

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

Audit Report

**For the Year Ended
June 30, 2020**

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List of Report Distribution

January 18, 2021

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, 2020, 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, 2020, 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.

Emphasis of Matter – Restatement of Prior Year

As discussed in Note 23 to the financial statements, Harmony Area School District restated the net position of the government activities, effective July 1, 2019, to correct for an understatement of long-term receivables and an understatement of long-term liabilities. The restatement affects the government-wide financial statements only. Our opinion is not modified with respect to this matter.

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 61-64, and page 65, 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 January 18, 2021, 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
January 18, 2021

Management's Discussion and Analysis

Harmony Area School District

2019-2020

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 \$6,401,801 and expenditures of \$5,334,469, resulting in an excess of revenues over expenditures of \$1,067,332, before transfers, for the year ended June 30, 2020. The transfers out totaled \$659,597, of which \$426,434 was to the Capital Projects Fund for bond interest payments and sinking fund deposits, and \$233,163 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 revenues over expenditures was \$407,735 for the year ended June 30, 2020. After special items (\$37,500 for the sale of land), there was a net increase in fund balance of \$445,235. Harmony Area School District's general fund maintains a fund balance of \$2,580,845 at June 30, 2020. In addition to the general fund, the fund balance of the capital projects fund is \$2,159,284, and the fund balance of the debt service fund is \$149 at June 30, 2020. These amounts are reflected on the fund financial statements (modified accrual basis).

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. Labor and health care costs also continue to rise. The COVID-19 pandemic has caused uncertainty about funding and additional costs, not only in the current year, but for future years as well.

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, 2020 as compared to June 30, 2019.

Table 1
Condensed Schedule of Net Position

	Governmental Activities		Business-type Activities		Total School District		Change
	2020	2019	2020	2019	2020	2019	2019-20
Assets							
Current assets	\$ 5,715,109	\$ 5,029,134	\$ 57,527	\$ 51,537	\$ 5,772,636	\$ 5,080,671	\$ 691,965
Non-current assets	6,121,643	6,523,739	22,338	28,022	6,143,981	6,551,761	(407,780)
Total assets	11,836,752	11,552,873	79,865	79,559	11,916,617	11,632,432	284,185
Deferred outflows of resources	963,248	974,002	55,892	60,892	1,019,140	1,034,894	(15,754)
Total assets and deferred outflows	<u>\$ 12,800,000</u>	<u>\$ 12,526,875</u>	<u>\$ 135,757</u>	<u>\$ 140,451</u>	<u>\$ 12,935,757</u>	<u>\$ 12,667,326</u>	<u>\$ 268,431</u>
Liabilities							
Current liabilities	\$ 624,078	\$ 884,541	\$ 110,655	\$ 78,512	\$ 734,733	\$ 963,053	\$ (228,320)
Long-term liabilities	14,600,830	15,143,062	200,518	213,043	14,801,348	15,356,105	(554,757)
Total liabilities	15,224,908	16,027,603	311,173	291,555	15,536,081	16,319,158	(783,077)
Deferred inflows of resources	1,205,238	973,629	24,931	24,390	1,230,169	998,019	232,150
Net Position							
Invested in capital assets, net of related debt	143,708	315,982	22,338	28,022	166,046	344,004	(177,958)
Restricted	2,159,433	1,835,576	0	0	2,159,433	1,835,576	323,857
Unrestricted	(5,933,287)	(6,625,915)	(222,685)	(203,516)	(6,155,972)	(6,829,431)	673,459
Total net position	<u>(3,630,146)</u>	<u>(4,474,357)</u>	<u>(200,347)</u>	<u>(175,494)</u>	<u>(3,830,493)</u>	<u>(4,649,851)</u>	<u>819,358</u>
Total liabilities, deferred inflows and net position	<u>\$ 12,800,000</u>	<u>\$ 12,526,875</u>	<u>\$ 135,757</u>	<u>\$ 140,451</u>	<u>\$ 12,935,757</u>	<u>\$ 12,667,326</u>	<u>\$ 268,431</u>

* Restated prior year amounts for the 2019-20 prior year adjustment.

Assets, Liabilities and Net Assets – Government-Wide

Current assets represented 48.44% of the total assets comprised largely of cash and cash equivalents of \$3,064,954, investments of \$1,473,820, taxes receivable of \$309,071, and intergovernmental receivables of \$858,183. Fixed assets including land, site and building improvements, furniture and equipment, and infrastructure assets represent 51.56% of total assets at \$6,143,981.

The total liability amount of \$15,536,081 consists primarily of bonds payable (\$5,983,629), net pension liability (\$7,392,000), net other post-employment benefits (\$1,278,000), compensated absences (\$188,571), vendor accounts payable (\$263,806), and accrued salaries and benefits (\$366,268).

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

The resulting negative \$3,830,493 in net position includes \$166,046 invested in capital assets, net of related debt, \$2,159,284 restricted for capital projects, \$149 restricted for debt service and negative \$6,155,972 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, 2020 compared to the year ended June 30, 2019.

Table 2
Changes in Net Position

	Governmental Activities		Business-type Activities		Total School District		Change
	2020	2019	2020	2019	2020	2019	2019-20
Program Revenues:							
Charges for services	\$ 8,980	\$ 9,642	\$ 21,094	\$ 35,048	\$ 30,074	\$ 44,690	\$ (14,616)
Operating grants and contributions	1,988,705	1,996,667	186,992	194,189	2,175,697	2,190,856	(15,159)
Capital grants and contributions	143,305	141,950	0	0	143,305	141,950	1,355
General Revenues:							
Property and other taxes	1,313,953	1,171,721	0	0	1,313,953	1,171,721	142,232
Grants and entitlements	2,877,158	2,835,826	0	0	2,877,158	2,835,826	41,332
Investment earnings	220,503	155,668	111	251	220,614	155,919	64,695
Transfers between gov'tal, BT activities	0	0	0	0	0	0	-
Other	44,601	43,519	0	0	44,601	43,519	1,082
Total Revenues	6,597,205	6,354,993	208,197	229,488	6,805,402	6,584,481	220,921
Program Expenses:							
Instruction	3,142,513	3,505,533	0	0	3,142,513	3,505,533	(363,020)
Support services:							
Instructional student support	216,086	372,654	0	0	216,086	372,654	(156,568)
Administration and financial	727,620	765,515	0	0	727,620	765,515	(37,895)
Plant operation and maintenance	793,650	321,591	0	0	793,650	321,591	472,059
Pupil transportation	438,594	473,894	0	0	438,594	473,894	(35,300)
Student activities/community	119,611	118,702	0	0	119,611	118,702	909
Interest on long-term debt	314,920	338,223	0	0	314,920	338,223	(23,303)
Food Services	0	0	233,050	252,163	233,050	252,163	(19,113)
Total Expenses	5,752,994	5,896,112	233,050	252,163	5,986,044	6,148,275	(162,231)
Increase (decrease) in net assets	\$ 844,211	\$ 458,881	\$ (24,853)	\$ (22,675)	\$ 819,358	\$ 436,206	\$ 383,152

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

Revenues increased from the prior year by \$220,921, or 3.36%. Revenue increases were due to increases in investment earnings (\$64,695), mostly due to unrealized gains in the bond sinking fund investments; property and other taxes (\$142,232); and grants and entitlements (\$41,332), mostly due to the increase in basic education subsidy. These increases were offset by decreases in charges for services (\$14,616) and operating grants and contributions (\$15,159).

Expenses decreased from the prior year by \$162,231. The decrease in overall expenses is largely due to decreases in instruction (\$363,020) and instructional student support (\$156,568); and is offset by an increase in plant operation and maintenance (\$472,059). The decrease in instructional costs is mostly due to the decrease in vocational education costs (debt defeasance in the prior year) and the adjustments for the changes 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*. The pension and OPEB adjustments are allocated based on the relative percentages of total costs and can change from year to year. The change in relative percentages of total costs also caused a difference in the allocation of the depreciation expense. The allocation of the adjustments to instructional support and operations and maintenance also caused most of those variances as well. However, part of the increase in operations and maintenance was due to the increase in wages and benefits, the posting of the property and liability insurance costs to the accounts in the current year, and an increase in supplies and equipment costs.

