0	0	0	0
Other	43,519	1,490	0	0	43,519	1,490	42,029
Total Revenues	6,354,993	6,247,108	229,488	261,369	6,584,481	6,508,477	76,004
Program Expenses:							
Instruction	3,505,533	3,394,878	0	0	3,505,533	3,394,878	110,655
Support services:							
Instructional student support	372,654	317,303	0	0	372,654	317,303	55,351
Administration and financial	765,515	740,766	0	0	765,515	740,766	24,749
Plant operation and maintenance	321,591	517,896	0	0	321,591	517,896	(196,305)
Pupil transportation	473,894	526,297	0	0	473,894	526,297	(52,403)
Student activities/community	118,702	118,596	0	0	118,702	118,596	106
Interest on long-term debt	338,223	325,790	0	0	338,223	325,790	12,433
Food Services	0	0	252,163	264,122	252,163	264,122	(11,959)
Total Expenses	5,896,112	5,941,526	252,163	264,122	6,148,275	6,205,648	(57,373)
Increase (decrease) in net assets	\$ 458,881	\$ 305,582	\$ (22,675)	\$ (2,753)	\$ 436,206	\$ 302,829	\$ 133,377

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

Revenues increased from the prior year by \$76,004, or 1.17%. Revenue increases were in investment earnings (\$159,962), mostly due to unrealized gains in the bond sinking fund investments and other income (\$42,029), mostly due to the sale of the logging rights on school district property. These increases were offset by decreases of in capital grants and contributions (\$49,582) from rental and sinking fund subsidies and plan monies and decreases in taxes (\$72,692) due to the adjustment to the government-wide statements to recognize the changes in full amount of outstanding real estate taxes in the statement of activities.

Expenses decreased from the prior year by \$57,373. The decrease in overall expenses is largely due to decreases in operation and maintenance (\$196,305) and pupil transportation (\$52,403) costs; and offset by increases in instruction (\$110,655), instructional student support (\$55,351), and administration and financial (\$24,749) costs. The decrease in the operation and maintenance was mostly the result of the adjustment for the change in net pension and OPEB liabilities under GASB 68, *Accounting and Financial Reporting for Pensions* and GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* and the decrease in pupil transportation was due to the decrease in costs for contracted carriers. The allocation of those adjustments to instructional support also caused the increase in that area, while the increase in instruction was due to increased amounts paid to the vocational education schools, which were also offset by a decrease in the allocation of the pension and OPEB expenses. The increase in the administrative and financial costs were mostly caused increases in legal costs and increases caused by the allocation of the pension and OPEB expenses.

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

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

**Table 3**  
**Expenditures by Function - Budget vs. Actual**

<b>Function</b>	<b>Description</b>	<b>Actual 2018-19 Expenses</b>	<b>Actual 2017-18 Expenses</b>	<b>Over/(Under) From P/Y</b>	<b>2018-19 Budget</b>	<b>(Over)/Under Budget</b>
1100	Regular Educational Programs	\$ 2,361,243	\$ 2,429,162	\$ (67,919)	\$ 2,426,690	\$ 65,447
1200	Special Education	587,075	505,083	81,992	579,602	(7,473)
1300	Vocational Education	349,899	149,443	200,456	101,340	(248,559)
1400	Other Instructional Programs	53,905	85,524	(31,619)	39,525	(14,380)
1500	Nonpublic school programs	0	2,604	(2,604)	0	0
1800	Pre-Kindergarten	113,703	85,000	28,703	122,400	8,697
2100	Pupil Services	212,555	191,807	20,748	207,510	(5,045)
2200	Instructional Staff Services	189,083	205,447	(16,364)	203,024	13,941
2300	Administration	457,859	429,583	28,276	505,133	47,274
2400	Health Services	104,519	103,562	957	135,515	30,996
2500	Business	208,562	224,539	(15,977)	190,801	(17,761)
2600	Maintenance	398,587	423,065	(24,478)	427,477	28,890
2700	Transportation	439,244	488,147	(48,903)	509,013	69,769
2800	Central	0	0	0	32,496	32,496
3000	Student Activities/Community	110,023	109,999	24	123,766	13,743
5110	Financing	6,300	6,300	0	19,500	13,200
5200	Interfund Transfers	667,186	502,772	164,414	398,918	(268,268)
5900	Budgetary Reserve	0	0	0	8,944	8,944
	Total Expenditures	6,259,743	5,942,037	317,706	6,031,654	(228,089)
	Revenues/other financing sources	6,239,370	6,075,858	163,512	5,958,575	280,795
	Net Change	<u>\$ (20,373)</u>	<u>\$ 133,821</u>	<u>\$ (154,194)</u>	<u>\$ (73,079)</u>	<u>\$ 52,706</u>

**DIFFERENCES**

- 1100 The decrease is due to a decrease in charter school costs and professional education services.
- 1200 The increase is due to factors including increases in paraprofessional staffing, identifying more students qualified for special education services and unfunded state mandates for special education services

## Harmony Area School District

### Management's Discussion and Analysis (MD&A)

- 1300 The District terminated its membership in the Clearfield County Vo-Tech and joined the Admiral Peary Vo-Tech. With the change, the number of students participating in vocational education increased. In addition, to terminate, the District was required to deposit their portion of the outstanding debt of the Clearfield County Vo-Tech with a trustee; thus, defeasing the debt.
- 1400 Student requirements for long-term alternate education such as placement in specialized education facilities decreased. The result was a decrease in expenditures from the prior year.
- 1800 The district increased the number of students enrolled in the PRE-K program to 16 in 2018-2019, which resulted in an increase in expenditures.
- 2100 The increase is due specifically to an addition in speech therapy due to a change in need.
- 2700 The elimination of the individual A.M. Vo-Tech bus run along with the decrease in specialized transportation needs caused a decrease in the transportation costs.
- 5200 The increase is due primarily to the increase in principal-like payments to the QSCB bond sinking fund, which is transferred to the capital projects fund. As the QSCB approaches maturity, required deposits to the sinking fund will increase.

## Capital Assets

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

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

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>		<b>Percentage Change</b>
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2018-19</b>
Land	\$ 5,000	\$ 5,000	\$ 0	\$ 0	\$ 5,000	\$ 5,000	0.00%
Buildings and improvements	6,006,031	6,351,660	0	0	6,006,031	6,351,660	-5.44%
Infrastructure	198,313	202,672	0	0	198,313	202,672	-2.15%
Equipment and furniture	314,395	366,735	28,022	35,192	342,417	401,927	-14.81%
	<u>\$ 6,523,739</u>	<u>\$ 6,926,067</u>	<u>\$ 28,022</u>	<u>\$ 35,192</u>	<u>\$ 6,551,761</u>	<u>\$ 6,961,259</u>	-5.88%

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

**Long-Term Debt**

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

**Table 5**  
**Outstanding Long-Term Debt**

	<b>Total School District</b>		<b>Percent</b>
	<b>2019</b>	<b>2018</b>	<b>Change</b>
QSCB bonds (Series of 2011)	\$ 6,000,000	\$ 6,000,000	0.00%
General obligation refunding bonds (Series of 2011)	230,000	440,000	-47.73%
Note payable (Traverse)	17,954	23,625	100.00%
Other long-term financing	<u>0</u>	<u>180,769</u>	100.00%
Total	<u>\$ 6,247,954</u>	<u>\$ 6,644,394</u>	-5.97%

**MAJOR FINANCIAL ISSUES**

The financial issues pertaining to the District for the 2018-19 year are as follows:

**IMPROVEMENTS & EQUIPMENT**

No significant improvements were made, nor equipment purchased in the fiscal year.

The district continues to uphold the policy concerning use of the district vehicle by staff attending conferences and for student field trips in order to reduce mileage costs.

**Curriculum:**

The 2018-19 school year saw an increase and expansion of the use of the Study Island and Reading Eggs student assessment curriculum, with more time and resources being utilized in these diagnostic softwares by the Edmentum company. This fiscal year also included the continuation of our HAOLA (Harmony Area Online Learning Association) educational platform for purposes of an in-house cyber school option. Likewise, this online learning platform was utilized to add electives and career readiness objectives for upperclassmen students that were on a career track that necessitated further exploration into the electives. This system is a part of the online state cyber school "CAOLA," which is administered through the Capital Intermediate Unit. We partner with both the Capital Intermediate Unit as well as our local Central Intermediate Unit #10 to provide our own cyber services. Further development of online resources was accomplished with partnership of the technology department, such as applications for our district iPads, online resources connected to the district mathematics series, and other supplemental materials able to be located and downloaded by the instructional staff. Additional improvements in curriculum came by way of investing our strategies in disciplinary units, where crossover between the sciences and math courses as well as coupling ELA and social studies curriculum could make sense. These projects included laboratory activities, guest speakers, and book projects involving mandated state topics such as Holocaust, genocide, and human rights violations.

**Technology:**

The basis for most expenditures in the area of technology focused on preventative maintenance to existing classroom whiteboards, projectors, printers, student computers, student iPads, and teacher workstations. The district continued its upgrades to communication infrastructure and hardware in order to try to keep web filtering, firewall updates, and overall network reliability at a cutting edge level in order to provide a safe environment for our online learning. Updates to the district wireless (wifi) network took place in order to further secure both in-house and guest access to the network. The district also hired a third party to provide 24-7 monitoring of devices and network security as well as monthly in-house visits for technology troubleshooting and necessary upgrades to maintain a level of growth in the area of technology. This partnership has led to the upgrading of all district machines to Windows-10 and later software and drivers, as well as the latest server software and protocols in order to maintain network integrity.

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

**Contacting the District Financial Management**

This financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional information, please contact Bradley Brothers, Business Manager, Harmony Area School District, 5239 Ridge Road, Westover, PA 16692 or 814-845-7918, extension 15.

