

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

Audit Report

**For the Year Ended
June 30, 2021**

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List of Report Distribution

January 17, 2022

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, 2021, 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, 2021, 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 - GASB Statement No. 84, *Fiduciary Activities*

As discussed in Note 23 to the financial statements, Harmony Area School District implemented GASB Statement No. 84, *Fiduciary Activities*, effective July 1, 2020. Implementation resulted in a restatement of net position of the governmental activities and fiduciary activities as well as the fund balance of the general fund, effective July 1, 2020. 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 62-65, and page 66, 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 17, 2022, 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 solely 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 17, 2022

Management's Discussion and Analysis

Harmony Area School District

2020-2021

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.

The Fiduciary Fund (Student Activities Fund) is not reflected on the government-wide financial statements. This fund is 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 (governmental funds) and full accrual basis of accounting (proprietary funds). 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 two 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 \$6,741,982 and expenditures of \$5,632,219, resulting in an excess of revenues over expenditures of \$1,109,763, before transfers, for the year ended June 30, 2021. The General Fund transferred \$705,981 to the Capital Projects Fund for bond interest payments and sinking fund deposits. After the transfers out there was a net increase in fund balance of \$403,782. Harmony Area School District's general fund maintains a fund balance of \$2,989,619 on June 30, 2021. In addition to the general fund, the fund balance of the capital projects fund is \$2,465,342 at June 30, 2021. 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, 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. Students opting to attend Charter/Cyber schools during the COVID-19 pandemic have added additional unforeseen costs to all school's financial resources. The District continues to practice financial prudence in the spending of numerous Federal and State grants dealing with the pandemic while recognizing the relatively short duration of these funds. The District is aware of the "COVID Cliff" phenomenon and strives to use sound judgement to purchase items and services that will not require future sustainable funding once these grants have expired.

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, 2021 as compared to June 30, 2020.

Table 1
Condensed Schedule of Net Position

| | Governmental Activities | | Business-type Activities | | Total School District | | Change |
|---|--------------------------------|----------------------|---------------------------------|-------------------|------------------------------|----------------------|-------------------|
| | 2021 | 2020 * | 2021 | 2020 | 2021 | 2020 * | 2020-21 |
| Assets | | | | | | | |
| Current assets | \$ 6,276,610 | \$ 5,720,101 | \$ 112,477 | \$ 57,527 | \$ 6,389,087 | \$ 5,777,628 | \$ 611,459 |
| Non-current assets | 5,744,556 | 6,121,643 | 15,688 | 22,338 | 5,760,244 | 6,143,981 | (383,737) |
| Total assets | 12,021,166 | 11,841,744 | 128,165 | 79,865 | 12,149,331 | 11,921,609 | 227,722 |
| Deferred outflows of resources | 1,249,164 | 963,248 | 62,249 | 55,892 | 1,311,413 | 1,019,140 | 292,273 |
| Total assets and deferred outflows | <u>\$ 13,270,330</u> | <u>\$ 12,804,992</u> | <u>\$ 190,414</u> | <u>\$ 135,757</u> | <u>\$ 13,460,744</u> | <u>\$ 12,940,749</u> | <u>\$ 519,995</u> |
| Liabilities | | | | | | | |
| Current liabilities | \$ 672,070 | \$ 624,078 | \$ 144,911 | \$ 110,655 | \$ 816,981 | \$ 734,733 | \$ 82,248 |
| Long-term liabilities | 14,952,086 | 14,600,830 | 209,393 | 200,518 | 15,161,479 | 14,801,348 | 360,131 |
| Total liabilities | 15,624,156 | 15,224,908 | 354,304 | 311,173 | 15,978,460 | 15,536,081 | 442,379 |
| Deferred inflows of resources | 815,879 | 1,205,238 | 15,440 | 24,931 | 831,319 | 1,230,169 | (398,850) |
| Net Position | | | | | | | |
| Invested in capital assets, net of related debt | (247,876) | 143,708 | 15,688 | 22,338 | (232,188) | 166,046 | (398,234) |
| Restricted | 2,471,083 | 2,164,425 | 0 | 0 | 2,471,083 | 2,164,425 | 306,658 |
| Unrestricted | (5,392,912) | (5,933,287) | (195,018) | (222,685) | (5,587,930) | (6,155,972) | 568,042 |
| Total net position | <u>(3,169,705)</u> | <u>(3,625,154)</u> | <u>(179,330)</u> | <u>(200,347)</u> | <u>(3,349,035)</u> | <u>(3,825,501)</u> | <u>476,466</u> |
| Total liabilities, deferred inflows and net position | <u>\$ 13,270,330</u> | <u>\$ 12,804,992</u> | <u>\$ 190,414</u> | <u>\$ 135,757</u> | <u>\$ 13,460,744</u> | <u>\$ 12,940,749</u> | <u>\$ 519,995</u> |

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

Assets, Liabilities and Net Assets – Government-Wide

Current assets represented 52.59% of the total assets comprised largely of cash and cash equivalents of \$3,419,535, investments of \$1,777,332, taxes receivable of \$267,986, and intergovernmental receivables of \$803,806. Fixed assets including land, site and building improvements, furniture and equipment, and infrastructure assets represent 47.41% of total assets at \$5,760,244.