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

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

Table 3
Expenditures by Function - Budget vs. Actual

Function	Description	Actual 2019-20 Expenses	Actual 2018-19 Expenses	Over/(Under) From P/Y	2019-20 Budget	(Over)/Under Budget
1100	Regular Educational Programs	\$ 2,291,148	\$ 2,316,522	\$ (25,374)	\$ 2,392,320	\$ 101,172
1200	Special Education	660,736	636,048	24,688	692,426	31,690
1300	Vocational Education	117,557	349,899	(232,342)	125,400	7,843
1400	Other Instructional Programs	32,120	53,905	(21,785)	44,525	12,405
1800	Pre-Kindergarten	140,000	113,703	26,297	136,000	(4,000)
2100	Pupil Services	179,475	163,582	15,893	229,062	49,587
2200	Instructional Staff Services	131,115	138,487	(7,372)	216,230	85,115
2300	Administration	460,377	502,578	(42,201)	507,009	46,632
2400	Health Services	85,109	104,519	(19,410)	138,081	52,972
2500	Business	184,374	208,562	(24,188)	204,581	20,207
2600	Maintenance	511,747	449,184	62,563	430,747	(81,000)
2700	Transportation	406,035	439,245	(33,210)	504,748	98,713
2800	Central	17,644	0	17,644	0	(17,644)
3000	Student Activities/Community	110,732	110,023	709	148,598	37,866
5110	Financing	6,300	6,300	0	6,320	20
5200	Interfund Transfers	659,597	667,186	(7,589)	598,500	(61,097)
5900	Budgetary Reserve	0	0	0	8,944	8,944
	Total Expenditures	5,994,066	6,259,743	(265,677)	6,383,491	389,425
	Revenues/other financing sources	6,439,301	6,239,370	199,931	6,299,812	139,489
	Net Change	\$ 445,235	\$ (20,373)	\$ 465,608	\$ (83,679)	\$ 528,914

DIFFERENCES

- 1100 The decrease is mostly due to a net decrease in wages and benefits (\$15,141) resulting from reclassification of building secretaries' salaries and benefits to the administrative function (see 2300), tuition (\$5,689), and books and supplies (\$14,927); and was offset by an increase in purchased professional services (\$10,354).
- 1200 The increase is mostly due to the increases in wages and benefits (\$8,337), purchased professional services (\$4,503), and special education tuition (\$15,754); and offset by a decrease in supplies (\$4,635).

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 in the prior year. With the change, the District was required to deposit their portion of the outstanding debt of the Clearfield County Vo-Tech with a trustee (\$176,582); thus, defeasing the debt. Prior to the debt defeasance, the District also made a debt payment (\$21,569). In addition, student enrollment increased at Admiral Peary Vo-Tech but at a lower per student tuition rate.
- 1400 The decrease is mostly due to a decrease in enrollment in alternative education programs. Most of the decrease was due to the decrease in payment to New Story LLC, which is an off-site alternative education program (\$13,500). The remainder is due to a decrease the in need for alternative education programs at other LEAs.
- 1800 The increase is due to multiple factors. There was an increase in wages and benefits (\$7,633), an increase in equipment (\$3,450), and an increase in administrative wages and benefits (\$15,935). The increase in equipment was due to the current year costs incurred in the expansion of the pre-k playground. The increase in the administrative wages and benefits was due to allocating administrative costs to pre-k in the current year, while no allocation of administrative costs was allocated in the prior year. Pre-k funding also increased by \$4,000 during the year.
- 2300 The decrease is due to several factors. There was a decrease in board services costs (\$38,826) due to the classification of property and liability insurance to plant and student activities in the current year, the classification of advertising to central support in the current year, and a decrease in dues paid to the PSBA. There was also a decrease in legal services (\$28,322), mostly due to the legal fees paid in the prior year for the vo-tech debt defeasance; and a decrease in superintendent costs (\$36,769), due to a decrease in salaries and wages and a decrease in purchased professional services. The prior year superintendent wages and benefits included a payout of accumulated sick time and vacation time when the prior superintendent left employment. The school district then paid a superintendent as a subcontractor for the remaining seven months in the prior year. The subcontracted superintendent only worked five months in the current year. The decreases were offset by an increase in principal office costs (\$50,377). The increase was mostly due to the classification of the secretaries' health insurance and retirement. In the prior year, under the old system, these amounts were classified to instruction (note the decrease in wages and benefits above). In the current year, the amounts were allocated to the office of the principals.
- 2500 The decrease was due to the decrease in purchased professional services (\$37,265), which was offset by an increase in supplies (\$11,679). The variances were caused by various classification differences from the prior year. The accounting fees, which were included in the business office costs in the prior year, were classified in the legal and accounting function in the current year. Other items posted to the purchased professional services in the prior year were also posted to different accounts in the current year. The new accounting software-licensing fee was posted to technology related supplies and fees in the current year, which caused the increase. Finally, there was no payment to the actuary posted to the function in the current year.
- 2600 The increase is due to the increase in wages and benefits (\$24,146), the classification of the property and automotive insurance to the maintenance function (\$24,863), and the increase in equipment (\$8,240). The insurance was posted to board services costs in prior years. The current year equipment costs are due to the replacement and relocation of some of the security system equipment in the current year.
- 2700 The decrease is due to the decrease in amounts paid to contracted carriers for extracurricular trips due to COVID-19 and the decreased transportation needs due to fewer students attending alternative education programs.

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

Capital Assets

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

Table 4
Capital Assets Net of Depreciation

	Governmental Activities		Business-type Activities		Total		Percentage
	2020	2019	2020	2019	2020	2019	Change
							2019-20
Land	\$ 5,000	\$ 5,000	\$ 0	\$ 0	\$ 5,000	\$ 5,000	0.00%
Buildings and improvements	5,660,402	6,006,031	0	0	5,660,402	6,006,031	-5.75%
Infrastructure	193,955	198,313	0	0	193,955	198,313	-2.20%
Equipment and furniture	262,286	314,395	22,338	28,022	284,624	342,417	-16.88%
	<u>\$ 6,121,643</u>	<u>\$ 6,523,739</u>	<u>\$ 22,338</u>	<u>\$ 28,022</u>	<u>\$ 6,143,981</u>	<u>\$ 6,551,761</u>	-6.22%

Long-Term Debt

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

Table 5
Outstanding Long-Term Debt

	Total School District		Percent
	2020	2019	Change
QSCB bonds (Series of 2011)	\$ 6,000,000	\$ 6,000,000	0.00%
General obligation refunding bonds (Series of 2011)	0	230,000	-100.00%
Note payable (Traverse)	<u>12,124</u>	<u>17,954</u>	-32.47%
Total	<u>\$ 6,012,124</u>	<u>\$ 6,247,954</u>	-3.77%

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

MAJOR FINANCIAL ISSUES

The financial issues pertaining to the District for the 2019-20 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:

A concentration of the district during the timeframe of COVID-19 involves emphasis on the evolution of teaching and learning tools in an online environment. Due to hybrid and remote learning schedules, staff and students have been on a fast track to absorb the realization of a greater use of the online platforms to deliver our content and curriculum. Members of the faculty have worked on conversion of traditional textbook applications to a virtual environment during both the 19-20 and 20-21 school years, during a vast and quick paced change in our educational delivery. The past fiscal years have also included continuation of the "HAOLA" (Harmony Area Online Learning Association) platform for the purposes of in-house cyber education. In addition to being our cyber school, the HAOLA system has been utilized to add electives and career-driven curriculum for upperclassmen students of our high school. The goals and focus of district curriculum projects to end 19-20 and begin 20-21 deal with enriching the technology focus of the district, which pairs directly with the need for virtual curriculum standards that have been a major part of living safely in the conditions of COVID-19. Career readiness measures have also been a recent emphasis of our curriculum plan in accordance with Chapter 4 Guidelines, Act 158 Graduation Expectations, and Act 35 Civics Development. Career preparation projects were also enriched that deal with guest speakers, laboratory activities, and state mandates involving human rights violations, the Holocaust, and genocide.