## **BASIC FINANCIAL STATEMENTS**

**Harmony Area School District**  
**Statement of Net Position**  
**June 30, 2019**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Current assets:			
Cash and equivalents	\$ 2,868,850	\$ 33,210	\$ 2,902,060
Investments	1,156,354	0	1,156,354
Taxes receivable	279,537	0	279,537
Intergovernmental receivables	589,904	0	589,904
Other receivables	84,993	0	84,993
Inventories	<u>14,353</u>	<u>18,327</u>	<u>32,680</u>
Total current assets	<u>4,993,991</u>	<u>51,537</u>	<u>5,045,528</u>
Noncurrent assets:			
Land	5,000	0	5,000
Depreciable capital assets, net	<u>6,518,739</u>	<u>28,022</u>	<u>6,546,761</u>
Total noncurrent assets	<u>6,523,739</u>	<u>28,022</u>	<u>6,551,761</u>
Total assets	<u>11,517,730</u>	<u>79,559</u>	<u>11,597,289</u>
<b>Deferred Outflows of Resources</b>			
Defined benefit pension plan	930,980	60,892	991,872
Other post-employment benefits (OPEB)	<u>43,022</u>	<u>0</u>	<u>43,022</u>
Total deferred outflows of resources	<u>974,002</u>	<u>60,892</u>	<u>1,034,894</u>
Total assets and deferred outflows of resources	<u><u>\$ 12,491,732</u></u>	<u><u>\$ 140,451</u></u>	<u><u>\$ 12,632,183</u></u>

See accompanying notes to the basic financial statements.



**Harmony Area School District**  
**Statement of Net Position**  
**June 30, 2019**

	Governmental Activities	Business-Type Activities	Total
<b>Liabilities</b>			
Current liabilities:			
Internal balances	\$ (67,857)	\$ 67,857	\$ 0
Due to other governments	39,779	0	39,779
Accounts payable	248,987	0	248,987
Current portion of long-term obligations	275,554	0	275,554
Accrued interest payable	6,539	0	6,539
Accrued salaries and wages	349,685	0	349,685
Payroll deductions and withholdings	19,414	0	19,414
Unearned revenues	12,440	10,655	23,095
Total current liabilities	884,541	78,512	963,053
Noncurrent liabilities:			
Bonds payable, net of discount	5,959,803	0	5,959,803
Notes payable	12,132	0	12,132
Net pension liability	7,660,115	212,885	7,873,000
Net other post-employment benefits liability (OPEB)	1,374,000	0	1,374,000
Long-term portion of compensated absences	119,194	158	119,352
Total noncurrent liabilities	15,125,244	213,043	15,338,287
Total liabilities	16,009,785	291,555	16,301,340
<b>Deferred Inflows of Resources</b>			
Defined benefit pension plan	912,629	24,390	937,019
Other post-employment benefits (OPEB)	61,000	0	61,000
Total deferred inflows of resources	973,629	24,390	998,019
<b>Net Position</b>			
Invested in capital assets, net of debt	315,982	28,022	344,004
Restricted for debt service (spendable)	3,423	0	3,423
Restricted for capital projects (spendable)	1,832,153	0	1,832,153
Unrestricted	(6,643,240)	(203,516)	(6,846,756)
Total net position	(4,491,682)	(175,494)	(4,667,176)
Total liabilities, deferred inflows of resources, and net position	\$ 12,491,732	\$ 140,451	\$ 12,632,183

See accompanying notes to the basic financial statements.

**Harmony Area School District  
Statement of Activities  
For the Year Ended June 30, 2019**

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
Instruction	\$ 3,505,533	\$ 0	\$ 1,091,475	\$ 0	\$ (2,414,058)	\$ 0	\$ (2,414,058)
Instructional student support	372,654	0	204,611	0	(168,043)	0	(168,043)
Administration and financial support	765,515	0	4,864	0	(760,651)	0	(760,651)
Operations and maintenance of plant	321,591	5,000	0	141,950	(174,641)	0	(174,641)
Pupil transportation	473,894	0	409,975	0	(63,919)	0	(63,919)
Student activities	118,702	4,642	0	0	(114,060)	0	(114,060)
Interest on long-term debt	338,223	0	285,742	0	(52,481)	0	(52,481)
Total governmental activities	5,896,112	9,642	1,996,667	141,950	(3,747,853)	0	(3,747,853)
<b>Business-Type Activities:</b>							
Food service	252,163	35,048	194,189	0	0	(22,926)	(22,926)
Total primary government	<u>\$ 6,148,275</u>	<u>\$ 44,690</u>	<u>\$ 2,190,856</u>	<u>\$ 141,950</u>	<u>(3,747,853)</u>	<u>(22,926)</u>	<u>(3,770,779)</u>
<b>General Revenues:</b>							
Taxes levied					1,171,721	0	1,171,721
Grants, subsidies and contributions, not restricted					2,835,826	0	2,835,826
Investment earnings					155,668	251	155,919
Miscellaneous					3,020	0	3,020
<b>Special Item:</b>							
Sale of logging rights					40,500	0	40,500
Total general revenues and special items					4,206,735	251	4,206,986
Change in net position					458,882	(22,675)	436,207
Net position, beginning of year, restated					(4,950,564)	(152,819)	(5,103,383)
Net position, end of year					<u>\$ (4,491,682)</u>	<u>\$ (175,494)</u>	<u>\$ (4,667,176)</u>

See accompanying notes to the basic financial statements.

**Harmony Area School District  
Balance Sheet  
Governmental Funds  
June 30, 2019**

	General Fund	Major Fund Capital Projects	Non-Major Fund Debt Service	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 2,158,784	\$ 706,643	\$ 3,423	\$ 2,868,850
Investments	0	1,156,354	0	1,156,354
Taxes receivable	279,537	0	0	279,537
Due from other funds	67,857	0	0	67,857
Due from other governments	383,604	0	0	383,604
Other receivables	84,993	0	0	84,993
Inventories	14,353	0	0	14,353
Total assets	2,989,128	1,862,997	3,423	4,855,548
<b>Deferred Outflows of Resources</b>	0	0	0	0
Total assets and deferred outflows of resources	<u>\$ 2,989,128</u>	<u>\$ 1,862,997</u>	<u>\$ 3,423</u>	<u>\$ 4,855,548</u>
<b>Liabilities</b>				
Due to other governments	\$ 39,779	\$ 0	\$ 0	\$ 39,779
Accounts payable	218,143	30,844	0	248,987
Accrued salaries and benefits	349,685	0	0	349,685
Payroll deductions and withholdings	19,414	0	0	19,414
Unearned revenues	12,440	0	0	12,440
Total liabilities	639,461	30,844	0	670,305
<b>Deferred Inflows of Resources</b>				
Delinquent taxes receivable	214,057	0	0	214,057
Total deferred inflows of resources	214,057	0	0	214,057
<b>Fund Balance</b>				
Nonspendable fund balance	14,353	0	0	14,353
Restricted fund balance	0	1,832,153	3,423	1,835,576
Assigned fund balance	975,000	0	0	975,000
Unassigned fund balance	1,146,257	0	0	1,146,257
Total fund balance	2,135,610	1,832,153	3,423	3,971,186
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 2,989,128</u>	<u>\$ 1,862,997</u>	<u>\$ 3,423</u>	<u>\$ 4,855,548</u>

See accompanying notes to the basic financial statements.

**Harmony Area School District  
Reconciliation of the Governmental Funds Balance Sheet  
To the Statement of Net Position  
June 30, 2019**

**Total fund balance – governmental funds** \$ 3,971,186

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$13,857,162 and the accumulated depreciation is \$7,333,423.

6,523,739

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

214,057

The Rental and Sinking Fund Subsidy revenue from the state, for bond payments made in fiscal years 2018 and 2019, has been approved and will be collected within the next year, but will not provide current financial resources, and thus, is not reported as revenue or receivable in the funds.

206,300

Long-term liabilities, including bonds payable and other debt, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

General obligation bonds	\$(6,230,000)	
Notes payable	(17,954)	
Compensated absences	(158,926)	
Accrued interest payable	(6,539)	
Bond discount, net of amortization	40,197	
Net OPEB liability	(1,374,000)	
Net pension liability	<u>(7,660,115)</u>	(15,407,337)

Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows related to pensions	\$ 930,980	
Deferred inflows related to pensions	(912,629)	
Deferred outflows related to OPEB	43,022	
Deferred inflows related to OPEB	<u>(61,000)</u>	<u>373</u>

**Net position of governmental activities** \$ (4,491,682)

See accompanying notes to the basic financial statements.

**Harmony Area School District**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2019**

	General Fund	Major Fund Capital Projects	Non-Major Fund Debt Service	Total Governmental Funds
<b>Revenues</b>				
Local sources	\$ 1,444,982	\$ 138,474	\$ 180	\$ 1,583,636
State sources	4,306,235	0	0	4,306,235
Federal sources	<u>447,653</u>	<u>0</u>	<u>0</u>	<u>447,653</u>
Total revenues	<u>6,198,870</u>	<u>138,474</u>	<u>180</u>	<u>6,337,524</u>
<b>Expenditures</b>				
Instruction	3,465,825	0	0	3,465,825
Support services	2,010,409	536	0	2,010,945
Non-instructional services	110,023	0	0	110,023
Debt service (principal and interest)	<u>6,300</u>	<u>305,280</u>	<u>221,575</u>	<u>533,155</u>
Total expenditures	<u>5,592,557</u>	<u>305,816</u>	<u>221,575</u>	<u>6,119,948</u>
Excess of revenues over (under) expenditures	<u>606,313</u>	<u>(167,342)</u>	<u>(221,395)</u>	<u>217,576</u>
<b>Other financing sources (uses)</b>				
Interfund transfers	<u>(667,186)</u>	<u>442,449</u>	<u>224,737</u>	<u>0</u>
Total other financing sources (uses)	<u>(667,186)</u>	<u>442,449</u>	<u>224,737</u>	<u>0</u>
<b>Special items</b>				
Sale of logging rights	<u>40,500</u>	<u>0</u>	<u>0</u>	<u>40,500</u>
Net change in fund balance	(20,373)	275,107	3,342	258,076
Fund balance, beginning of year	<u>2,155,983</u>	<u>1,557,046</u>	<u>81</u>	<u>3,713,110</u>
Fund balance, end of year	<u>\$ 2,135,610</u>	<u>\$ 1,832,153</u>	<u>\$ 3,423</u>	<u>\$ 3,971,186</u>

See accompanying notes to the basic financial statements.