The total liability amount of \$15,978,460 consists primarily of bonds payable (\$5,986,284), net pension liability (\$7,681,000), net other post-employment benefits (\$1,333,000), compensated absences (\$214,295), vendor accounts payable (\$341,671), and accrued salaries and benefits (\$321,368).

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

The resulting negative \$3,349,035 in net position includes negative \$232,188 invested in capital assets, net of related debt, \$2,465,342 restricted for capital projects, \$5,741 restricted for scholarships and negative \$5,587,930 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, 2021 compared to the year ended June 30, 2020.

Table 2
Changes in Net Position

| | Governmental Activities | | Business-type Activities | | Total School District | | Change |
|------------------------------------|--------------------------------|-------------|---------------------------------|-------------|------------------------------|-------------|----------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2020-21 |
| Program Revenues: | | | | | | | |
| Charges for services | \$ 6,950 | \$ 8,980 | \$ 12,016 | \$ 21,094 | \$ 18,966 | \$ 30,074 | \$ (11,108) |
| Operating grants and contributions | 2,258,616 | 1,988,705 | 243,495 | 186,992 | 2,502,111 | 2,175,697 | 326,414 |
| Capital grants and contributions | 167,266 | 143,305 | 0 | 0 | 167,266 | 143,305 | 23,961 |
| General Revenues: | | | | | | | |
| Property and other taxes | 1,223,996 | 1,313,953 | 0 | 0 | 1,223,996 | 1,313,953 | (89,957) |
| Grants and entitlements | 2,877,166 | 2,877,158 | 0 | 0 | 2,877,166 | 2,877,158 | 8 |
| Investment earnings | (88,881) | 220,503 | 40 | 111 | (88,841) | 220,614 | (309,455) |
| Other | 8,352 | 44,601 | 0 | 0 | 8,352 | 44,601 | (36,249) |
| Total Revenues | 6,453,465 | 6,597,205 | 255,551 | 208,197 | 6,709,016 | 6,805,402 | (96,386) |
| Program Expenses: | | | | | | | |
| Instruction | 3,525,849 | 3,142,513 | 0 | 0 | 3,525,849 | 3,142,513 | 383,336 |
| Support services: | | | | | | | |
| Instructional student support | 382,716 | 216,086 | 0 | 0 | 382,716 | 216,086 | 166,630 |
| Administration and financial | 1,002,097 | 727,620 | 0 | 0 | 1,002,097 | 727,620 | 274,477 |
| Plant operation and maintenance | 239,714 | 793,650 | 0 | 0 | 239,714 | 793,650 | (553,936) |
| Pupil transportation | 420,443 | 438,594 | 0 | 0 | 420,443 | 438,594 | (18,151) |
| Student activities/community | 118,938 | 119,611 | 0 | 0 | 118,938 | 119,611 | (673) |
| Interest on long-term debt | 308,259 | 314,920 | 0 | 0 | 308,259 | 314,920 | (6,661) |
| Food Services | 0 | 0 | 234,534 | 233,050 | 234,534 | 233,050 | 1,484 |
| Total Expenses | 5,998,016 | 5,752,994 | 234,534 | 233,050 | 6,232,550 | 5,986,044 | 246,506 |
| Increase (decrease) in net assets | \$ 455,449 | \$ 844,211 | \$ 21,017 | \$ (24,853) | \$ 476,466 | \$ 819,358 | \$ (342,892) |

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

Revenues decreased from the prior year by \$96,386, or 1.42%. Revenue decreases were due to decreases in investment earnings (\$309,455), mostly due to unrealized gains and losses in the bond sinking fund investments; property and other taxes (\$89,957); charges for service (\$11,108), mostly due to reductions in cafeteria fund sales; and other revenue (\$36,249), mostly due to the sale of land in the prior year. These decreases were offset by increases in grants, contributions and entitlements (\$350,383), which were mostly a result of the increases in CARES Act/ESSER funds and the rental and sinking fund subsidy outweighing the decreases in Title money.

Expenses increased from the prior year by \$246,506. The increase in overall expenses is largely due to increases in instruction (\$383,336), instructional student support (\$166,630), and administration and financial support (\$274,477); and is offset by a decrease in plant operation and maintenance (\$553,936). The increase in instructional costs is mostly due to the increases in supplies and equipment (largely due to increased grant funding), purchased services for visually impaired students and speech and language services, vocational education costs, pre-kindergarten costs, 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, administrative and financial support, and operations and maintenance also caused most of those variances as well. However, approximately 33% of the increase in administrative and financial support was due to the hiring of a full-time superintendent. The decrease in purchased professional services costs also accounted for a portion of the change in operation and maintenance.