Technology:

Updates, upgrades, and overall goals of the district technology infrastructure has been focused on the implementation of a 1:1 model of learning. In addition to opportunity brought about by special stimulus money, district expenditures have taken place to create the needed wifi, network bandwidth, and communication internally to withstand additional data flow. Web filtering and firewall protection from both the school and home environment have been upgraded in order to provide appropriate safety-nets for the students of our district. Chromebooks have been purchased for every student in grades two through twelve and individualized notebook devices have been purchased for all primary elementary students. The district has also continued partnership with a third party to help provide 24-7 monitoring and support of devices and district technology needs. The district will now enter a period of growth where additional technology tools should lead to new opportunities for the teaching and learning process, whereas a focus of district technology expectations must be on maintaining these new devices and opportunities.

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, 2020

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and equivalents	\$ 3,062,631	\$ 2,323	\$ 3,064,954
Investments	1,473,820	0	1,473,820
Taxes receivable	309,071	0	309,071
Intergovernmental receivables	824,390	33,793	858,183
Other receivables	30,844	0	30,844
Inventories	<u>14,353</u>	<u>21,411</u>	<u>35,764</u>
Total current assets	<u>5,715,109</u>	<u>57,527</u>	<u>5,772,636</u>
Noncurrent assets:			
Land	5,000	0	5,000
Depreciable capital assets, net	<u>6,116,643</u>	<u>22,338</u>	<u>6,138,981</u>
Total noncurrent assets	<u>6,121,643</u>	<u>22,338</u>	<u>6,143,981</u>
Total assets	<u>11,836,752</u>	<u>79,865</u>	<u>11,916,617</u>
Deferred Outflows of Resources			
Defined benefit pension plan	817,630	55,892	873,522
Other post-employment benefits (OPEB)	<u>145,618</u>	<u>0</u>	<u>145,618</u>
Total deferred outflows of resources	<u>963,248</u>	<u>55,892</u>	<u>1,019,140</u>
Total assets and deferred outflows of resources	<u><u>\$ 12,800,000</u></u>	<u><u>\$ 135,757</u></u>	<u><u>\$ 12,935,757</u></u>

See accompanying notes to the basic financial statements.

Harmony Area School District
Statement of Net Position
June 30, 2020

	Governmental Activities	Business-Type Activities	Total
Liabilities			
Current liabilities:			
Internal balances	\$ (88,972)	\$ 88,972	\$ 0
Due to other governments	13,184	0	13,184
Accounts payable	263,806	0	263,806
Accrued salaries and wages	358,285	7,983	366,268
Payroll deductions and withholdings	21,423	0	21,423
Unearned revenues	0	13,700	13,700
Accrued interest payable	3,376	0	3,376
Current portion of long-term obligations	52,976	0	52,976
Total current liabilities	<u>624,078</u>	<u>110,655</u>	<u>734,733</u>
Noncurrent liabilities:			
Bonds payable, net of discount	5,983,629	0	5,983,629
Notes payable	6,148	0	6,148
Long-term portion of compensated absences	140,932	639	141,571
Net pension liability	7,192,121	199,879	7,392,000
Net other post-employment benefits liability (OPEB)	1,278,000	0	1,278,000
Total noncurrent liabilities	<u>14,600,830</u>	<u>200,518</u>	<u>14,801,348</u>
Total liabilities	<u>15,224,908</u>	<u>311,173</u>	<u>15,536,081</u>
Deferred Inflows of Resources			
Defined benefit pension plan	930,238	24,931	955,169
Other post-employment benefits (OPEB)	275,000	0	275,000
Total deferred inflows of resources	<u>1,205,238</u>	<u>24,931</u>	<u>1,230,169</u>
Net Position			
Invested in capital assets, net of debt	143,708	22,338	166,046
Restricted for debt service (spendable)	149	0	149
Restricted for capital projects (spendable)	2,159,284	0	2,159,284
Unrestricted	(5,933,287)	(222,685)	(6,155,972)
Total net position	<u>(3,630,146)</u>	<u>(200,347)</u>	<u>(3,830,493)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 12,800,000</u>	<u>\$ 135,757</u>	<u>\$ 12,935,757</u>

See accompanying notes to the basic financial statements.

**Harmony Area School District
Statement of Activities
For the Year Ended June 30, 2020**

	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
Governmental Activities:							
Instruction	\$ 3,142,513	\$ 0	\$ 1,110,242	\$ 0	\$ (2,032,271)	\$ 0	\$ (2,032,271)
Instructional student support	216,086	0	204,888	0	(11,198)	0	(11,198)
Administration and financial support services	727,620	0	4,392	0	(723,228)	0	(723,228)
Operations and maintenance of plant services	793,650	2,245	0	143,305	(648,100)	0	(648,100)
Pupil transportation	438,594	0	382,372	0	(56,222)	0	(56,222)
Student activities	119,611	6,735	0	0	(112,876)	0	(112,876)
Interest on long-term debt	314,920	0	286,811	0	(28,109)	0	(28,109)
Total governmental activities	5,752,994	8,980	1,988,705	143,305	(3,612,004)	0	(3,612,004)
Business-Type Activities:							
Food service	233,050	21,094	186,992	0	0	(24,964)	(24,964)
Total primary government	<u>\$ 5,986,044</u>	<u>\$ 30,074</u>	<u>\$ 2,175,697</u>	<u>\$ 143,305</u>	<u>(3,612,004)</u>	<u>(24,964)</u>	<u>(3,636,968)</u>
General Revenues:							
Taxes levied					1,313,953	0	1,313,953
Grants, subsidies and contributions, not restricted					2,877,158	0	2,877,158
Investment earnings					220,503	111	220,614
Miscellaneous					7,101	0	7,101
Special Item:							
Sale of land					37,500	0	37,500
Total general revenues and special items					4,456,215	111	4,456,326
Change in net position					844,211	(24,853)	819,358
Net position, beginning of year, restated					(4,474,357)	(175,494)	(4,649,851)
Net position, end of year					<u>\$ (3,630,146)</u>	<u>\$ (200,347)</u>	<u>\$ (3,830,493)</u>

See accompanying notes to the basic financial statements.

Harmony Area School District
Balance Sheet
Governmental Funds
June 30, 2020

	General Fund	Major Fund Capital Projects	Non-Major Fund Debt Service	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 2,346,174	\$ 716,308	\$ 149	\$ 3,062,631
Investments	0	1,473,820	0	1,473,820
Taxes receivable	309,071	0	0	309,071
Due from other funds	101,437	0	0	101,437
Due from other governments	641,332	0	0	641,332
Other receivables	30,844	0	0	30,844
Inventories	14,353	0	0	14,353
Total assets	3,443,211	2,190,128	149	5,633,488
Deferred Outflows of Resources	0	0	0	0
Total assets and deferred outflows of resources	<u>\$ 3,443,211</u>	<u>\$ 2,190,128</u>	<u>\$ 149</u>	<u>\$ 5,633,488</u>
Liabilities				
Due to other funds	\$ 12,465	\$ 0	\$ 0	\$ 12,465
Due to other governments	13,184	0	0	13,184
Accounts payable	232,962	30,844	0	263,806
Accrued salaries and benefits	358,285	0	0	358,285
Payroll deductions and withholdings	21,423	0	0	21,423
Total liabilities	638,319	30,844	0	669,163
Deferred Inflows of Resources				
Delinquent taxes receivable	224,047	0	0	224,047
Total deferred inflows of resources	224,047	0	0	224,047
Fund Balance				
Nonspendable fund balance	14,353	0	0	14,353
Restricted fund balance	0	2,159,284	149	2,159,433
Assigned fund balance	1,325,000	0	0	1,325,000
Unassigned fund balance	1,241,492	0	0	1,241,492
Total fund balance	2,580,845	2,159,284	149	4,740,278
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 3,443,211</u>	<u>\$ 2,190,128</u>	<u>\$ 149</u>	<u>\$ 5,633,488</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, 2020**

Total fund balance – governmental funds \$ 4,740,278

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 \$13,858,760 and the accumulated depreciation is \$7,737,117.