**Harmony Area School District  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances to the Statement of Activities  
For the Year Ended June 30, 2019**

**Total net change in fund balance – governmental funds** \$ 258,076

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

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

Capital outlay	\$ 4,045	
Depreciation expense	<u>(406,373)</u>	(402,328)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred inflows of resources from tax revenues decreased by this amount this year. (62,606)

The Rental and Sinking Fund Subsidy revenue from the state is recorded as revenue in the government-wide statements in the year the bond principal payments are due and made. Whereas, in the funds, they are recorded when received or when considered "available" resources. The receivable for Rental and Sinking Subsidy revenue increased by this amount this year. 39,574

Principal payments on long-term debt are expenditures in the governmental funds, but reduce long-term liabilities in the statement of net position.

Bond principal payments	\$210,000	
Note principal payments	5,671	
Payment on other long-term debt	<u>180,796</u>	396,467

Interest on long-term debt is recognized in the governmental funds when it is due. In the statement of activities, interest expense is recognized as interest accrues. Accrued interest expense decreased by this amount this year. 2,626

In the governmental funds, compensated absences are measured by the amounts used. The statement of activities measures by the amounts earned. The liability for compensated absences increased by this amount this year. (7,371)

**Harmony Area School District  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances to the Statement of Activities  
For the Year Ended June 30, 2019**

District payments for other post-employment benefits (OPEB) are recognized as an expenditure in the governmental funds when they are paid. However, OPEB expense, which is the change in the net OPEB liability, adjusted for changes in deferred outflows and inflows of resources related to OPEB, is reported in the statement of activities:

District OPEB benefit payments	\$ 59,022	
OPEB expense	<u>(97,567)</u>	(38,545)

Governmental funds report district pension contributions as expenditures in the year required to be made. However, pension expense, which is the change in the net pension liability, adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the statement of activities.

District pension contributions	\$ 688,713	
Pension expense	<u>(409,716)</u>	278,997

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

(6,008)

<b>Change in net position of governmental activities</b>	<b><u>\$ 458,882</u></b>
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See accompanying notes to the basic financial statements.

**Harmony Area School District  
Statement of Net Position  
Proprietary Fund  
June 30, 2019**

	<u>Food Service</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 33,210
Inventory	<u>18,327</u>
Total current assets	<u>51,537</u>
Noncurrent assets:	
Machinery and equipment, net	<u>28,022</u>
Total noncurrent assets	<u>28,022</u>
Total assets	<u>79,559</u>
<b>Deferred Outflows of Resources</b>	
Defined benefit pension plan	<u>60,892</u>
Total assets and deferred outflows of resources	<u><u>\$ 140,451</u></u>
<b>Liabilities</b>	
Current liabilities:	
Due to other funds	\$ 67,857
Unearned revenues	<u>10,655</u>
Total current liabilities	<u>78,512</u>
Noncurrent liabilities:	
Long-term portion of compensated absences	158
Net pension liability	<u>212,885</u>
Total noncurrent liabilities	<u>213,043</u>
Total liabilities	<u>291,555</u>
<b>Deferred Inflows of Resources</b>	
Defined benefit pension plan	<u>24,390</u>
<b>Net Position</b>	
Invested in capital assets	28,022
Unrestricted	<u>(203,516)</u>
Total net position	<u>(175,494)</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 140,451</u></u>

See accompanying notes to the basic financial statements.



**Harmony Area School District**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Fund**  
**For the Year Ended June 30, 2019**

	<u>Food Service</u>
<b>Operating revenues</b>	
Food service revenue	\$ 28,572
Other operating revenue	<u>6,476</u>
Total operating revenues	<u>35,048</u>
<b>Operating expenses</b>	
Salaries	55,448
Employee benefits	44,302
Purchased professional services	207
Purchased property services	5,218
Other purchased services	883
Supplies	138,935
Depreciation	<u>7,170</u>
Total operating expenses	<u>252,163</u>
Operating income (loss)	<u>(217,115)</u>
<b>Nonoperating revenues (expenses)</b>	
Earnings on investments	251
State sources	19,818
Federal sources	<u>174,371</u>
Total nonoperating revenues (expenses)	<u>194,440</u>
Change in net position	(22,675)
Total net position, beginning of year	<u>(152,819)</u>
Total net position, end of year	<u><u>\$ (175,494)</u></u>

See accompanying notes to the basic financial statements.

**Harmony Area School District  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended June 30, 2019**

	<u>Food Service</u>
<b>Cash flows from operating activities</b>	
Cash received from users	\$ 27,525
Cash received from other operating revenue	6,476
Cash payments to employees for services	(95,295)
Cash payments to suppliers for goods and services	<u>(147,993)</u>
Net cash provided by (used for) operating activities	<u>(209,287)</u>
<b>Cash flows from non-capital financing activities</b>	
State sources	19,818
Federal sources	<u>174,371</u>
Net cash provided by (used for) non-capital financing activities	<u>194,189</u>
<b>Cash flows from investing activities</b>	
Earnings on investments	<u>251</u>
Net cash provided by (used for) investing activities	<u>251</u>
Net increase (decrease) in cash and cash equivalents	(14,847)
Cash and cash equivalents, beginning of year	<u>48,057</u>
Cash and cash equivalents, end of year	<u><u>\$ 33,210</u></u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>	
Operating income (loss)	\$ <u>(217,115)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	7,170
(Increase) decrease in inventories	(2,750)
(Increase) decrease in deferred outflows of resources	8,803
Increase (decrease) in accounts payable	14,053
Increase (decrease) in accrued salaries/benefits	(3,745)
Increase (decrease) in unearned revenues	(1,047)
Increase (decrease) in net pension liability	(11,465)
Increase (decrease) in deferred inflows of resources	<u>(3,191)</u>
Total adjustments	<u>7,828</u>
Net cash provided by (used for) operating activities	<u><u>\$ (209,287)</u></u>

See accompanying notes to the basic financial statements.

**Harmony Area School District  
Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2019**

	Agency <u>Fund</u>	Private Purpose <u>Trust</u>	Total Fiduciary <u>Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 24,127	\$ 3,990	\$ 28,117
Total assets	24,127	3,990	28,117
<b>Deferred Outflows of Resources</b>	<u>0</u>	<u>0</u>	<u>0</u>
Total assets and deferred outflows of resources	<u>\$ 24,127</u>	<u>\$ 3,990</u>	<u>\$ 28,117</u>
<b>Liabilities</b>			
Due to students	\$ 24,127	\$ 0	\$ 24,127
Total liabilities	<u>24,127</u>	<u>0</u>	<u>24,127</u>
<b>Deferred Inflows of Resources</b>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net Position</b>			
Held in trust for scholarships	<u>0</u>	<u>3,990</u>	<u>3,990</u>
Total net position	<u>0</u>	<u>3,990</u>	<u>3,990</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 24,127</u>	<u>\$ 3,990</u>	<u>\$ 28,117</u>

See accompanying notes to the basic financial statements.

**Harmony Area School District**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2019**

	Private Purpose Trust
<b>Additions:</b>	
Other additions	\$ 2,000
Total additions	<u>2,000</u>
<b>Deductions:</b>	
Scholarships awarded	<u>250</u>
Total deductions	<u>250</u>
Change in net position	1,750
Net position, beginning of year	<u>2,240</u>
Net position, end of year	<u><u>\$ 3,990</u></u>

See accompanying notes to the basic financial statements.

**Harmony Area School District**  
**Notes to Financial Statements**  
**June 30, 2019**

**1. Description of School District and Reporting Entity**

The Harmony Area School District, formed in 1957, is a Local Education Agency of the third class, governed by a nine-member publicly elected board, located in the Commonwealth of Pennsylvania. The District provides educational services to approximately 250 students from Westover Borough and the Townships of Chest and Burnside, all located in Clearfield County, Pennsylvania, and Cherry Tree Borough in Indiana County, Pennsylvania.

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District (a) appoints a voting majority of the organization's governing board; (b) is able to impose its will on the organization; or (c) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burden on, the School District. Additionally, the School District is required to consider other organizations for which the nature and significance of their relationship with the School District are such that exclusion would cause the School District's financial statements to be misleading. 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 position 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 position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

**Harmony Area School District**  
**Notes to Financial Statements**  
**June 30, 2019**

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

Fund Financial Statements

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

**B. Fund Accounting**

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

Governmental Funds

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

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

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

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

**Harmony Area School District**  
**Notes to Financial Statements**  
**June 30, 2019**

Proprietary Funds

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

**C. Measurement Focus**

Government-wide Financial Statements

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

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 deferred outflows of resources, as well as all liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e. revenues) and decreases (i.e. expenses) in total net position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

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

Fiduciary funds are reported using the economic resources measurement focus.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenue and deferred inflows and outflows of resources, and in the presentation of expenses versus expenditures. Unearned revenues are addressed in Note 2N, and deferred inflows and outflows of resources in Note 2O.

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.

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.



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**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 2019.

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

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

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

**F. Investment Valuation**

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The District's investments include U.S. Treasury obligations, which are reported at fair value, using Level 1 inputs.