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 2020-21 Expenses | Actual 2019-20 Expenses | Over/(Under) From P/Y | 2020-21 Budget | (Over)/Under Budget |
|-----------------|----------------------------------|--|--|----------------------------------|---------------------------|--------------------------------|
| 1100 | Regular Educational Programs | \$ 2,410,819 | \$ 2,291,148 | \$ 119,671 | \$ 2,359,368 | \$ (51,451) |
| 1200 | Special Education | 708,489 | 660,736 | 47,753 | 723,700 | 15,211 |
| 1300 | Vocational Education | 148,763 | 117,557 | 31,206 | 150,000 | 1,237 |
| 1400 | Other Instructional Programs | 47,992 | 32,120 | 15,872 | 43,079 | (4,913) |
| 1500 | Nonpublic school programs | 821 | 0 | 821 | 0 | (821) |
| 1800 | Pre-Kindergarten | 164,156 | 140,000 | 24,156 | 140,000 | (24,156) |
| 2100 | Pupil Services | 154,569 | 179,475 | (24,906) | 213,374 | 58,805 |
| 2200 | Instructional Staff Services | 113,695 | 131,115 | (17,420) | 137,890 | 24,195 |
| 2300 | Administration | 559,402 | 460,377 | 99,025 | 615,418 | 56,016 |
| 2400 | Health Services | 97,719 | 85,109 | 12,610 | 109,839 | 12,120 |
| 2500 | Business | 169,789 | 184,374 | (14,585) | 203,966 | 34,177 |
| 2600 | Maintenance | 461,330 | 511,747 | (50,417) | 451,514 | (9,816) |
| 2700 | Transportation | 390,814 | 406,035 | (15,221) | 403,709 | 12,895 |
| 2800 | Central | 87,005 | 17,644 | 69,361 | 73,317 | (13,688) |
| 3000 | Student Activities/Community | 110,556 | 110,732 | (176) | 140,852 | 30,296 |
| 5110 | Financing | 6,300 | 6,300 | 0 | 6,300 | 0 |
| 5200 | Interfund Transfers | 705,981 | 659,597 | 46,384 | 711,182 | 5,201 |
| 5900 | Budgetary Reserve | 0 | 0 | 0 | 20,000 | 20,000 |
| | Total Expenditures | 6,338,200 | 5,994,066 | 344,134 | 6,503,508 | 165,308 |
| | Revenues/other financing sources | 6,741,982 | 6,439,301 | 302,681 | 6,278,166 | 463,816 |
| | Net Change | \$ 403,782 | \$ 445,235 | \$ (41,453) | \$ (225,342) | \$ 629,124 |

DIFFERENCES

- 1100 The increase is mostly due to an increase in supplies and equipment (\$140,191) which was offset by a decrease in wages and benefits (\$25,745). The increase in supplies and equipment spending was largely due to the availability of the additional CARES/ESSERS grants and the purchasing of online learning products as well as technology equipment and supplies to support the new learning platforms implemented during the pandemic.

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

- 1200 The increase is mostly due to the increases in purchased professional services (\$41,946) and special education tuition (\$8,185). The increase in purchased professional services costs is due to the increases in costs for visually impaired student support and speech and language services outweighing the reduction of costs for special education substitutes. The increase in special education tuition is largely due to the increase in charter school tuition.
- 1300 The increase is mostly due to the application of an outstanding credit in 2019-2020 (\$11,579, thus lowering the 2019-2020 cost), the district's allocated cost of an ongoing renovation project at Admiral Peary Vo-Tech (\$4,741), tuition for an alternative education student electing courses offered at another Vo-Tech (\$10,668) and a cost increase in the per student tuition for 2020-2021(\$3,420)
- 1800 The increase is due to the classification of the Pre-K costs. In the prior year, the total amount posted to the function was limited by the amount of the grant (\$140,000). In the current year, additional Pre-K costs were posted to the function, with the grant amounts being posted to the source code within the function.
- 2100 The decrease is mostly due to the decrease in guidance services costs (\$20,371) and social work services costs (\$11,344). These decreases were offset by the increase in other student services costs (\$6,810). The decrease in guidance services costs is due to the decrease in secretary's wages (\$4,456) and the decrease in secretary's benefits (\$15,915). The decrease in wages was due to the school district not having a guidance secretary for over two months while the former employee transitioned to a teaching job. The decrease in benefits was due to having one less employee's benefit costs allocated to the function for part of the current year. The increase in other student services is mostly due to the purchase of the PATHS implementation package. The decrease in social service costs (\$11,344) was mostly due to the unavailability of a behavioral specialist the district utilized in 2019-2020
- 2300 The increase is mostly due to the increase in costs for the office of the superintendent (\$98,892). There was an increase in wages and benefits (\$123,132) which was offset by the decrease in professional services costs (\$23,250). This is due to the part-time interim superintendent being paid as a private contractor for the first four months of 2019-20. Another part-time interim superintendent was hired for the remainder of the 2019-20 fiscal year but was paid through payroll. The school district hired a full-time superintendent for the 2020-21 school year.
- 2600 The decrease is due to the decreases in wages and benefits (\$8,381), purchased professional services (\$40,017), and repairs and maintenance (\$15,174). The decreases were offset by an increase in supplies and maintenance (\$11,137). The decrease in professional services was mostly due to the classification of the technology services contract. In the prior year, the technology services contract was posted to the 2600s. In the current year, the technology services contract was posted to the 2800s (see below). Most of the decrease in repairs and maintenance was due to the cost of repairing the generator after a lighting strike in the prior year. The increase in supplies and maintenance was due to the increased grant funding available and additional supplies and equipment needed during the pandemic.
- 2800 The increase is due to the increase in professional technology services (\$41,846), which were posted to the 2600s in the prior year, and the increase in technology supplies (\$35,954). The increase in technology supplies is due to the availability of grant funding and the additional technology needs of school district resulting from the pandemic. These increases were offset by decreases in various staff development costs.
- 5200 The increase is due to the increase in the required sinking fund deposit for the 2011 QSCB Bonds outweighing the decrease in principal and interest payments realized by paying off the 2011 Refunding Bonds in 2019-20.