6,121,643

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.

224,047

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.

183,058

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	\$(6,000,000)	
Notes payable	(12,124)	
Compensated absences	(187,932)	
Accrued interest payable	(3,376)	
Bond discount, net of amortization	16,371	
Net OPEB liability	(1,278,000)	
Net pension liability	<u>(7,192,121)</u>	(14,657,182)

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	\$ 817,630	
Deferred inflows related to pensions	(930,238)	
Deferred outflows related to OPEB	145,618	
Deferred inflows related to OPEB	<u>(275,000)</u>	<u>(241,990)</u>

Net position of governmental activities \$ (3,630,146)

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, 2020

	General Fund	Major Fund Capital Projects	Non-Major Fund Debt Service	Total Governmental Funds
Revenues				
Local sources	\$ 1,575,504	\$ 206,300	\$ 0	\$ 1,781,804
State sources	4,365,047	0	0	4,365,047
Federal sources	461,250	0	0	461,250
Total revenues	6,401,801	206,300	0	6,608,101
Expenditures				
Instruction	3,241,561	0	0	3,241,561
Support services	1,975,876	323	112	1,976,311
Non-instructional services	110,732	0	0	110,732
Debt service (principal and interest)	6,300	305,280	236,325	547,905
Total expenditures	5,334,469	305,603	236,437	5,876,509
Excess of revenues over (under) expenditures	1,067,332	(99,303)	(236,437)	731,592
Other financing sources (uses)				
Interfund transfers	(659,597)	426,434	233,163	0
Total other financing sources (uses)	(659,597)	426,434	233,163	0
Special items				
Sale of land	37,500	0	0	37,500
Total special items	37,500	0	0	37,500
Net change in fund balance	445,235	327,131	(3,274)	769,092
Fund balance, beginning of year	2,135,610	1,832,153	3,423	3,971,186
Fund balance, end of year	<u>\$ 2,580,845</u>	<u>\$ 2,159,284</u>	<u>\$ 149</u>	<u>\$ 4,740,278</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, 2020**

Total net change in fund balance – governmental funds \$ 769,092

**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	\$ 1,598	
Depreciation expense	<u>(403,694)</u>	(402,096)

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 increased by this amount this year. 9,990

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 decreased by this amount this year. (23,242)

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	\$230,000	
Note principal payments	<u>5,830</u>	235,830

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. 3,163

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. (29,006)

**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, 2020**

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	\$ 59,618	
OPEB expense	<u>(75,022)</u>	(15,404)

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	\$ 709,632	
Pension expense	<u>(372,597)</u>	337,035

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)

Refund of prior year expenditures/receipts represents current financial resources/uses in the fund financial statements. However, in the statement of activities, these represent a prior year adjustment to net position.

(35,143)

Change in net position of governmental activities **\$ 844,211**

See accompanying notes to the basic financial statements.

Harmony Area School District
Statement of Net Position
Proprietary Fund
June 30, 2020

	<u>Food Service</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 2,323
Due from other funds	12,465
Due from other governments	33,793
Inventory	<u>21,411</u>
Total current assets	<u>69,992</u>
Noncurrent assets:	
Machinery and equipment, net	<u>22,338</u>
Total noncurrent assets	<u>22,338</u>
Total assets	<u>92,330</u>
Deferred Outflows of Resources	
Defined benefit pension plan	<u>55,892</u>
Total deferred outflows of resources	<u>55,892</u>
Total assets and deferred outflows of resources	<u><u>\$ 148,222</u></u>
Liabilities	
Current liabilities:	
Due to other funds	\$ 101,437
Accrued salaries and benefits	7,983
Unearned revenues	<u>13,700</u>
Total current liabilities	<u>123,120</u>
Noncurrent liabilities:	
Long-term portion of compensated absences	639
Net pension liability	<u>199,879</u>
Total noncurrent liabilities	<u>200,518</u>
Total liabilities	<u>323,638</u>
Deferred Inflows of Resources	
Defined benefit pension plan	<u>24,931</u>
Total deferred inflows of resources	<u>24,931</u>
Net Position	
Invested in capital assets	22,338
Unrestricted	<u>(222,685)</u>
Total net position	<u>(200,347)</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 148,222</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, 2020

	<u>Food Service</u>
Operating revenues	
Food service revenue	\$ 20,559
Other operating revenue	<u>535</u>
Total operating revenues	<u>21,094</u>
Operating expenses	
Salaries	61,356
Employee benefits	39,433
Purchased property services	5,431
Other purchased services	84
Supplies	119,263
Depreciation	7,222
Other operating expenses	<u>261</u>
Total operating expenses	<u>233,050</u>
Operating income (loss)	<u>(211,956)</u>
Nonoperating revenues (expenses)	
Earnings on investments	111
State sources	16,899
Federal sources	<u>170,093</u>
Total nonoperating revenues (expenses)	<u>187,103</u>
Change in net position	(24,853)
Total net position, beginning of year	<u>(175,494)</u>
Total net position, end of year	<u><u>\$ (200,347)</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, 2020

	<u>Food Service</u>
Cash flows from operating activities	
Cash received from users	\$ 14,184
Cash received from other operating revenue	535
Cash payments to employees for services	(66,210)
Cash payments to suppliers for goods and services	<u>(119,669)</u>
Cash payments for other operating expenses	<u>(261)</u>
Net cash provided by (used for) operating activities	<u>(171,421)</u>
Cash flows from non-capital financing activities	
State sources	15,533
Federal sources	<u>126,428</u>
Net cash provided by (used for) non-capital financing activities	<u>141,961</u>
Cash flows from capital and related financing activities	
Capital outlay	<u>(1,538)</u>
Net cash provided by (used for) capital and financing activities	<u>(1,538)</u>
Cash flows from investing activities	
Earnings on investments	<u>111</u>
Net cash provided by (used for) investing activities	<u>111</u>
Net increase (decrease) in cash and cash equivalents	(30,887)
Cash and cash equivalents, beginning of year	<u>33,210</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,323</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	<u>\$ (211,956)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	7,222
Donated commodities	11,238
(Increase) decrease in accounts receivable	(12,465)
(Increase) decrease in inventories	(3,084)
(Increase) decrease in deferred outflows of resources	5,000
Increase (decrease) in accounts payable	33,580
Increase (decrease) in accrued salaries/benefits	8,464
Increase (decrease) in unearned revenues	3,045
Increase (decrease) in net pension liability	(13,006)
Increase (decrease) in deferred inflows of resources	<u>541</u>
Total adjustments	<u>40,535</u>
Net cash provided by (used for) operating activities	<u><u>\$ (171,421)</u></u>

See accompanying notes to the basic financial statements.

**Harmony Area School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2020**

	Agency Fund	Private Purpose Trust	Total Fiduciary Funds
Assets			
Cash and cash equivalents	\$ 30,602	\$ 4,990	\$ 35,592
Total assets	30,602	4,990	35,592
Deferred Outflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>
Total assets and deferred outflows of resources	<u>\$ 30,602</u>	<u>\$ 4,990</u>	<u>\$ 35,592</u>
Liabilities			
Due to students	\$ 30,602	\$ 0	\$ 30,602
Total liabilities	<u>30,602</u>	<u>0</u>	<u>30,602</u>
Deferred Inflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>
Net Position			
Held in trust for scholarships	<u>0</u>	4,990	4,990
Total net position	<u>0</u>	4,990	4,990
Total liabilities, deferred inflows of resources and net position	<u>\$ 30,602</u>	<u>\$ 4,990</u>	<u>\$ 35,592</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, 2020

	Private Purpose Trust
Additions:	
Other additions	\$ 1,000
Total additions	<u>1,000</u>
Deductions:	
Scholarships awarded	<u>0</u>
Total deductions	<u>0</u>
Change in net position	1,000
Net position, beginning of year	<u>3,990</u>
Net position, end of year	<u><u>\$ 4,990</u></u>

See accompanying notes to the basic financial statements.