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Although included in cash and cash equivalents on the District's financial statements, the District also invests in pooled funds with the Pennsylvania School District Liquid Asset Fund (PSDLAF) and money market funds. The money market funds follow Rule 2a-7, and PSDLAF investments are held in 2a7-like pools. Portfolio securities are valued at amortized cost, which approximates market value. The money markets maintain a stable net asset value of \$1.00 per share. PSDLAF acts like money market mutual funds in that their objective is to maintain a stable net asset value of \$1.00 per share. The District reports these funds at the pool's share price. These funds are further discussed in Note 3.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2019 if any, 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.

**H. Inventory**

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

Inventories in governmental funds are stated at cost by the first-in, first-out method. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, an estimated value of inventories (\$14,353) is reported as an asset in the General Fund. The inventories in the General Fund are equally offset by nonspendable fund balance, which indicates they do not constitute "available spending resources" even though they are a component of net current assets. The General Fund is the only governmental fund that has material inventory balances as of June 30, 2019.

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2019. The inventory consisted of government donated commodities which are valued at estimated fair market value, and purchased commodities and supplies, both valued at cost using first-in-first-out (FIFO) method. Any unused commodities donated by the federal government at June 30, 2019 are reported as unearned revenue.

**I. 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 position but are not reported in the fund financial statements. Capital assets used by the enterprise fund are reported in both the business-type activities column on the government-wide statement of net position and in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of fifteen (\$1,500) hundred dollars. 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.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	15 - 40 years
Furniture and Equipment	5 - 20 years
Infrastructure	50 years

**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. Receivables and Payables**

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

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

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

**L. Fund Balance Classification**

GASB Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*”, provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

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

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- Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

As of June 30, 2019, fund balance components, other than unassigned, consist of the following:

	Nonspendable	Restricted	Assigned
General fund:			
Inventory	\$ 14,353	\$ 0	\$ 0
Future retirement costs	0	0	505,250
Future health care costs	0	0	469,750
Capital projects fund	0	1,832,153	0
Debt service fund	0	3,423	0
Total	<u>\$ 14,353</u>	<u>\$ 1,835,576</u>	<u>\$ 975,000</u>

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

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

**M. Accrued Liabilities and Long-term Obligations**

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

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

**N. Unearned Revenues**

The District reports unearned revenue on its government-wide and fund financial statements. Unearned revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period (fund financial statements). Unearned revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures (fund financial statements and government-wide financial statements). In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the applicable financial statement and revenue is recognized.

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**O. Deferred Outflows/Inflows of Resources**

Deferred Outflows of Resources

The District reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary fund statements of net position. The deferred outflows of resources reported in this year's financial statements include those related to the District's cost-sharing, multi-employer defined benefit pension plan, as well as those related to the District's other post-employment benefits (OPEB). Depending on the nature of the deferred outflow, they may be amortized to expense over 5 years, or over the average remaining service lives of employees. See further detail on deferred outflows of resources related to the pension plan at Note 10, and to OPEB at Notes 11 and 12.

No deferred outflows of resources affect the governmental fund financial statements in the current year.

Deferred Inflows of Resources

The District's government-wide and proprietary fund statements of net position and its governmental fund balance sheet report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period(s). The deferred inflows of resources reported on the District's government-wide and proprietary fund statements of net position include those related to the District's cost-sharing, multi-employer defined benefit pension plan, as well as those related to the District's other post-employment benefits (OPEB). Depending on the nature of the deferred inflow, they may be amortized to expense over 5 years, or over the average remaining service lives of employees. See further detail on deferred inflows of resources related to the pension plan at Note 10, and to OPEB at Notes 11 and 12.

In the District's governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The District will not recognize the related revenues until they are available (collected not later than 60 days after the end of the District's fiscal year) under the modified accrual basis of accounting. Accordingly, unavailable revenues from property taxes are reported in the governmental funds balance sheet as a deferred inflow of resources (\$214,057).

**P. Net Position**

Net position represents assets and deferred outflows of resources, net of liabilities and deferred inflows of resources. Net position 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 position is reported as restricted when there are limitations imposed on its 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.

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

The government-wide statement of net position reports \$1,835,576 of restricted net position, of which \$1,832,153 is restricted by enabling legislation for Capital Projects, and \$3,423 by bond indenture for Debt Service.

**Harmony Area School District**  
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**Q. 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.

**R. Multi-Employer Benefit Plans**

Pension Plan

Substantially all full-time and part-time employees of the District participate in a cost-sharing multi-employer defined benefit pension plan. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires cost-sharing employers such as the District to recognize a liability for their proportionate share of the collective net pension liability. The standard further requires the District to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows and inflows of resources related to pensions.

Other Post-Employment Benefits (OPEB)

The Public School Employees Retirement System (PSERS) provides a health insurance premium assistance program, which is a governmental cost-sharing, multiple employer OPEB plan for all eligible District retirees who qualify and elect to participate. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, requires cost-sharing employers such as the District to recognize a liability for their proportionate share of the collective net OPEB liability. The Standard further requires the District to recognize OPEB expense and report deferred outflows of resources and deferred inflows of resources related to OPEB for its proportionate shares of collective OPEB expense and collective deferred outflows and inflows of resources related to OPEB.

For purposes of measuring the aforementioned net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pension and OPEB expenses, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS), and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, and investments are reported at fair value.

**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.

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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.

Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided certain requirements are met.

Repurchase agreements with respect to U. S. Treasury bills or obligations.

Local Government Investment Pools (LGIPs) which include, but are not limited to, the Pennsylvania School District Liquid Asset Fund (PSDLAF) and the Pennsylvania Local Government Investment Trust (PLGIT).

Under Pennsylvania Act 10 of 2016, effective May 24, 2016, all Pennsylvania local governments, including school districts, have additional investment options including commercial paper, bankers' acceptances, and negotiable certificates of deposit. These additional investments are subject to maturity terms and credit rating requirements, as defined in the Act. However, due to the collateralization requirements of the Code and because negotiable certificates of deposit do not exist in the current investment market in a collateralized form to satisfy the requirements, they are not an investment lawfully available to school districts at this time.

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 include demand deposits at a local financial institution. The market values of deposits are equal to the cost of the deposits. Cash and cash equivalents further include money market funds and pooled funds with the Pennsylvania School District Liquid Asset Fund (PSDLAF), which are further discussed below.

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

The District's investments, as reported on the financial statements, include U.S. Treasury Bonds. The investments are stated at fair market value using Level 1 inputs.

**Cash**

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk, however, the District's deposits in excess of the FDIC limit are collateralized in accordance with the Pennsylvania Security for Public Deposits Act. As of June 30, 2019, \$2,703,222 of the District's bank balance of \$2,953,222 was exposed to custodial risk as:

Uninsured and uncollateralized	\$ 0
Collateralized with securities held by the pledging financial institution	0
Uninsured and collateral held by the pledging bank's trust department not in the District's name	<u>2,703,222</u>
Total	<u>\$2,703,222</u>

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Reconciliation to Financial Statements

Uninsured amount above	\$2,703,222
Add: Insured amount	250,000
Less: Outstanding checks	(88,301)
Plus: Deposits in transit	<u>3,162</u>
Carrying amount – bank balances	2,868,083
Add: Petty cash	250
Pooled cash equivalents	61,145
Money markets	<u>699</u>
Total cash per financial statements	<u>\$2,930,177</u>

**Investments**

As of June 30, 2019, the District had the following investments and maturities:

<u>Investment</u>	<u>Maturity</u>	<u>Value</u>
PA School District Liquid Asset Fund (PSDLAF)	<1 year	\$ 61,145
United States Treasury (Level 1)	30 years	1,156,354
Money Market Accounts	<1 year	<u>699</u>
Total		<u>\$1,218,198</u>

In accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, the money market accounts follow Rule 2a-7, and PSDLAF funds meet the requirements of investments held in 2a7-like pools. Accordingly, portfolio securities are valued at amortized cost, which approximates market value. Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF acts like money market mutual funds, in that, their objective is to maintain a stable net asset value of \$1.00 per share, are rated by a nationally recognized statistical rating organization, and are subject to an independent annual audit. Investments in PSDLAF are highly liquid, as deposits can be converted to cash within twenty-four hours without loss of principal or interest.

Interest Rate Risk

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

Credit Risk

State law limits investments to those authorized by State statutes. However, the District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2019 the District's investments were rated as follows:

<u>Investment</u>	<u>Standard &amp; Poor's</u>
PA School District Liquid Asset Fund	AAAm
United States Treasury	AA+

Concentration of Credit Risk

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



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Custodial Credit Risk

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

Reconciliation to Financial Statements

Total investments above	\$1,218,198
Less: Deposits in investment pools and money market	
accounts considered cash equivalent	<u>(61,844)</u>
Total investments per financial statements	<u>\$1,156,354</u>

**4. Real Estate Taxes**

Real estate taxes for the School District are collected from Westover and Cherry Tree Boroughs and Chest and Burnside Townships. The tax on real estate for public school purposes for fiscal 2019 was 84.2 mills for Clearfield County and 8.0 mills for Indiana County, as levied by the Board. Assessed valuations of property (\$21,122,224) are determined by Clearfield and Indiana Counties, and the elected tax collectors are responsible for collection. The schedule for real estate taxes levied for each fiscal year is as follows:

August 1	- Levy Date
August 1 – September 25	- 2% Discount Period
September 26 – November 13	- Face Amount Period
November 14 – December 11	- 10% Penalty Period
January 15	- Lien Date

**5. Taxes Receivable**

The elected tax collectors are required to return any uncollected real estate taxes to the county's tax claim bureau by January 15. It has been determined the amount of outstanding taxes as of June 30, 2019 is \$279,537. 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 recorded as a deferred inflow of resources in the fund financial statements.