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 |
|----------------------------|--------------------------------|---------------------|---------------------------------|------------------|---------------------|---------------------|-------------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | Change |
| | | | | | | | 2020-21 |
| Land | \$ 5,000 | \$ 5,000 | \$ 0 | \$ 0 | \$ 5,000 | \$ 5,000 | 0.00% |
| Buildings and improvements | 5,318,138 | 5,660,402 | 0 | 0 | 5,318,138 | 5,660,402 | -6.05% |
| Infrastructure | 189,596 | 193,955 | 0 | 0 | 189,596 | 193,955 | -2.25% |
| Equipment and furniture | <u>231,822</u> | <u>262,286</u> | <u>15,688</u> | <u>22,338</u> | <u>247,510</u> | <u>284,624</u> | -13.04% |
| | <u>\$ 5,744,556</u> | <u>\$ 6,121,643</u> | <u>\$ 15,688</u> | <u>\$ 22,338</u> | <u>\$ 5,760,244</u> | <u>\$ 6,143,981</u> | -6.25% |

Long-Term Debt

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

Table 5
Outstanding Long-Term Debt

| | Total School District | | Percent |
|-----------------------------|------------------------------|---------------------|----------------|
| | 2021 | 2020 | Change |
| QSCB bonds (Series of 2011) | \$ 6,000,000 | \$ 6,000,000 | 0.00% |
| Note payable (Traverse) | <u>6,148</u> | <u>12,124</u> | -49.29% |
| Total | <u>\$ 6,006,148</u> | <u>\$ 6,012,124</u> | -0.10% |

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

MAJOR FINANCIAL ISSUES

The financial issues pertaining to the District for the 2020-2021 year are as follows:

IMPROVEMENTS & EQUIPMENT

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

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

Curriculum:

The district continued to pursue opportunities to enhance remote, virtual, and distance learning mechanisms during the timeframe of the COVID-19 pandemic. Enhancements in applications and online textbook materials were a focus of the district plan and coupled with projects being facilitated by the technology department. Career readiness and preparation for post-secondary education were enriched in order to satisfy latest best-practice for Act 158 graduation requirements and Act 35 civics development expectations. Laboratory activities for science, virtual guest speakers, and state mandates involving human rights violations, the Holocaust, and genocide were also a focus of the purchasing and planning for the 20-21 fiscal year. Additionally, the district utilized financial opportunities to enhance the science curriculum in grade K-6 with the purchase of a brand new textbook and curriculum series, along with further plans to expand the secondary science curriculum during the 21-22 school year. The continuation of our HAOLA (Harmony Area Online Learning Association) cyber system also provided additional electives to upperclassmen as well as maintaining students who wish to take cyber school under our own platform rather than exporting their online curriculum to outside vendors and sources.

Technology:

The district has continued the use of an outside vendor to help grow our technology possibilities and maintain consistently working active panel boards, chromebooks, office computers, district networking, district email, and publishing/printing capability. Web filtering, firewall protection, and monitoring of devices have obtained upgrades to keep up with the technology requirements of having more machines on our network. WiFi technology has been upgraded to allow for more connection possibilities and overall coverage for connecting to both technology and curriculum projects. Overall bandwidth issues have been addressed by doubling the amount of traffic that could exist on our infrastructure by way of a new fiber run into the building from our internet service provider. This run was a joint project that was facilitated with communication between Verizon, In the Stixx Broadband, and our district personnel. The district continues to show a period of growth in the teaching and learning process that has caused our need to upgrade infrastructure, training and professional development opportunities, and the focus of our technology on meeting the needs of our classrooms, large group instructional areas, cafeteria, gymnasium, and offices.

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 154.