Harmony Area School District
Notes to Financial Statements
June 30, 2020

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, 2020

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
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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.

Harmony Area School District
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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.

Harmony Area School District
Notes to Financial Statements
June 30, 2020

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 2020.

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.

Harmony Area School District
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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, 2020 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, 2020.

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2020. 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, 2020 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.

Harmony Area School District
Notes to Financial Statements
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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, 2020, fund balance components, other than unassigned, consist of the following:

	Nonspendable	Restricted	Assigned
General fund:			
Inventory	\$ 14,353	\$ 0	\$ 0
Future capital projects			300,000
Future retirement costs	0	0	530,250
Future health care costs	0	0	494,750
Capital projects fund	0	2,159,284	0
Debt service fund	0	149	0
Total	<u>\$ 14,353</u>	<u>\$ 2,159,433</u>	<u>\$ 1,325,000</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.

**Harmony Area School District
Notes to Financial Statements
June 30, 2020**

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 (\$224,047).

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 \$2,159,433 of restricted net position, of which \$2,159,284 is restricted by enabling legislation for Capital Projects, and \$149 by bond indenture for Debt Service.

Harmony Area School District
Notes to Financial Statements
June 30, 2020

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, 2020, \$2,846,685 of the District's bank balance of \$3,096,685 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>2,846,685</u>
Total	<u>\$ 2,846,685</u>

**Harmony Area School District
Notes to Financial Statements
June 30, 2020**

Reconciliation to Financial Statements

Uninsured amount above	\$ 2,846,685
Add: Insured amount	250,000
Less: Outstanding checks	<u>(58,967)</u>
Carrying amount - bank balance	3,037,718
Add: Petty cash	350
Pooled cash equivalents	61,880
Money markets	<u>598</u>
Total cash per financial statements	<u><u>\$ 3,100,546</u></u>

Investments

As of June 30, 2020, 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	\$ 61,880
United States Treasury (Level 1)	30 years	1,473,820
Money Market Funds	<1 year	<u>598</u>
Total		<u><u>\$ 1,536,298</u></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, 2020 the District's investments were rated as follows:

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

**Harmony Area School District
Notes to Financial Statements
June 30, 2020**

Concentration of Credit Risk

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

Custodial Credit Risk

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

Reconciliation to Financial Statements

Total investments above	\$ 1,536,298
Less: Deposits in investment pools and money market funds considered cash equivalent	<u>(62,478)</u>
Total investments per financial statements	<u>\$ 1,473,820</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 2020 was 86.39 mills for Clearfield County and 7.2 mills for Indiana County, as levied by the Board. Assessed valuations of property (\$21,410,012) 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, 2020 is \$309,071. 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.

Harmony Area School District
Notes to Financial Statements
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Uncollected taxes for the year ended June 30, 2020:

Delinquent Real Estate	\$ 69,938
Earned Income Taxes	14,054
Real Estate Transfer Taxes	1,019
Local Services Taxes	<u>13</u>
Uncollected Taxes Recognized as Revenue (received within 60 days)	85,024
Real Estate Tax Deferred Inflow of Resources	<u>224,047</u>
Total Taxes Receivable	<u><u>\$ 309,071</u></u>

6. Unearned Revenues

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. There are no unearned revenues reported in the General Fund or the Governmental Activities of the Government-Wide statements at June 30, 2020. Unearned revenues of \$13,700 in the proprietary fund and the Business-Type Activities of the government-wide statements at June 30, 2020 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, 2020, 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	\$ 212,170	\$ 32,427	\$ 212,170
State	351,401	1,366	534,459
Local	<u>77,761</u>	<u>0</u>	<u>77,761</u>
	<u><u>\$ 641,332</u></u>	<u><u>\$ 33,793</u></u>	<u><u>\$ 824,390</u></u>

Harmony Area School District
Notes to Financial Statements
June 30, 2020

8. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2020, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 5,000	\$ 0	\$ 0	\$ 5,000
Total capital assets, not being depreciated	<u>5,000</u>	<u>0</u>	<u>0</u>	<u>5,000</u>
Capital assets, being depreciated:				
Buildings and improvements	12,057,839	0	0	12,057,839
Infrastructure	217,927	0	0	217,927
Furniture and equipment	1,576,396	1,598	0	1,577,994
Total capital assets, being depreciated	<u>13,852,162</u>	<u>1,598</u>	<u>0</u>	<u>13,853,760</u>
Less accumulated depreciation:				
Buildings and improvements	6,051,808	345,629	0	6,397,437
Infrastructure	19,614	4,358	0	23,972
Furniture and equipment	1,262,001	53,707	0	1,315,708
Total accumulated depreciation	<u>7,333,423</u>	<u>403,694</u>	<u>0</u>	<u>7,737,117</u>
Total capital assets, being depreciated, net	<u>6,518,739</u>	<u>(402,096)</u>	<u>0</u>	<u>6,116,643</u>
Governmental activities capital assets, net	<u>\$ 6,523,739</u>	<u>\$ (402,096)</u>	<u>\$ 0</u>	<u>\$ 6,121,643</u>
Business-Type Activities				
Capital assets, being depreciated:				
Equipment	\$ 282,054	\$ 1,538	\$ (4,700)	\$ 278,892
Total capital assets, being depreciated	<u>282,054</u>	<u>1,538</u>	<u>(4,700)</u>	<u>278,892</u>
Less accumulated depreciation:				
Equipment	254,032	7,222	(4,700)	256,554
Total accumulated depreciation	<u>254,032</u>	<u>7,222</u>	<u>(4,700)</u>	<u>256,554</u>
Business-type activities capital assets, net	<u>\$ 28,022</u>	<u>\$ (5,684)</u>	<u>\$ 0</u>	<u>\$ 22,338</u>

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

Governmental Activities:

Instruction	\$ 233,284
Instruction support	16,041
Administration and finance	54,015
Operation and maintenance of plant	58,916
Pupil transportation	32,559
Student activities	8,879
Total depreciation expense - governmental activities	<u>\$ 403,694</u>

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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 Employees' 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.pa.gov.

Funding Policy

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

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.

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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%.

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, 2020, the rate of the employer's contribution was 34.29 percent of covered payroll. The 34.29 percent rate is composed of a pension contribution rate of 33.36 percent for pension defined benefits, 0.09 percent for the Act 5 defined contribution plan, and 0.84 percent for healthcare insurance premium assistance. Harmony Area School District's contributions to PSERS for the year ending June 30, 2020 were \$749,939.

Act 5 of 2017

In May 2019, the PSERS Board of Trustees adopted resolutions finalizing rules for a new defined contribution retirement plan for school employees hired on or after July 1, 2019. Such resolutions were required by Pennsylvania's Act 5 of 2017 and gives new employees the option of a private sector-like 401(a) defined contribution (DC) plan, or in one of two hybrid plans. The hybrid plans divide retirement savings into a DC plan, which provides a market-impacted distribution, and PSERS' traditional defined benefit (DB) system. Further, existing employees hired before July 1 are permitted to freeze their current retirement account and put prospective retirement savings into the DC plan or one of the hybrid plans. The current stand-alone DB plan is no longer available to new members after June 30, 2019. The employer contribution to the DC plan for the year ended June 30, 2020 was \$1,968.