Uncollected taxes for the year ended June 30, 2019:

Delinquent Real Estate	\$ 48,928
Earned Income Taxes	15,136
Real Estate Transfer Taxes	<u>1,416</u>
Uncollected Taxes Recognized	
as Revenue (received within 60 days)	65,480
Real Estate Tax Deferred Inflow of Resources	<u>214,057</u>
Total Taxes Receivable	<u>\$279,537</u>

**Harmony Area School District**  
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**6. Unearned Revenues**

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Unearned revenues of \$12,440 in the General Fund and the Governmental Activities of the Government-Wide statements at June 30, 2019 represent unearned grant revenues. Unearned revenues of \$10,655 in the proprietary fund and the Business-Type Activities of the government-wide statements at June 30, 2019 represent donated commodities inventory which will be recognized as both revenue and expense when consumed.

**7. Due From Other Governments**

Amounts due from other governments represent receivables for revenues earned by the School District or collections made by another governmental unit on behalf of the School District. At June 30, 2019, the following amounts are due from other governmental units:

<u>Due From</u>	<u>General Fund</u>	<u>Proprietary Fund</u>	<u>Governmental Activities</u>
Federal	\$ 84,673	\$0	\$ 84,673
State	298,931	0	505,231
Local	<u>0</u>	<u>0</u>	<u>0</u>
	<u>\$383,604</u>	<u>\$0</u>	<u>\$589,904</u>

**8. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	<u>\$ 5,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,000</u>
Total capital assets, not being depreciated	<u>5,000</u>	<u>0</u>	<u>0</u>	<u>5,000</u>
Capital assets, being depreciated:				
Buildings and improvements	12,057,839	0	0	12,057,839
Infrastructure	217,927	0	0	217,927
Furniture and equipment	<u>1,572,351</u>	<u>4,045</u>	<u>0</u>	<u>1,576,396</u>
Total capital assets, being depreciated	<u>13,848,117</u>	<u>4,045</u>	<u>0</u>	<u>13,852,162</u>
Less accumulated depreciation:				
Buildings and improvements	5,706,179	345,629	0	6,051,808
Infrastructure	15,255	4,359	0	19,614
Furniture and equipment	<u>1,205,616</u>	<u>56,385</u>	<u>0</u>	<u>1,262,001</u>
Total accumulated depreciation	<u>6,927,050</u>	<u>406,373</u>	<u>0</u>	<u>7,333,423</u>
Total capital assets, being depreciated, net	<u>6,921,067</u>	<u>(402,328)</u>	<u>0</u>	<u>6,518,739</u>
Governmental activities capital assets, net	<u>\$ 6,926,067</u>	<u>\$ (402,328)</u>	<u>\$ 0</u>	<u>\$ 6,523,739</u>

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	Beginning Balance	Additions	Deductions	Ending Balance
<b>Business-Type Activities</b>				
Capital assets, being depreciated:				
Equipment	\$ 282,054	\$ 0	\$ 0	\$ 282,054
Total capital assets, being depreciated	<u>282,054</u>	<u>0</u>	<u>0</u>	<u>282,054</u>
Less accumulated depreciation:				
Equipment	<u>246,862</u>	<u>7,170</u>	<u>0</u>	<u>254,032</u>
Total accumulated depreciation	<u>246,862</u>	<u>7,170</u>	<u>0</u>	<u>254,032</u>
Business-type activities capital assets, net	<u><u>\$ 35,192</u></u>	<u><u>\$ (7,170)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 28,022</u></u>

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

**Governmental Activities:**

Instruction	\$256,312
Instruction support	27,247
Administration and finance	55,972
Operation and maintenance of plant	23,514
Pupil transportation	34,649
Student activities	<u>8,679</u>
Total depreciation expense - governmental activities	<u><u>\$406,373</u></u>

**9. 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. The members eligible to participate in the plan include all full-time employees, part-time hourly employees who render at least 500 hours of service in the school year, and part-time per diem employees who render at least 80 days of service in the school year. PSERS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained at [www.psers.state.pa.us](http://www.psers.state.pa.us).

Funding Policy

The contribution policy is set by the Code and requires contributions by active members, employers, and the Commonwealth.

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Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who became new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Contributions

**Member Contributions:**

Active members who joined PSERS prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined PSERS on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined PSERS after June 30, 2001 and before July 1, 2011, contribute at 7.5% (automatic Membership Class T-D). For all new hires and for new members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined PSERS after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

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**Employer Contributions:**

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.

The District's contractually required contribution rate, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year with an additional amount to finance any unfunded accrued liability. For the fiscal year ended June 30, 2019, the rate of the employer's contribution was 33.43 percent of covered payroll. The 33.43 percent rate is composed of a pension contribution rate of 32.60 percent for pension benefits and 0.83 percent for healthcare insurance premium assistance. Harmony Area School District's contributions to PSERS for the year ending June 30, 2019 were \$725,875.

**10. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2019, the District reported a liability of \$7,873,000 for its proportionate share of the net pension liability, with \$7,660,115 reflected in the governmental activities and \$212,885 in the business-type activities. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by rolling forward the PSERS' total pension liability as of June 30, 2017 to June 30, 2018. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District's proportion was 0.0164%, which was a decrease of 0.0004% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the District recognized pension expense of \$423,003, with \$409,716 in governmental activities and \$13,287 in business-type activities. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	District-wide Deferred Outflows of Resources	District-wide Deferred Inflows of Resources
Difference between projected and actual experience	\$ 63,000	\$ 122,000
Changes in assumptions	147,000	0
Net difference between projected and actual investment earnings	39,000	0
Changes in proportions	35,019	815,019
Difference between employer contributions and proportionate share of total contributions	0	0
Contributions subsequent to the measurement date	707,853	0
	<u>\$ 991,872</u>	<u>\$ 937,019</u>

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\$707,853, reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

Year Ended June 30,	Amount
2020	\$ (176,000)
2021	(186,000)
2022	(261,000)
2023	(30,000)
2024	0
Thereafter	0
	<u>\$ (653,000)</u>

Deferred outflows of resources are reflected on the Statement of Net Position for both the governmental activities (\$930,980) and the business-type activities (\$60,892). Deferred inflows of resources are also reflected on the Statement of Net Position for both the governmental activities (\$912,629) and the business-type activities (\$24,390).

Actuarial Assumptions

The total pension liability as of June 30, 2018 was determined by rolling forward the PSERS' total pension liability as of the June 30, 2017 actuarial valuation to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement.

- The Investment Rate of Return was 7.25%.
- The inflation assumption was 2.75%.
- Salary growth was an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

The actuarial assumptions used in the June 30, 2017 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	20.0%	5.2%
Fixed income	36.0%	2.2%
Commodities	8.0%	3.2%
Absolute return	10.0%	3.5%
Risk parity	10.0%	3.9%
Infrastructure/MLPs	8.0%	5.2%
Real estate	10.0%	4.2%
Alternative investments	15.0%	6.7%
Cash	3.0%	0.4%
Financing (LIBOR)	-20.0%	0.9%
	<u>100.0%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2018.

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

	<u>1% Decrease 6.25%</u>	<u>Current Discount Rate 7.25%</u>	<u>1% Increase 8.25%</u>
District's proportionate share of the net pension liability	\$ 9,759,000	\$ 7,873,000	\$ 6,278,000

Pension Plan Fiduciary Net Position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on PSERS' website at [www.psers.state.pa.us](http://www.psers.state.pa.us).

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**11. Post-employment Benefit Plans – PSERS Health Insurance Premium Assistance Program**

Plan Description

PSERS provides Premium Assistance, which is a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB), for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program (HOP). As of June 30, 2018, there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria

Retirees of PSERS can participate in the Premium Assistance program if they satisfy the following criteria:

- Have 24 ½ or more years of service, or
- Are a disability retiree; or
- Have 15 or more years of service and retired after reaching superannuation age; and
- Participate in the HOP or employer-sponsored health insurance program.

Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2018, there were no assumed future benefit increases to participating eligible retirees.

Employer Contributions

The school district's contractually required rate for the fiscal year ended June 30, 2019 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$18,022 for the year ended June 30, 2019.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019 the District reported a liability of \$342,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the PSERS' total OPEB liability as of June 30, 2017 to June 30, 2018. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District's proportion was 0.0164%, which was a decrease of 0.0004% from its proportion measured as of June 30, 2017.



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For the year ended June 30, 2019, the District recognized OPEB expense of \$10,567. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 2,000	\$ 0
Changes in assumptions	5,000	13,000
Net difference between projected and actual investment earnings	1,000	0
Changes in proportions	0	29,000
Difference between employer contributions and proportionate share of total contributions	0	0
Contributions subsequent to the measurement date	18,022	0
	<u>\$ 26,022</u>	<u>\$ 42,000</u>

\$18,022 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	
2020	\$ (7,000)
2021	(7,000)
2022	(7,000)
2023	(7,000)
2024	(6,000)
Thereafter	0
	<u>\$ (34,000)</u>

Actuarial Assumptions

The Total OPEB Liability as of June 30, 2018 was determined by rolling forward the PSERS' Total OPEB Liability as of June 30, 2017 to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay.
- Investment return – 2.98% - S&P 20-Year Municipal Bond Rate.
- Salary growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables of Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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- Participation rate:
  - Eligible retirees will elect to participate Pre-age 65 at 50%
  - Eligible retirees will elect to participate Post-age 65 at 70%

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study that was performed for the five year period ending June 30, 2015.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2016 determined the employer contribution rate for fiscal year 2018.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables, with age set back 3 years for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables, with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables, with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

Investments consist primarily of short-term assets designed to protect the principal of the plan assets. The expected rate of return on OPEB plan investments was determined using the OPEB asset allocation policy and best estimates of geometric real rates of return for each asset class.

The OPEB plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Under the program, as defined in the retirement code, employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

<u>OPEB - Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.9%	0.03%
US Core Fixed Income	92.8%	1.20%
Non-US Developed Fixed	<u>1.3%</u>	0.40%
	<u>100.0%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2018.