BASIC FINANCIAL STATEMENTS

Harmony Area School District
Statement of Net Position
June 30, 2021

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|----------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and equivalents | \$ 3,336,141 | \$ 83,394 | \$ 3,419,535 |
| Investments | 1,777,332 | 0 | 1,777,332 |
| Taxes receivable | 267,986 | 0 | 267,986 |
| Intergovernmental receivables | 796,406 | 7,400 | 803,806 |
| Other receivables | 30,844 | 219 | 31,063 |
| Inventories | 14,353 | 21,464 | 35,817 |
| Prepaid expense | <u>53,548</u> | <u>0</u> | <u>53,548</u> |
| Total current assets | <u>6,276,610</u> | <u>112,477</u> | <u>6,389,087</u> |
| Noncurrent assets: | | | |
| Land | 5,000 | 0 | 5,000 |
| Depreciable capital assets, net | <u>5,739,556</u> | <u>15,688</u> | <u>5,755,244</u> |
| Total noncurrent assets | <u>5,744,556</u> | <u>15,688</u> | <u>5,760,244</u> |
| Total assets | <u>12,021,166</u> | <u>128,165</u> | <u>12,149,331</u> |
| Deferred Outflows of Resources | | | |
| Defined benefit pension plan | 1,112,934 | 62,249 | 1,175,183 |
| Other post-employment benefits (OPEB) | <u>136,230</u> | <u>0</u> | <u>136,230</u> |
| Total deferred outflows of resources | <u>1,249,164</u> | <u>62,249</u> | <u>1,311,413</u> |
| Total assets and deferred outflows of resources | <u>\$ 13,270,330</u> | <u>\$ 190,414</u> | <u>\$ 13,460,744</u> |

See accompanying notes to the basic financial statements.

Harmony Area School District
Statement of Net Position
June 30, 2021

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|----------------------|
| Liabilities | | | |
| Current liabilities: | | | |
| Internal balances | \$ (122,637) | \$ 122,637 | \$ 0 |
| Due to other governments | 46,162 | 0 | 46,162 |
| Accounts payable | 341,671 | 0 | 341,671 |
| Accrued salaries and wages | 313,730 | 7,638 | 321,368 |
| Payroll deductions and withholdings | 1,919 | 0 | 1,919 |
| Unearned revenues | 28,601 | 14,636 | 43,237 |
| Accrued interest payable | 3,376 | 0 | 3,376 |
| Current portion of long-term obligations | 59,248 | 0 | 59,248 |
| Total current liabilities | <u>672,070</u> | <u>144,911</u> | <u>816,981</u> |
| Noncurrent liabilities: | | | |
| Bonds payable, net of discount | 5,986,284 | 0 | 5,986,284 |
| Long-term portion of compensated absences | 159,495 | 1,700 | 161,195 |
| Net pension liability | 7,473,307 | 207,693 | 7,681,000 |
| Net other post-employment benefits liability (OPEB) | 1,333,000 | 0 | 1,333,000 |
| Total noncurrent liabilities | <u>14,952,086</u> | <u>209,393</u> | <u>15,161,479</u> |
| Total liabilities | <u>15,624,156</u> | <u>354,304</u> | <u>15,978,460</u> |
| Deferred Inflows of Resources | | | |
| Defined benefit pension plan | 586,879 | 15,440 | 602,319 |
| Other post-employment benefits (OPEB) | 229,000 | 0 | 229,000 |
| Total deferred inflows of resources | <u>815,879</u> | <u>15,440</u> | <u>831,319</u> |
| Net Position | | | |
| Invested in capital assets, net of debt | (247,876) | 15,688 | (232,188) |
| Restricted for scholarships (spendable) | 5,741 | 0 | 5,741 |
| Restricted for capital projects (spendable) | 2,465,342 | 0 | 2,465,342 |
| Unrestricted | (5,392,912) | (195,018) | (5,587,930) |
| Total net position | <u>(3,169,705)</u> | <u>(179,330)</u> | <u>(3,349,035)</u> |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 13,270,330</u> | <u>\$ 190,414</u> | <u>\$ 13,460,744</u> |

See accompanying notes to the basic financial statements.

**Harmony Area School District
Statement of Activities
For the Year Ended June 30, 2021**

| | 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 | \$ 3,525,849 | \$ 0 | \$ 1,198,869 | \$ 0 | \$ (2,326,980) | \$ 0 | \$ (2,326,980) |
| Instructional student support | 382,716 | 0 | 404,086 | 0 | 21,370 | 0 | 21,370 |
| Administration and financial support services | 1,002,097 | 0 | 4,380 | 0 | (997,717) | 0 | (997,717) |
| Operations and maintenance of plant services | 239,714 | 6,950 | 0 | 167,266 | (65,498) | 0 | (65,498) |
| Pupil transportation | 420,443 | 0 | 363,707 | 0 | (56,736) | 0 | (56,736) |
| Student activities | 118,669 | 0 | 0 | 0 | (118,669) | 0 | (118,669) |
| Community | 269 | 0 | 0 | 0 | (269) | 0 | (269) |
| Interest on long-term debt | 308,259 | 0 | 287,574 | 0 | (20,685) | 0 | (20,685) |
| Total governmental activities | 5,998,016 | 6,950 | 2,258,616 | 167,266 | (3,565,184) | 0 | (3,565,184) |
| Business-Type Activities: | | | | | | | |
| Food service | 234,534 | 12,016 | 243,495 | 0 | 0 | 20,977 | 20,977 |
| Total primary government | <u>\$ 6,232,550</u> | <u>\$ 18,966</u> | <u>\$ 2,502,111</u> | <u>\$ 167,266</u> | <u>(3,565,184)</u> | <u>20,977</u> | <u>(3,544,207)</u> |
| General Revenues: | | | | | | | |
| Taxes levied | | | | | 1,223,996 | 0 | 1,223,996 |
| Grants, subsidies and contributions, not restricted | | | | | 2,877,166 | 0 | 2,877,166 |
| Investment earnings | | | | | (88,881) | 40 | (88,841) |
| Miscellaneous | | | | | 8,352 | 0 | 8,352 |
| Total general revenues | | | | | 4,020,633 | 40 | 4,020,673 |
| Change in net position | | | | | 455,449 | 21,017 | 476,466 |
| Net position, beginning of year, restated | | | | | (3,625,154) | (200,347) | (3,825,501) |
| Net position, end of year | | | | | <u>\$ (3,169,705)</u> | <u>\$ (179,330)</u> | <u>\$ (3,349,035)</u> |

See accompanying notes to the basic financial statements.