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

At June 30, 2020, the District reported a liability of \$7,392,000 for its proportionate share of the net pension liability, with \$7,192,121 reflected in the governmental activities and \$199,879 in the business-type activities. The net pension liability was measured as of June 30, 2019, 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, 2018 to June 30, 2019. 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, 2019, the District's proportion was 0.0158%, which was a decrease of 0.0006% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the District recognized pension expense of \$384,853, with \$372,597 in governmental activities and \$12,256 in business-type activities. At June 30, 2020, 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	\$ 41,000	\$ 245,000
Changes in assumptions	70,000	0
Net difference between projected and actual investment earnings	0	21,000
Changes in proportions	33,169	689,169
Difference between employer contributions and proportionate share of total contributions	0	0
Contributions subsequent to the measurement date	729,353	0
	<u>\$ 873,522</u>	<u>\$ 955,169</u>

\$729,353, 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, 2021. 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
2021	\$ (305,000)
2022	(374,000)
2023	(145,000)
2024	13,000
2025	0
Thereafter	0
	<u>\$ (811,000)</u>

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Deferred outflows of resources are reflected on the Statement of Net Position for both the governmental activities (\$817,630) and the business-type activities (\$55,892). Deferred inflows of resources are also reflected on the Statement of Net Position for both the governmental activities (\$930,238) and the business-type activities (\$24,931).

Actuarial Assumptions

The total pension liability as of June 30, 2019 was determined by rolling forward the PSERS' total pension liability as of the June 30, 2018 actuarial valuation to June 30, 2019 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, 2019 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.

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%	5.6%
Fixed income	36.0%	1.9%
Commodities	8.0%	2.7%
Absolute return	10.0%	3.4%
Risk parity	10.0%	4.1%
Infrastructure/MLPs	8.0%	5.5%
Real estate	10.0%	4.1%
Alternative investments	15.0%	7.4%
Cash	3.0%	0.3%
Financing (LIBOR)	-20.0%	0.7%
	<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, 2019.

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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:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	\$ 9,207,000	\$ 7,392,000	\$ 5,854,000

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.pa.gov.

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, 2019, 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.

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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, 2019, 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, 2020 was 0.84% 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 \$18,618 for the year ended June 30, 2020.

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

At June 30, 2020 the District reported a liability of \$336,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, 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, 2018 to June 30, 2019. 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, 2019, the District's proportion was 0.0158%, which was a decrease of 0.0006% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the District recognized OPEB expense of \$8,022. At June 30, 2020, 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	11,000	10,000
Net difference between projected and actual investment earnings	1,000	0
Changes in proportions	0	34,000
Difference between employer contributions and proportionate share of total contributions	0	0
Contributions subsequent to the measurement date	18,618	0
	<u>\$ 32,618</u>	<u>\$ 44,000</u>

\$18,618 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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<u>Year Ended June 30,</u>	
2021	\$ (7,000)
2022	(7,000)
2023	(7,000)
2024	(7,000)
2025	(1,000)
Thereafter	<u>(1,000)</u>
	<u>\$ (30,000)</u>

Actuarial Assumptions

The Total OPEB Liability as of June 30, 2019 was determined by rolling forward the PSERS' Total OPEB Liability as of June 30, 2018 to June 30, 2019 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay.
- Investment return – 2.79% - 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.
- 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, 2019 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 2019.
- 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.)

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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	13.2%	0.20%
US Core Fixed Income	83.1%	1.00%
Non-US Developed Fixed	3.7%	0.00%
	<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, 2019.

Discount Rate

The discount rate used to measure the Total OPEB liability was 2.79%. 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 2.79% which represents the S&P 20-year Municipal Bond Rate at June 30, 2019, 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 2.79%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.79%) or 1 percentage point higher (3.79%) than the current rate:

	<u>1% Decrease 1.79%</u>	<u>Current Discount Rate 2.79%</u>	<u>1% Increase 3.79%</u>
District's proportionate share of the net OPEB liability	\$ 383,000	\$ 336,000	\$ 297,000

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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, 2019, 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, 2019, 93,339 retirees from the PSERS system were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2019, 780 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, 2019, 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	\$ 336,000	\$ 336,000	\$ 336,000

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.

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.

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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

The number of participants as of July 1, 2019, 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	51
Retired employees	4
Spouses of retired employees	2
Total	57

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 \$942,000 was measured as of June 30, 2019, and was rolled forward using actuarial assumptions to the valuation date of June 30, 2020.

Actuarial Assumptions and Other Inputs

- Discount Rate – 2.21% as of June 30, 2020.
- Healthcare Cost Trend Rates – 6.80% for 2021, decreasing to an ultimate rate of 4.70% by 2050.
- The discount rate was based on the Bond Buyer 20-year Bond GO Index at June 30, 2020.
- Mortality rates are assumed using the RP-2014 Mortality Tables, adjusted to reflect Mortality Improvement Scale MP-2019 from 2006 base year and projected forward on a generational basis with Scale MP-2019.

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Changes in the District's net OPEB liability for the plan for the fiscal year ended June 30, 2020 was as follows:

Balance at July 1, 2019	\$ 1,032,000
Service cost	53,000
Interest	35,000
Economic/demographic (gains) losses	114,000
Changes in assumptions	(251,000)
Benefit payments	(41,000)
Net changes	(90,000)
Balance at June 30, 2020	\$ 942,000

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 2.21%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.21%) or 1 percentage point higher (3.21%) than the current discount rate.

	1% Decrease 1.21%	Current Rate 2.21%	1% Increase 3.21%
District's net OPEB liability	\$ 1,015,000	\$ 942,000	\$ 870,000

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.

	1% Decrease	Current Rate	1% Increase
District's net OPEB liability	\$ 832,000	\$ 942,000	\$ 1,072,000

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

For the year ended June 30, 2020, the District recognized an OPEB expense of \$67,000. At June 30, 2020, the District reported deferred outflows and inflows related to OPEB from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Difference between expected and actual experience	\$ 98,000	\$ 0
Changes in assumptions	15,000	231,000
	\$ 113,000	\$ 231,000

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

Year Ended June 30,	
2021	\$ (21,000)
2022	(21,000)
2023	(21,000)
2024	(21,000)
2025	(22,000)
Thereafter	(12,000)
	<u>\$ (118,000)</u>

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

13. Long-Term Obligations

During the fiscal year ended June 30, 2020, general long-term obligations, other than post-employment benefits, changed as follows:

	Bonds Payable	Compensated Absences	Notes Payable	Total General Long-term Obligations
Beginning of year	\$ 6,230,000	\$ 159,084	\$ 17,954	\$ 6,407,038
Principal retirement	(230,000)	0	(5,830)	(235,830)
Changes in compensated absences	<u>0</u>	<u>29,487</u>	<u>0</u>	<u>29,487</u>
End of year	6,000,000	188,571	12,124	6,200,695
Unamortized original issue discount	<u>(16,371)</u>	<u>0</u>	<u>0</u>	<u>(16,371)</u>
	5,983,629	188,571	12,124	6,184,324
Less: current portion	<u>0</u>	<u>(47,000)</u>	<u>(5,976)</u>	<u>(52,976)</u>
Long-term liabilities	<u>\$ 5,983,629</u>	<u>\$ 141,571</u>	<u>\$ 6,148</u>	<u>\$ 6,131,348</u>

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The future annual payments required to amortize outstanding bonds and notes payable as of June 30, 2020, including total interest payments are as follows:

Year Ended June 30,	General Obligation Bonds and Notes			
	Interest	Principal	Federal Interest Subsidy	Total
2021	\$ 305,604	\$ 5,976	\$ (292,153)	\$ 19,427
2022	305,444	6,148	(292,153)	19,439
2023	305,280	0	(292,153)	13,127
2024	305,280	0	(292,153)	13,127
2025	305,280	0	(292,153)	13,127
2026-2030	<u>1,373,760</u>	<u>6,000,000</u>	<u>(1,314,688)</u>	<u>6,059,072</u>
	<u>\$ 2,900,648</u>	<u>\$ 6,012,124</u>	<u>\$ (2,775,453)</u>	<u>\$ 6,137,319</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, 2020 was \$0.

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, 2020 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, 2020 is \$1,474,269, which is reflected in the Capital Projects Fund.