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Discount Rate

The discount rate used to measure the Total OPEB liability was 2.98%. Under the plan's funding policy, contributions are structured for short-term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments; therefore, the plan is considered a "pay-as-you-go" plan. A discount rate of 2.98% which represents the S&P 20-year Municipal Bond Rate at June 30, 2018, was applied to all projected benefit payments to measure the total OPEB liability.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, calculated using the discount rate of 2.98%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.98%) or 1 percentage point higher (3.98%) than the current rate:

	<u>1% Decrease</u> <u>1.98%</u>	<u>Current Discount Rate</u> <u>2.98%</u>	<u>1% Increase</u> <u>3.98%</u>
District's proportionate share of the net OPEB liability	\$ 389,000	\$ 342,000	\$ 303,000

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2018, retirees' Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2017, 93,380 retirees from the PSERS system were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2017, 1,077 PSERS members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on healthcare cost trends as depicted below.

The following presents the District's net OPEB liability for June 30, 2018, calculated using current healthcare cost trends as well as what the District's net OPEB liability would be if the healthcare cost trends were 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
District's proportionate share of the net OPEB liability	\$ 342,000	\$ 342,000	\$ 342,000

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OPEB Plan Fiduciary Net Position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the PSERS' website at [www.psers.pa.gov](http://www.psers.pa.gov).

**12. Post-employment Benefit Plan – District-Specific Plan**

Plan Description

The District School Board of Directors administers a single-employer defined benefit postemployment benefit (OPEB) plan (the "Plan") that is used to provide continuation of medical and pharmacy benefits to employees who retire from the District. Plan provisions are established based on bargaining agreements negotiated by the District. The plan is unfunded and no financial report is prepared.

Eligibility

- A. Healthcare:
  - a) District incentive (professionals only) – Upon retirement at age 55 with 25 years of service, or 30 years of PSERS service, including 10 years with the District
  - b) Act 110/43 – if employee does not meet District incentive requirements and support staff

Duration of Healthcare Benefits

Retiree coverage continues until age 65, death, or qualification for Medicare, if earlier. Spousal coverage continues until age 65, death, qualification for Medicare, or cessation of retiree coverage, if earlier.

Participant Contributions for Healthcare Coverage

- A. Current Incentive - Professionals:
  - a) Retiree
    - i) Remit the PSERS premium assistance and pay any post-retirement premium increases
  - b) Spouse
    - i) Contributes the full premium amount
- B. Previous Incentives - Professionals:
  - a) Retiree
    - i) Remit the PSERS premium assistance and pay any post-retirement premium increases
  - b) Spouse
    - i) Contributes the full premium amount
- B. Act 110/43:
  - a) Retiree pays full premium for coverage under Act 110/43
  - b) Spouse pays full premium amount

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The number of participants as of July 1, 2017, the effective date of the most recent full OPEB valuation, follows. There have been no significant changes in the number covered or the type of coverage since that date.

	District
Active employees	53
Retired employees	4
Spouses of retired employees	3
Total	60

Funding Policy

The contribution requirements of the plan members and the District are established and may be amended by the School Board of Directors. No assets are accumulated in a trust that meets the criteria of GASB Statement No. 75. The plan is funded on a pay-as-you-go basis, i.e. premiums are paid annually to fund the healthcare benefits provided to current retirees, primarily through annual appropriations from the General Fund.

Net OPEB Liability

The District's net OPEB liability of \$1,032,000 was measured as of June 30, 2018, and was rolled forward using actuarial assumptions to the valuation date of June 30, 2019.

Actuarial Assumptions and Other Inputs

- Discount Rate - 3.50% as of June 30, 2019.
- Healthcare Cost Trend Rates – 6.2% for 2020, decreasing to an ultimate rate of 5.20% by 2058.
- The discount rate was based on the Bond Buyer 20-year Bond GO Index at June 30, 2019.
- Mortality rates are assumed using the RP-2014 Mortality Tables, adjusted to reflect Mortality Improvement Scale MP-2017 from 2006 base year and projected forward on a generational basis with Scale MP-2017.

Changes in the District's net OPEB liability for the plan for the fiscal year ended June 30, 2019 was as follows:

Balance at July 1, 2018	\$ 966,000
Service cost	51,000
Interest	37,000
Changes in assumptions	19,000
Benefit payments	(41,000)
Net changes	66,000
Balance at June 30, 2019	\$ 1,032,000

Sensitivity of the Net OPEB Liability to Changes in Discount Rate

The following presents the net OPEB liability, calculated using the valuation discount rate of 3.50%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.50%) or 1 percentage point higher (4.50%) than the current discount rate.

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	<u>1% Decrease</u> <u>2.50%</u>	<u>Current</u> <u>Rate</u> <u>3.50%</u>	<u>1% Increase</u> <u>4.50%</u>
District's net OPEB liability	\$ 1,118,000	\$ 1,032,000	\$ 961,000

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability, calculated using the valuation healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1 percentage point lower or 1 percentage point higher than the current trend rate.

	<u>1% Decrease</u>	<u>Current</u> <u>Rate</u>	<u>1% Increase</u>
District's net OPEB liability	\$ 903,000	\$ 1,032,000	\$ 1,184,000

OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the District recognized an OPEB expense of \$87,000. At June 30, 2019, the District reported deferred outflows and inflows related to OPEB from the following sources:

	<u>Deferred Outflows</u> <u>Of Resources</u>	<u>Deferred Inflows</u> <u>Of Resources</u>
Changes in assumptions	\$ 17,000	\$ 19,000
	<u>\$ 17,000</u>	<u>\$ 19,000</u>

Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended</u> <u>June 30,</u>	
2020	\$ (1,000)
2021	(1,000)
2022	(1,000)
2023	(1,000)
2024	(1,000)
Thereafter	3,000
	<u>\$ (2,000)</u>

Economic/demographic (gains)/losses and assumption changes are recognized over the average remaining service life for all active and inactive members.

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**13. Long-Term Obligations**

During the fiscal year ended June 30, 2019, general long-term obligations, other than post-employment benefits, changed as follows:

	Bonds Payable	Other * Long-Term Financing	Compensated Absences	Notes Payable	Total General Long-term Obligations
Beginning of year	\$ 6,440,000	\$ 180,796	\$ 155,458	\$ 23,625	\$ 6,799,879
Principal retirement	(210,000)	(180,796)	0	(5,671)	(396,467)
Changes in compensated absences	0	0	3,626	0	3,626
End of year	6,230,000	0	159,084	17,954	6,407,038
Unamortized original issue discount	(40,197)	0	0	0	(40,197)
	6,189,803	0	159,084	17,954	6,366,841
Less: current portion	(230,000)	0	(39,732)	(5,822)	(275,554)
Long-term liabilities	<u>\$ 5,959,803</u>	<u>\$ 0</u>	<u>\$ 119,352</u>	<u>\$ 12,132</u>	<u>\$ 6,091,287</u>

\*Restated the beginning balance for the effects of a prior period adjustment (Note 22).

The future annual payments required to amortize outstanding bonds and notes payable as of June 30, 2019, including total interest payments are as follows:

Year Ended June 30,	General Obligation Bonds and Notes			
	Interest	Principal	Federal Interest Subsidy	Total
2020	\$ 312,083	\$ 235,822	\$ (292,153)	\$ 255,752
2021	305,604	5,976	(292,153)	19,427
2022	305,444	6,156	(292,153)	19,447
2023	305,280	0	(292,153)	13,127
2024	305,280	0	(292,153)	13,127
2025-2029	1,526,400	0	(1,460,765)	65,635
2030	152,640	6,000,000	(146,076)	6,006,564
	<u>\$ 3,212,731</u>	<u>\$ 6,247,954</u>	<u>\$ (3,067,606)</u>	<u>\$ 6,393,079</u>

**General Obligation Refunding Bonds, Series of 2011**

In November 2011, the District issued \$1,810,000 of general obligation refunding bonds (Series of 2011) to refund the Series of 2006 general obligation bonds and to pay all costs incidental to the issuance of these bonds. The bonds bear interest rates ranging from 1.00% to 2.75% with annual principal maturities from January 2012 through January 2020. The projected savings from the refinancing was \$31,171. The balance outstanding at June 30, 2019 was \$230,000.

**Harmony Area School District**  
**Notes to Financial Statements**  
**June 30, 2019**

State Public School Building Authority, Series of 2011

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

The District had been approved by the Pennsylvania Department of Education to receive financing from proceeds of the QSCBs to finance the District's project. The loan of \$6,000,000 was used for building renovations, including a new roof, boiler system, electrical wiring and security entry ways, as well as for payment of all costs incidental to the issuance of this loan. The loan bears interest at a rate of 5.088%, with principal maturity in September 2029. Due to the interest subsidy, the effective interest rate should be 0.00%. However, the federal sequestration reduced the amount of the subsidy, making the effective rate of the bonds 0.169%. The balance outstanding at June 30, 2019 was \$6,000,000.

Although the QSCB program is structured as a "bullet", where the bondholders are not paid until final maturity, the District is required to make scheduled deposits into a sinking fund annually from September 2012 through September 2029. The balance in the sinking fund at June 30, 2019 is \$1,156,792, which is reflected in the Capital Projects Fund.

2017 Chevy Traverse Loan

The District entered into a financing agreement with First National Bank of Pennsylvania on March 24, 2017 for the purchase of a Chevy Traverse in the amount of \$29,309. The terms for repayment are annual payments of \$6,300 including interest at a rate of 2.59% per annum for a 58 month term, maturing January 15, 2022. The outstanding balance at June 30, 2019 was \$17,954.