**Harmony Area School District
Balance Sheet
Governmental Funds
June 30, 2021**

| | General Fund | Major Fund Capital Projects | Total Governmental Funds |
|---|---------------------|-----------------------------------|--------------------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 2,617,287 | \$ 718,854 | \$ 3,336,141 |
| Investments | 0 | 1,777,332 | 1,777,332 |
| Taxes receivable | 267,986 | 0 | 267,986 |
| Due from other funds | 127,256 | 0 | 127,256 |
| Due from other governments | 796,406 | 0 | 796,406 |
| Other receivables | 30,844 | 0 | 30,844 |
| Inventories | 14,353 | 0 | 14,353 |
| Prepaid expenses | <u>53,548</u> | <u>0</u> | <u>53,548</u> |
| Total assets | 3,907,680 | 2,496,186 | 6,403,866 |
| Deferred Outflows of Resources | <u>0</u> | <u>0</u> | <u>0</u> |
| Total assets and deferred outflows of resources | <u>\$ 3,907,680</u> | <u>\$ 2,496,186</u> | <u>\$ 6,403,866</u> |
| Liabilities | | | |
| Due to other funds | \$ 4,619 | \$ 0 | \$ 4,619 |
| Due to other governments | 46,162 | 0 | 46,162 |
| Accounts payable | 310,827 | 30,844 | 341,671 |
| Accrued salaries and benefits | 313,730 | 0 | 313,730 |
| Payroll deductions and withholdings | 1,919 | 0 | 1,919 |
| Unearned revenues | <u>28,601</u> | <u>0</u> | <u>28,601</u> |
| Total liabilities | <u>705,858</u> | <u>30,844</u> | <u>736,702</u> |
| Deferred Inflows of Resources | | | |
| Delinquent taxes receivable | <u>212,203</u> | <u>0</u> | <u>212,203</u> |
| Total deferred inflows of resources | <u>212,203</u> | <u>0</u> | <u>212,203</u> |
| Fund Balance | | | |
| Nonspendable fund balance | 67,901 | 0 | 67,901 |
| Restricted fund balance | 5,741 | 2,465,342 | 2,471,083 |
| Assigned fund balance | 1,325,000 | 0 | 1,325,000 |
| Unassigned fund balance | <u>1,590,977</u> | <u>0</u> | <u>1,590,977</u> |
| Total fund balance | <u>2,989,619</u> | <u>2,465,342</u> | <u>5,454,961</u> |
| Total liabilities, deferred inflows of resources, and fund balance | <u>\$ 3,907,680</u> | <u>\$ 2,496,186</u> | <u>\$ 6,403,866</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, 2021**

Total fund balance – governmental funds \$ 5,454,961

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 \$13,882,641 and the accumulated depreciation is \$8,138,085.

5,744,556

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.

212,203

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 | (6,148) | |
| Compensated absences | (212,595) | |
| Accrued interest payable | (3,376) | |
| Bond discount, net of amortization | 13,716 | |
| Net OPEB liability | (1,333,000) | |
| Net pension liability | <u>(7,473,307)</u> | (15,014,710) |

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 | \$1,112,934 | |
| Deferred inflows related to pensions | (586,879) | |
| Deferred outflows related to OPEB | 136,230 | |
| Deferred inflows related to OPEB | <u>(229,000)</u> | <u>433,285</u> |

Net position of governmental activities \$ (3,169,705)

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, 2021

| | General Fund | Major Fund Capital Projects | Non-Major Fund Debt Service | Total Governmental Funds |
|---|---------------------|-----------------------------------|-----------------------------------|--------------------------------|
| Revenues | | | | |
| Local sources | \$ 1,481,484 | \$ (93,614) | \$ 0 | \$ 1,387,870 |
| State sources | 4,561,317 | 0 | 0 | 4,561,317 |
| Federal sources | <u>699,181</u> | <u>0</u> | <u>0</u> | <u>699,181</u> |
| Total revenues | <u>6,741,982</u> | <u>(93,614)</u> | <u>0</u> | <u>6,648,368</u> |
| Expenditures | | | | |
| Instruction | 3,481,040 | 0 | 0 | 3,481,040 |
| Support services | 2,034,323 | 1,029 | 149 | 2,035,501 |
| Non-instructional services | 110,556 | 0 | 0 | 110,556 |
| Debt service (principal and interest) | <u>6,300</u> | <u>305,280</u> | <u>0</u> | <u>311,580</u> |
| Total expenditures | <u>5,632,219</u> | <u>306,309</u> | <u>149</u> | <u>5,938,677</u> |
| Excess of revenues over (under) expenditures | <u>1,109,763</u> | <u>(399,923)</u> | <u>(149)</u> | <u>709,691</u> |
| Other financing sources (uses) | | | | |
| Interfund transfers | <u>(705,981)</u> | <u>705,981</u> | <u>0</u> | <u>0</u> |
| Total other financing sources (uses) | <u>(705,981)</u> | <u>705,981</u> | <u>0</u> | <u>0</u> |
| Net change in fund balance | 403,782 | 306,058 | (149) | 709,691 |
| Fund balance, beginning of year, restated | <u>2,585,837</u> | <u>2,159,284</u> | <u>149</u> | <u>4,745,270</u> |
| Fund balance, end of year | <u>\$ 2,989,619</u> | <u>\$ 2,465,342</u> | <u>\$ 0</u> | <u>\$ 5,454,961</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, 2021**