Harmony Area School District
Notes to Financial Statements
June 30, 2020

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, 2020 was \$12,124.

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, 2020. Faculty, administration, and support staff are compensated at the per diem rate of \$100, \$90 and \$35, respectively, for unused sick days. The School District has computed a liability of \$188,571 at June 30, 2020 with \$187,932 reflected in the governmental activities fund and \$639 reflected in the proprietary fund for unused sick days. The District has estimated \$47,000 as current and \$141,571 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.

Lease Rental Debt

The Admiral Peary Vocational Technical School (APVTS), with authority from the seven participating school districts, have agreed to borrow \$935,545 to construct additions and improvements to the technical school facilities, including roof repairs and replacement of HVAC units, and to pay related costs and expenses of the financing. The participating districts, such as Harmony Area School District, will be required to pay their proportionate shares of the incurred debt under the Articles of Agreement, in subsequent years, for capital projects undertaken by or for the APVTS, including the debt service on the financing of such capital projects. The District's proportionate share is based on each district's percentage of their respective market value to the total market value of all participating districts.

The APVTS financing translates into an ongoing obligation of the participating districts for credit purposes; however, for purposes of the Local Governmental Unit Debt Act, this borrowing is not considered general obligation debt of the school districts. Therefore, the future obligations of debt service are not recorded as a liability on Harmony Area School District's financial statements. The District's share of the outstanding balance of the APVTS debt at June 30, 2020 was \$43,475.

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 2020. Future minimum rental payments required under operating leases that have remaining lease terms as of June 30 are as follows:

Harmony Area School District
Notes to Financial Statements
June 30, 2020

Year Ended June 30,	Payment
2021	\$ 18,173
2022	3,383
2023	282

15. Interfund Transactions

The following is a summary of interfund receivables and payables at June 30, 2020:

	Receivables	Payables
General Fund (Major Fund)	\$ 101,437	\$ 12,465
Proprietary Fund - Food Service (Major Fund)	12,465	101,437
	<u>\$ 113,902</u>	<u>\$ 113,902</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, cafeteria subsidies received by the General Fund but not transferred to the Food Service Fund, and amounts due for Pre-K snacks.

Interfund transfers during the year ended June 30, 2020 consisted of the following:

	Transfers In	Transfers Out
Debt Service Fund (Non-Major Fund)	\$ 233,163	\$ 0
Capital Projects Fund (Major Fund)	426,434	0
General Fund (Major Fund)	0	659,597
	<u>\$ 659,597</u>	<u>\$ 659,597</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.

Harmony Area School District
Notes to Financial Statements
June 30, 2020

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, 2020, for unpaid claims incurred prior to fiscal year end is not readily determinable. No liability has been recorded for these claims at June 30, 2020, as the District recognizes medical claim expenses as claims are paid.

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, 2020 and the two previous fiscal years, no settlements exceeded insurance coverage.

19. Related Party Transactions

Jointly Governed Organization

The District is a participating member of Central Intermediate Unit 10 (CIU). The CIU is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The board of directors of each participating district must approve the CIU's annual operating budget. The CIU is a self-sustaining organization that provides services for fees to participating districts. As such, the District has no on-going financial interest in, or financial responsibility to, the CIU. The District contracts for various services provided by the CIU, including special education services, employee trainings, and certain internal service functions. CIU also acts as a conduit for certain federal programs. The total of services provided to Harmony Area School District for the year ended June 30, 2020 for CIU programs amounted to \$72,122. At June 30, 2020, the District had a balance due to CIU of \$12,544 for services.

Joint Venture

The School District is a participating member of the Admiral Peary Vocational-Technical School (APVTS). The APVTS is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The board of directors of each participating district must approve the APVTS' annual operating budget. Each participating district pays a pro-rata share of the APVTS' operating costs based on the number of students attending the APVTS for each district. Harmony Area School District's share of the APVTS operating costs for 2019-20 was \$114,432.

On dissolution of the APVTS, the net position will be shared on a pro-rata basis of each participating district's current market value of taxable real property, as certified by the Pennsylvania State Tax Equalization Board. However, the District does not have an equity interest in the APVTS, as defined by GASB Statement No. 14, *The Financial Reporting Entity*, except a residual interest in the net position upon dissolution that should not be reflected in the financial statements. Complete financial statements for the APVTS can be obtained from the APVTS' administrative office at 948 Ben Franklin Hwy, Ebensburg, PA.

At June 30, 2020, the District had a balance due to the APVTS of \$0. (See Note 13 for additional information on Lease Rental Debt for the APVTS.)

Harmony Area School District
Notes to Financial Statements
June 30, 2020

In September of 2018, 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 at that time, 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
2021	\$ 3,125
2022	3,125
2023	3,125
2024	3,125
2025	3,125
2026-2030	15,625
2031-2034	12,500
Total	<u>\$ 43,750</u>

The School District will share in the obligations for any debt entered into by the Vo-Tech after the date the School District became a member (see Note 13).

20. Economic Dependency

Harmony Area School District receives approximately 64% of its revenue from the State of Pennsylvania in the form of state subsidies. Changes in funding levels by the State could have a material effect on future operations of the District.

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 2020 totaled \$14,283.

22. Risks and Uncertainties

COVID-19

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

Harmony Area School District
Notes to Financial Statements
June 30, 2020

On March 13, 2020, the Commonwealth of Pennsylvania ordered the closure of all public K-12 schools in response to the pandemic. The Commonwealth further ordered the closure of all non-life-sustaining businesses on March 19, 2020 for what was an extended period. These mandates resulted in a disruption of District services and an impairment of the District's ability to generate revenues.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. Access to grants and contracts from federal, state and local governments may decrease or may not be available depending on appropriations available in Pennsylvania. The outbreak may have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown. As such, the District's financial condition and liquidity may be negatively impacted for the fiscal year ended June 30, 2021.

23. Restatement of Net Position

Discount on Bonds Payable

The net position of the Governmental Activities was restated, effective July 1, 2019, to correct for an overstated unamortized discount on bonds payable (understated long-term liabilities). The restatement decreases net position by \$17,818.

Vocational-Technical School Refund

The net position of the Governmental Activities was also restated, effective July 1, 2019, to correct for an understated receivable for the prior year's Vocational-Technical School overpayment. The restatement increases net position by \$35,143.

These restatements affect the governmental activities on the government-wide financial statements only.

Harmony Area School District
Required Supplementary Information – Pension Schedules
June 30, 2020

Schedule of Proportionate Share of the Net Pension Liability

	<u>2020</u>	<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	0.0158%	0.0164%	0.0168%	0.0182%	0.0193%	0.0200%	0.0206%
District's proportionate share of net pension liability	\$ 7,392,000	\$ 7,873,000	\$ 8,297,000	\$ 9,019,000	\$ 8,360,000	\$ 7,916,000	\$ 8,433,000
District's covered-employee payroll *	\$ 2,180,809	\$ 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	338.96%	355.87%	371.37%	383.20%	336.67%	310.05%	319.10%
Plan fiduciary net position as a percentage of the total pension liability	55.66%	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, 2019 and prior).

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, 2020

Schedule of District Contributions

	<u>2020</u>	<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>
Contractually required contributions	\$ 729,353	\$ 707,853	\$ 710,003	\$ 640,333	\$ 574,838	\$ 494,377	\$ 360,698	\$ 289,420	\$ 195,828	\$ 125,987
Contributions in relation to the contractually required contributions	<u>(729,353)</u>	<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>
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	\$ 2,154,442	\$ 2,180,809	\$ 2,212,320	\$ 2,234,180	\$ 2,353,613	\$ 2,483,173	\$ 2,553,156	\$ 2,642,725	N/A	N/A
Contributions as a percentage of covered-employee payroll	33.85%	32.46%	32.09%	28.66%	24.42%	19.91%	14.13%	10.95%	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, 2020

Schedule of Proportionate Share of the Net OPEB Liability

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of net OPEB liability	0.0158%	0.0164%	0.0168%	0.0182%
District's proportionate share of net OPEB liability	\$ 336,000	\$ 342,000	\$ 342,000	\$ 392,000
District's covered-employee payroll*	\$ 2,180,809	\$ 2,212,320	\$ 2,234,180	\$ 2,353,613
District's proportionate share of net OPEB liability as percentage of its covered-employee payroll	15.41%	15.46%	15.31%	16.66%
Plan fiduciary net position as a percentage of the total OPEB liability	5.56%	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, 2019 and prior).