Accumulated Compensated Absences

In accordance with accounting principles generally accepted in the United States of America, the District accrues liabilities for compensated absences. Compensated absences reflect the potential cost of sick leave earned by employees at June 30, 2019. Faculty and support staff are compensated at the per diem rate of \$90 and \$35, respectively, for unused sick days. The School District has computed a liability of \$159,084 at June 30, 2019 with \$158,926 reflected in the governmental activities fund and \$158 reflected in the proprietary fund for unused sick days. The District has estimated \$39,732 as current and \$119,352 as long term. Due to the nature of the obligation for accrued separation benefits, annual requirements to amortize such obligations are not determinable and have not been presented.

General obligation bonds issued for governmental activity purposes are liquidated by the debt service fund. The QSCB issue is liquidated by the capital projects fund, which is funded by transfers from the general fund. The vehicle loan is liquidated by the general fund. Compensated absences liabilities for governmental activities will be paid by the general fund; whereas, those related to business-type activities will be paid by the proprietary fund.



**Harmony Area School District**  
**Notes to Financial Statements**  
**June 30, 2019**

Other Long-Term Financing: Clearfield County Career and Technology Center

On September 20, 2017, the State Public School Building Authority issued the Clearfield County Career and Technology Center Guaranteed School Revenue Bonds, Series of 2017 in the amount of \$4,615,000. The proceeds of the bonds were used to refund the Clearfield County Career and Technology Center School Revenue Bonds, Series of 2011 (issued by the Clearfield County Industrial Development Authority) and to pay related costs and expenses, including 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.

The bonds are payable from, and are secured by, an assignment of the amounts payable to the Authority by the School District and five other area school districts, as named in the agreement, as borrowers under the Loan Agreement dated September 2017 among the Authority. The Authority entered into a Loan Agreement with the school districts, pursuant to which the Authority will lend the proceeds of the bonds to the school districts for the purpose of financing the above refunding. 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. Pursuant to the Articles of Agreement for the operation of the Clearfield County Career and Technology Center, dated April 21, 1965, 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.

The bonds bear interest rates ranging from 3.00% to 4.00% with annual principal maturities from September 2018 through September 2025.

Harmony Area School District's debt service payments on the Clearfield County Career and Technology Center debt totaled \$198,152 for the year ended June 30, 2019. The payments included \$21,570 for the District's share of the principal (\$18,649) and interest (\$2,921) for the September 2018 payment, and \$176,582 for the defeasance of the remainder of Harmony Area School District's share of the debt, pursuant to the agreement dated February 1, 2019.

The agreement, which was approved by all members, allows the District to withdraw from participation by paying its remaining pro rata share of the debt by means of a one-time cash deposit (\$176,582) to an escrow fund with a Trustee.

#### **14. Operating Leases**

The School District entered into noncancellable operating leases for copiers and printers. Rental expenditures under all operating lease agreements were \$21,135 for fiscal year 2019. Future minimum rental payments required under operating leases that have remaining lease terms as of June 30 are as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Payment</u>
2020	\$ 21,135
2021	18,173
2022	3,383
2023	282

**Harmony Area School District**  
**Notes to Financial Statements**  
**June 30, 2019**

**15. Interfund Transactions**

The following is a summary of interfund receivables and payables at June 30, 2019:

	<u>Receivables</u>	<u>Payables</u>
General Fund (Major Fund)	\$67,857	\$ 0
Proprietary Fund – Food Service (Major Fund)	<u>0</u>	<u>67,857</u>
	<u>\$67,857</u>	<u>\$67,857</u>

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

Interfund transfers during the year ended June 30, 2019 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Debt Service Fund (Non-Major Fund)	\$224,737	\$ 0
Capital Projects Fund (Major Fund)	442,449	0
General Fund (Major Fund)	<u>0</u>	<u>667,186</u>
	<u>\$667,186</u>	<u>\$667,186</u>

The District annually transfers amounts to the Debt Service Fund and the Capital Projects Fund (QSCB issue) to cover the principal and interest payments on the bond issues.

**16. Contingent Liabilities**

Grant Programs

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

**17. Self-Insurance - Medical Insurance**

The School District is participating in the insurance consortium with the HDH Group Health Consortium to provide for the medical care for eligible employees and their dependents. The consortium, which administers the plan, monitors the School's deposit into the school district trust account to be held for the benefits described above and Highmark Services, the plan administrator, processes and pays the claims. The consortium limits its liability by stop-loss insurance coverage. Harmony Area School District's liability at June 30, 2019, for unpaid claims incurred prior to fiscal year end is not readily determinable. No liability has been recorded for these claims at June 30, 2019, as the District recognizes medical claim expenses as claims are paid.

**Harmony Area School District  
Notes to Financial Statements  
June 30, 2019**

**18. 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, 2019 and the two previous fiscal years, no settlements exceeded insurance coverage.

**19. Related Party Transactions**

Intermediate Unit Participation

The District is a member of Central (CIU) Intermediate Unit 10. The District avails itself of various services provided by this membership including special education, curriculum development, and certain internal service functions. The total of services provided to Harmony Area School District for the year ended June 30, 2019 for CIU programs amounted to \$41,868. The amount payable to the IU at June 30, 2019 was \$10,058.

Jointly Governed Organization

The School District governed, until February 1 2019, along with five other school districts, the Clearfield County Career and Technology Center (Tech Center). Each district is represented on the Tech Center's school board. However, no on-going financial interest or responsibility exists between the School District and the Tech Center, other than a share in paying the debt service on the bond issue, which is included in tuition expenditures for the fund financial statements. Students of the District had available, at the Tech Center, courses and curriculums related to the technical training fields. Costs of the Tech Center were shared with other local school districts. In September of 2018, the Pennsylvania State Board of Education's State Board for Vocational Education approved to add the District to Admiral Peary Area Vocational-Technical School's attendance area and remove the District from Clearfield County Career and Technology Center's attendance area. The School District made payments of \$207,826 to the Clearfield County Career and Technology Center for the year ending June 30, 2019. The payments included debt service and fees related to the defeasance of the School District's remaining share of the debt (note 13). At June 30, 2019, the District had no balance due to or from the Tech Center.

Technology Center School Participation

Starting in September of 2018, the District became a participating member of the Admiral Peary Area Vocational-Technical School. Students of the District have available at the Vocational-Technical School courses and curriculums related to the technical training fields. The Vocational-Technical School costs are shared with other local school districts. Harmony Area School District made direct payments totaling \$142,073 for the current year's operations. The amount due to the Vocational-Technical School at June 30, 2019 is \$28,630.

**Harmony Area School District**  
**Notes to Financial Statements**  
**June 30, 2019**

The Board of Directors of the District, as well as the boards of directors of the participating member school districts of the Admiral Peary Area Vocational-Technical School (Vo-Tech), passed a resolution for Harmony Area School District to become a participating member. With their participation, the District agrees to pay a membership fee of \$50,000, over a period of sixteen (16) years, in 32 equal semi-annual installments of \$1,562.50, without interest. The fee includes the District's annual contribution on account of current Vo-Tech obligations of the State Public School Building Authority, and no additional debt service payments on the existing debt of the Vo-Tech will be due from the District. Because the agreement is considered an operating lease, no liability is reflected on the government-wide statements. Future payments are as follows:

Year Ended June 30,	Payment
2020	\$ 3,125
2021	3,125
2022	3,125
2023	3,125
2024	3,125
2025-2029	15,625
2030-2034	15,625
Total	<u>\$ 46,875</u>

**20. Economic Dependency**

Harmony Area School District receives approximately 66% of its revenue from the State of Pennsylvania in the form of state subsidies. Changes in funding levels by the State could have a material effect on future operations of the District.

**21. Nonmonetary Transactions**

The District receives one of its federal program subsidies by means of noncash transfer. The U.S. Department of Agriculture, through the Pennsylvania Department of Agriculture, provides food commodities under the National School Lunch Program. These nonmonetary commodity items are valued at market values and recorded as revenue as utilized. The total food commodities donated by the federal government for the fiscal year 2019 totaled \$14,315.

**22. Restatement of Net Position**

The District's net position has been restated, effective July 1, 2018, to correct for an understated long-term liability of \$180,797. The amount represents the District's portion of the Clearfield County Career and Technology Center's outstanding debt at June 30, 2018. The restatement resulted in a decrease in net position of \$180,797 and affects the governmental activities on the government-wide financial statements only.

**Harmony Area School District**  
**Required Supplementary Information – Pension Schedules**  
**June 30, 2019**

**Schedule of Proportionate Share of the Net Pension Liability**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of net pension liability	0.0164%	0.0168%	0.0182%	0.0193%	0.0200%	0.0206%
District's proportionate share of net pension liability	\$ 7,873,000	\$ 8,297,000	\$ 9,019,000	\$ 8,360,000	\$ 7,916,000	\$ 8,433,000
District's covered-employee payroll *	\$ 2,212,320	\$ 2,234,180	\$ 2,353,613	\$ 2,483,173	\$ 2,553,156	\$ 2,642,725
District's proportionate share of net pension liability as percentage of its covered-employee payroll	355.87%	371.37%	383.20%	336.67%	310.05%	319.10%
Plan fiduciary net position as a percentage of the total pension liability	54.00%	51.84%	50.14%	54.36%	57.24%	54.49%

\* The District's covered employee payroll noted above is as of the measurement date of the net pension liability (June 30, 2018, 2017, 2016, 2015, 2014, and 2013).

Note: Schedule is intended to present information for ten years. Additional years will be displayed prospectively as information becomes available.

See accompanying notes to the basic financial statements.

**Harmony Area School District**  
**Required Supplementary Information – Pension Schedules**  
**June 30, 2019**

**Schedule of District Contributions**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Contractually required contributions	\$ 707,853	\$ 710,003	\$ 640,333	\$ 574,838	\$ 494,377	\$ 360,698	\$ 289,420	\$ 195,828	\$ 125,987	\$ 95,526
Contributions in relation to the contractually required contributions	<u>(707,853)</u>	<u>(710,003)</u>	<u>(640,333)</u>	<u>(574,838)</u>	<u>(494,377)</u>	<u>(360,698)</u>	<u>(289,420)</u>	<u>(195,828)</u>	<u>(125,987)</u>	<u>(95,526)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered-employee payroll	\$ 2,171,538	\$ 2,212,320	\$ 2,234,180	\$ 2,353,613	\$ 2,483,173	\$ 2,553,156	\$ 2,642,725	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	32.60%	32.09%	28.66%	24.42%	19.91%	14.13%	10.95%	N/A	N/A	N/A

Note: Schedule is intended to present all information for ten years. Information, including that for covered payroll, will be displayed as it becomes available.