Total net change in fund balance – governmental funds \$ 709,691

**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 | \$ 23,881 | |
| Depreciation expense | <u>(400,968)</u> | (377,087) |

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred inflows of resources from tax revenues decreased by this amount this year. (11,844)

The Rental and Sinking Fund Subsidy revenue from the state is recorded as revenue in the government-wide statements in the year the bond 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. (183,058)

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

| | | |
|-------------------------|-----------------|-------|
| Note principal payments | <u>\$ 5,976</u> | 5,976 |
|-------------------------|-----------------|-------|

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. (24,663)

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 | \$ 45,230 | |
| OPEB expense | <u>(63,618)</u> | (18,388) |

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, 2021

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 | \$ 764,615 | |
| Pension expense | <u>(407,138)</u> | 357,477 |

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.

(2,655)

| | |
|--|--------------------------|
| Change in net position of governmental activities | <u>\$ 455,449</u> |
|--|--------------------------|

See accompanying notes to the basic financial statements.

Harmony Area School District
Statement of Net Position
Proprietary Fund
June 30, 2021

| | <u>Food Service</u> |
|---|--------------------------|
| Assets | |
| Current assets: | |
| Cash and cash equivalents | \$ 83,394 |
| Due from other funds | 4,619 |
| Due from other governments | 7,400 |
| Other receivables | 219 |
| Inventory | <u>21,464</u> |
| Total current assets | <u>117,096</u> |
| Noncurrent assets: | |
| Machinery and equipment, net | <u>15,688</u> |
| Total noncurrent assets | <u>15,688</u> |
| Total assets | <u>132,784</u> |
| Deferred Outflows of Resources | |
| Defined benefit pension plan | <u>62,249</u> |
| Total deferred outflows of resources | <u>62,249</u> |
| Total assets and deferred outflows of resources | <u><u>\$ 195,033</u></u> |
| Liabilities | |
| Current liabilities: | |
| Due to other funds | \$ 127,256 |
| Accrued salaries and benefits | 7,638 |
| Unearned revenues | <u>14,636</u> |
| Total current liabilities | <u>149,530</u> |
| Noncurrent liabilities: | |
| Long-term portion of compensated absences | 1,700 |
| Net pension liability | <u>207,693</u> |
| Total noncurrent liabilities | <u>209,393</u> |
| Total liabilities | <u>358,923</u> |
| Deferred Inflows of Resources | |
| Defined benefit pension plan | <u>15,440</u> |
| Total deferred inflows of resources | <u>15,440</u> |
| Net Position | |
| Invested in capital assets | 15,688 |
| Unrestricted | <u>(195,018)</u> |
| Total net position | <u>(179,330)</u> |
| Total liabilities, deferred inflows of resources and net position | <u><u>\$ 195,033</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, 2021

| | <u>Food Service</u> |
|---|----------------------------|
| Operating revenues | |
| Food service revenue | \$ 11,193 |
| Other operating revenue | <u>823</u> |
| Total operating revenues | <u>12,016</u> |
| Operating expenses | |
| Salaries | 61,899 |
| Employee benefits | 38,995 |
| Purchased property services | 6,771 |
| Supplies | 120,108 |
| Depreciation | 6,650 |
| Other operating expenses | <u>111</u> |
| Total operating expenses | <u>234,534</u> |
| Operating income (loss) | <u>(222,518)</u> |
| Nonoperating revenues (expenses) | |
| Earnings on investments | 40 |
| State sources | 18,808 |
| Federal sources | <u>224,687</u> |
| Total nonoperating revenues (expenses) | <u>243,535</u> |
| Change in net position | 21,017 |
| Total net position, beginning of year | <u>(200,347)</u> |
| Total net position, end of year | <u><u>\$ (179,330)</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, 2021