Schedule of District Contributions

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contributions	\$ 18,618	\$ 18,022	\$ 18,567	\$ 18,201
Contributions in relation to the contractually required contributions	<u>(18,618)</u>	<u>(18,022)</u>	<u>(18,567)</u>	<u>(18,201)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered-employee payroll	\$ 2,154,442	\$ 2,180,809	\$ 2,212,320	\$ 2,234,180
Contributions as a percentage of covered-employee payroll	0.86%	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, 2020

Schedule of Changes in District's OPEB liability:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Service cost	\$ 53,000	\$ 51,000	\$ 54,000
Interest	35,000	37,000	33,000
Economic/demographic (gains) losses	114,000	0	0
Changes of assumptions	(251,000)	19,000	(25,000)
Benefit payments	<u>(41,000)</u>	<u>(41,000)</u>	<u>(46,000)</u>
Net change in total OPEB liability	(90,000)	66,000	16,000
Total OPEB liability - beginning	<u>1,032,000</u>	<u>966,000</u>	<u>950,000</u>
Total OPEB liability - ending	<u><u>\$ 942,000</u></u>	<u><u>\$ 1,032,000</u></u>	<u><u>\$ 966,000</u></u>
 Covered payroll	 \$ 2,183,665	 \$ 1,846,856	 \$ 2,175,601
 District net OPEB liability as a percentage of its covered-employee payroll	 43.14%	 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, 2020

	Budgeted Original	Amounts Final	Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Local sources	\$ 1,328,798	\$ 1,328,798	\$ 1,575,504	\$ 246,706
State sources	4,466,882	4,466,882	4,365,047	(101,835)
Federal sources	466,632	466,632	461,250	(5,382)
Total revenues	<u>6,262,312</u>	<u>6,262,312</u>	<u>6,401,801</u>	<u>139,489</u>
Expenditures				
Instruction:				
Regular programs	2,392,320	2,392,320	2,291,148	101,172
Special programs	692,426	692,426	660,736	31,690
Vocational education programs	125,400	125,400	117,557	7,843
Other instructional programs	44,525	44,525	32,120	12,405
Pre-kindergarten	136,000	136,000	140,000	(4,000)
Support services:				
Pupil personnel	229,062	229,062	179,475	49,587
Instructional staff	216,230	216,230	131,115	85,115
Administration	507,009	507,009	460,377	46,632
Pupil health	138,081	138,081	85,109	52,972
Business	204,581	204,581	184,374	20,207
Operation and maintenance of plant	430,747	430,747	511,747	(81,000)
Student transportation	504,748	504,748	406,035	98,713
Central	0	0	17,644	(17,644)
Operation of noninstructional services:				
Student activities	148,598	148,598	110,732	37,866
Debt service:				
Principal and interest	<u>6,320</u>	<u>6,320</u>	<u>6,300</u>	<u>20</u>
Total expenditures	<u>5,776,047</u>	<u>5,776,047</u>	<u>5,334,469</u>	<u>441,578</u>
Excess (deficiency) of revenues over expenditures	<u>486,265</u>	<u>486,265</u>	<u>1,067,332</u>	<u>581,067</u>
Other financing sources (uses)				
Interfund transfers	(598,500)	(598,500)	(659,597)	(61,097)
Budgetary reserve	(8,944)	(8,944)	0	8,944
Sale of fixed assets	<u>37,500</u>	<u>37,500</u>	<u>37,500</u>	<u>0</u>
Total other financing sources (uses)	<u>(569,944)</u>	<u>(569,944)</u>	<u>(622,097)</u>	<u>(52,153)</u>
Net change in fund balance	(83,679)	(83,679)	445,235	528,914
Fund balance, beginning of year	<u>1,786,403</u>	<u>1,786,403</u>	<u>2,135,610</u>	<u>349,207</u>
Fund balance, end of year	<u>\$ 1,702,724</u>	<u>\$ 1,702,724</u>	<u>\$ 2,580,845</u>	<u>\$ 878,121</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, 2020 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 January 18, 2021.

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 did identify 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. We consider the deficiency described in the accompanying schedule of findings and responses as item **#2020-001** to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item **#2020-002** to be 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 #2020-003.

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 them.

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
January 18, 2021

**Harmony Area School District
Schedule of Findings and Responses
Year Ended June 30, 2020**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *unmodified*

Internal control over financial reporting:

Material weakness(es) identified?	<u> X </u> Yes	<u> </u> No
Significant deficiency identified not considered to be material weaknesses?	<u> X </u> Yes	<u> </u> None reported
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

Section II – Financial Statement Findings

INTERNAL CONTROL OVER FINANCIAL REPORTING

Finding #2020-001

CONDITION:

Audit adjustments that were material to the financial statements (Cafeteria Fund) were required in order for the financial statements to be fairly presented in accordance with accounting principles generally accepted in the United States of America.

CRITERIA:

An indicator of a material weakness is when the auditor identifies a material misstatement in the financial statements that was not detected by the entity's internal control.

CAUSE:

It appears that the change in the accounting software in the current year attributed to the double recording of certain cafeteria subsidies. In addition, there were errors in recording the interfund amounts between the General Fund and the Cafeteria Fund for subsidies and benefits.

EFFECT:

This deficiency resulted in materially overstated assets (cash) and overstated interfund liabilities, along with the net overstatement of subsidy revenues, the details of which were discussed with management.

RECOMMENDATION:

We recommend management adjust the Cafeteria Fund general ledger for the proposed audit adjustments effective June 30, 2020. We further recommend that the Business Manager perform a careful review of the financial statements at year end, identifying, investigating, and documenting any significant variances from the prior year, in an attempt to ensure that misstatements are identified and corrected in a timely manner. Specific attention should be given to cash, the subsidies revenue, and the interfund accounts.

**Harmony Area School District
Schedule of Findings and Responses
Year Ended June 30, 2020**

MANAGEMENT RESPONSE:

Management agrees with the recommendations and has posted the proposed audit adjustments to the District's books effective June 30, 2020. In addition, the Business Manager will continue the efforts to review the financial statements at year end, with an emphasis on variances in account balances, as compared to the prior year. Any variances will be investigated and either corrected, if found to be in error, or documented, if the balances appear to be correct. Specific attention will be given to cash, the subsidies revenue, and the interfund accounts.

Finding #2020-002

CONDITION:

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

CRITERIA:

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

CAUSE:

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

EFFECT:

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

RECOMMENDATION:

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

MANAGEMENT RESPONSE:

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

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COMPLIANCE AND OTHER MATTERS

Finding #2020-003

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 2019-20 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 10th working day following the quarter just ended. A “Delinquent Report” represents a required report that has not been submitted by the 10th 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 10th 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. Moreover, the School District switched to a new accounting software in January 2020. The current business manager is not only getting acclimated to perform duties associated with his own position, but has also had to assist with administrative duties in the absence of a full-time superintendent. In addition, the business manager had to transfer the data from the old accounting software to the new accounting software in January of 2020. As mentioned in **Finding #2020-002**, 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 the failure to file these reports in a timely manner has 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, determine those duties that can be reassigned to support staff, and evaluate whether the appropriate administrator is responsible for those they perform. When turnover occurs, responsibilities can shift to others with more experience, which can overburden certain individuals. Consequently, existing duties can suffer leading to noncompliance with regulations.

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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 School District has hired a full time superintendent which should alleviate some of the work load, and the software data conversion has been completed. 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 them submitted immediately.