See accompanying notes to the basic financial statements.

**Harmony Area School District**  
**Required Supplementary Information – OPEB Schedules**  
**PSERS Health Insurance Premium Assistance Program**  
**June 30, 2019**

**Schedule of Proportionate Share of the Net OPEB Liability**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of net OPEB liability	0.0164%	0.0168%	0.0182%
District's proportionate share of net OPEB liability	\$ 342,000	\$ 342,000	\$ 392,000
District's covered-employee payroll*	\$ 2,212,320	\$ 2,234,180	\$ 2,353,613
District's proportionate share of net OPEB liability as percentage of its covered-employee payroll	15.46%	15.31%	16.66%
Plan fiduciary net position as a percentage of the total OPEB liability	5.56%	5.73%	5.47%

\*The District's covered employee payroll noted above is as of the measurement date of the net OPEB liability (June 30, 2018, 2017 and 2016).

**Schedule of District Contributions**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contributions	\$ 18,022	\$ 18,567	\$ 18,201
Contributions in relation to the contractually required contributions	<u>(18,022)</u>	<u>(18,567)</u>	<u>(18,201)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered-employee payroll	\$ 2,171,538	\$ 2,212,320	\$ 2,234,180
Contributions as a percentage of covered-employee payroll	0.83%	0.84%	0.81%

Note: These schedules are intended to present information for ten years. Additional years will be displayed prospectively as information becomes available.

See accompanying notes to the basic financial statements.

**Harmony Area School District**  
**Required Supplementary Information – OPEB Schedules**  
**District Specific Plan**  
**June 30, 2019**

**Schedule of Changes in District's OPEB liability:**

	<u>2019</u>	<u>2018</u>
Service cost	\$ 51,000	\$ 54,000
Interest	37,000	33,000
Changes of assumptions	19,000	(25,000)
Benefit payments	<u>(41,000)</u>	<u>(46,000)</u>
Net change in total OPEB liability	66,000	16,000
Total OPEB liability - beginning	<u>966,000</u>	<u>950,000</u>
Total OPEB liability - ending	<u><u>\$ 1,032,000</u></u>	<u><u>\$ 966,000</u></u>
 Covered payroll	 \$ 1,846,856	 \$ 2,175,601
 District net OPEB liability as a percentage of its covered-employee payroll	 55.88%	 44.40%

Note: This schedule is intended to present information for ten years. Additional years will be displayed prospectively as information becomes available.

See accompanying notes to the basic financial statements.



**Harmony Area School District**  
**Schedule of Revenues, Expenditures and Changes**  
**In Fund Balance – Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2019**

	Budgeted Original	Amounts Final	Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
<b>Revenues</b>				
Local sources	\$ 1,292,534	\$ 1,292,534	\$ 1,485,482	\$ 192,948
State sources	4,435,588	4,435,588	4,306,235	(129,353)
Federal sources	192,953	192,953	447,653	254,700
Total revenues	<u>5,921,075</u>	<u>5,921,075</u>	<u>6,239,370</u>	<u>318,295</u>
<b>Expenditures</b>				
Instruction:				
Regular programs	2,426,690	2,426,690	2,361,243	65,447
Special programs	579,602	579,602	587,075	(7,473)
Vocational education programs	101,340	101,340	349,899	(248,559)
Other instructional programs	39,525	39,525	53,905	(14,380)
Pre-kindergarten	122,400	122,400	113,703	8,697
Support services:				
Pupil personnel	207,510	207,510	212,555	(5,045)
Instructional staff	203,024	203,024	189,083	13,941
Administration	505,133	505,133	457,859	47,274
Pupil health	135,515	135,515	104,519	30,996
Business	190,801	190,801	208,562	(17,761)
Operation and maintenance of plant	427,477	427,477	398,587	28,890
Student transportation	509,013	509,013	439,244	69,769
Central	32,496	32,496	0	32,496
Operation of noninstructional services:				
Student activities	116,466	116,466	110,023	6,443
Community services	7,300	7,300	0	7,300
Debt service:				
Principal and interest	19,500	19,500	6,300	13,200
Total expenditures	<u>5,623,792</u>	<u>5,623,792</u>	<u>5,592,557</u>	<u>31,235</u>
Excess (deficiency) of revenues over expenditures	<u>297,283</u>	<u>297,283</u>	<u>646,813</u>	<u>349,530</u>
<b>Other financing sources (uses)</b>				
Interfund transfers	(398,918)	(398,918)	(667,186)	(268,268)
Budgetary reserve	(8,944)	(8,944)	0	8,944
Sale of fixed assets	37,500	37,500	0	(37,500)
Total other financing sources (uses)	<u>(370,362)</u>	<u>(370,362)</u>	<u>(667,186)</u>	<u>(296,824)</u>
Net change in fund balance	(73,079)	(73,079)	(20,373)	52,706
Fund balance, beginning of year	<u>1,800,000</u>	<u>1,800,000</u>	<u>2,155,983</u>	<u>355,983</u>
Fund balance, end of year	<u>\$ 1,726,921</u>	<u>\$ 1,726,921</u>	<u>\$ 2,135,610</u>	<u>\$ 408,689</u>

See accompanying notes to the basic financial statements.

**Independent Auditors' Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Harmony Area School District as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise Harmony Area School District's basic financial statements, and have issued our report thereon dated February 20, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Harmony Area School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of Harmony Area School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item #2019-001 that we consider to be a significant deficiency.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Harmony Area School District's financial statements are free from 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 those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item **#2019-002**.

## **Harmony Area School District's Response to the Findings**

Harmony Area School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Harmony Area School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Kotzan CPA and Associates, P.C.*

Kotzan CPA & Associates, P.C.  
Johnstown, Pennsylvania  
February 20, 2020

**Harmony Area School District  
Schedule of Findings and Responses  
Year Ended June 30, 2019**

**Section I - Summary of Auditors' Results**

Financial Statements

Type of auditors' report issued: *unmodified*

Internal control over financial reporting:

Material weakness(es) identified?            Yes       X       No

Significant deficiency identified not  
considered to be material weaknesses?       X       Yes            None reported

Noncompliance material to financial statements noted?            Yes       X       No

**Section II – Financial Statement Findings**

*INTERNAL CONTROL OVER FINANCIAL REPORTING*

**Finding #2019-001**

CONDITION:

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

CRITERIA:

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

CAUSE:

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

EFFECT:

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

RECOMMENDATION:

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

**Harmony Area School District  
Schedule of Findings and Responses  
Year Ended June 30, 2019**

MANAGEMENT RESPONSE:

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

*COMPLIANCE AND OTHER MATTERS*

**Finding #2019-002**

CONDITION:

Management failed to meet the Pennsylvania Department of Education (PDE) deadline for submission of the quarterly reports (“Reconciliation of Cash on Hand”) for Title I, Title II-A, Title IV and Rural and Low Income Schools funding during the 2018-19 school year, and several Final Expenditure Reports (FERs) also remain due.

CRITERIA:

According to PDE reporting instructions, a “Required Report” represents a required filing for projects that received payments in a previous quarter. The report must be filed no later than the 10<sup>th</sup> working day following the quarter just ended. A “Delinquent Report” represents a required report that has not been submitted by the 10<sup>th</sup> working day of the month. Consequently, delinquent reports are not available for importation by the Comptroller’s Office. As such, all scheduled payments to the respective project are suspended until the report is sent. Delinquent reports must be filed no later than the 10<sup>th</sup> working day of the following month. There are circumstances where the Final Expenditure Report will supersede the Quarterly Report.

CAUSE:

The District has experienced turnover in key administrative positions over the last few years – the long-time business manager retired, and several superintendents have been hired and, subsequently, retired or resigned. The current business manager not only had to become acclimated and perform duties associated with his own position, but has also had to assist with administrative duties in the absence of a full-time superintendent. As mentioned in **Finding #2019-001**, the business manager is involved with nearly all transactions involving the business office. This leaves little time for additional duties, but these additional duties can take priority in a school district. As such, one of the business manager’s own responsibilities, filing required reports for the various grants, became a lower priority.

EFFECT:

The effect of these reports not being filed caused the District to be out of compliance with PDE requirements. Although, the noncompliance has not yet resulted in delayed funding from PDE under the Title I, Title II-A, Title IV, and Rural & Low-Income Schools programs, PDE could suspend funding on future grants, which could impact the District’s cash flows.

RECOMMENDATION:

We recommend that the management team identify and prioritize the duties each performs and determine those that can be reassigned to support staff, as well as whether the appropriate administrator is responsible for those they perform. When turnover occurs, responsibilities can shift to others with more experience, which can overload certain individuals. With such overload, meeting the requirements of existing duties can suffer and can cause noncompliance with regulations.

**Harmony Area School District  
Schedule of Findings and Responses  
Year Ended June 30, 2019**

MANAGEMENT RESPONSE:

Management agrees with the recommendations. The significant turnover in the administrative staff over the last few years has resulted in strains on the existing administrators. The management team will work together to determine the duties for which each is responsible. Strides have been made in this regard, since year end, as the principals have become involved in Federal program training, budgeting, and scheduling. In addition, the search for a full-time superintendent is in progress, and once that position is filled, some burdens should be alleviated. Although the aforementioned report submissions are delinquent, funding has not been withheld. However, the business manager will contact PDE to determine which reports must be filed and will work to get those submitted to become compliant.