| | <u>Food Service</u> |
|---|----------------------------|
| Cash flows from operating activities | |
| Cash received from users | \$ 20,911 |
| Cash received from other operating revenue | 823 |
| Cash payments to employees for services | (82,393) |
| Cash payments to suppliers for goods and services | (114,919) |
| Cash payments for other operating expenses | <u>(111)</u> |
| Net cash provided by (used for) operating activities | <u>(175,689)</u> |
| Cash flows from non-capital financing activities | |
| State sources | 20,174 |
| Federal sources | <u>236,546</u> |
| Net cash provided by (used for) non-capital financing activities | <u>256,720</u> |
| Cash flows from investing activities | |
| Earnings on investments | <u>40</u> |
| Net cash provided by (used for) investing activities | <u>40</u> |
| Net increase (decrease) in cash and cash equivalents | 81,071 |
| Cash and cash equivalents, beginning of year | <u>2,323</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 83,394</u></u> |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | |
| Operating income (loss) | \$ <u>(222,518)</u> |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | |
| Depreciation | 6,650 |
| Donated commodities | 13,168 |
| (Increase) decrease in accounts receivable | 7,627 |
| (Increase) decrease in inventories | (53) |
| (Increase) decrease in deferred outflows of resources | (6,357) |
| Increase (decrease) in accounts payable | 25,819 |
| Increase (decrease) in accrued salaries/benefits | 716 |
| Increase (decrease) in unearned revenues | 936 |
| Increase (decrease) in net pension liability | 7,814 |
| Increase (decrease) in deferred inflows of resources | <u>(9,491)</u> |
| Total adjustments | <u>46,829</u> |
| Net cash provided by (used for) operating activities | <u><u>\$ (175,689)</u></u> |

See accompanying notes to the basic financial statements.

**Harmony Area School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2021**

| | <u>Custodial Fund</u> |
|--|-----------------------|
| Assets | |
| Cash and cash equivalents | \$ 26,801 |
| Total assets | 26,801 |
| Deferred Outflows of Resources | <u>0</u> |
| Total assets and deferred outflows of resources | <u>\$ 26,801</u> |
| Liabilities | <u>\$ 0</u> |
| Total liabilities | <u>0</u> |
| Deferred Inflows of Resources | <u>0</u> |
| Net Position | |
| Restricted for student organizations | <u>26,801</u> |
| Total net position | <u>26,801</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 26,801</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, 2021

| | <u>Custodial Fund</u> |
|---|-------------------------|
| Additions: | |
| Fundraising | \$ 81,743 |
| Interest income | <u>4</u> |
| Total additions | <u>81,747</u> |
| Deductions: | |
| Events and supplies | <u>85,548</u> |
| Total deductions | <u>85,548</u> |
| Change in net position | (3,801) |
| Net position, beginning of year, restated | <u>30,602</u> |
| Net position, end of year | <u><u>\$ 26,801</u></u> |

See accompanying notes to the basic financial statements.

Harmony Area School District
Notes to Financial Statements
June 30, 2021

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

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

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

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

Harmony Area School District
Notes to Financial Statements
June 30, 2021

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 custodial 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 has no trust funds. The custodial funds are used to report fiduciary activities that are not required to be reported as another fiduciary fund type. The School District's custodial 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
Notes to Financial Statements
June 30, 2021

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, 2021

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 2021.

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
Notes to Financial Statements
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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, 2021 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, 2021.

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2021. 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, 2021 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
June 30, 2021

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, contributors, 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.

Harmony Area School District
Notes to Financial Statements
June 30, 2021

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

As of June 30, 2021, fund balance components, other than unassigned, consist of the following:

| | Nonspendable | Restricted | Assigned |
|--------------------------|------------------|---------------------|---------------------|
| General fund: | | | |
| Inventory | \$ 14,353 | \$ 0 | \$ 0 |
| Prepaid expenses | 53,548 | 0 | 0 |
| Scholarships | 0 | 5,741 | 0 |
| Future capital projects | 0 | 0 | 300,000 |
| Future retirement costs | 0 | 0 | 530,250 |
| Future health care costs | 0 | 0 | 494,750 |
| Capital projects fund | 0 | 2,465,342 | 0 |
| Total | <u>\$ 67,901</u> | <u>\$ 2,471,083</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, 2021**

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 (\$212,203).

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 \$2,471,083 of restricted net position, of which \$2,465,342 is restricted by enabling legislation for Capital Projects, and \$5,741 restricted by donors for scholarships.

Harmony Area School District
Notes to Financial Statements
June 30, 2021

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.

Harmony Area School District
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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, 2021, \$3,275,202 of the District's bank balance of \$3,525,202 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>3,275,202</u> |
| Total | <u>\$ 3,275,202</u> |

**Harmony Area School District
Notes to Financial Statements
June 30, 2021**

Reconciliation to Financial Statements

| | |
|-------------------------------------|----------------------------|
| Uninsured amount above | \$ 3,275,202 |
| Add: Insured amount | 250,000 |
| Less: Outstanding checks | <u>(141,616)</u> |
| Carrying amount - bank balance | 3,383,586 |
| Add: Petty cash | 350 |
| Pooled cash equivalents | 61,887 |
| Money markets | <u>513</u> |
| Total cash per financial statements | <u><u>\$ 3,446,336</u></u> |

Investments

As of June 30, 2021, 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 | \$ 61,887 |
| United States Treasury (Level 1) | 30 years | 1,777,332 |
| Money Market Funds | <1 year | <u>513</u> |
| Total | | <u><u>\$ 1,839,732</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, 2021 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 | AAA |

**Harmony Area School District
Notes to Financial Statements
June 30, 2021**

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 | \$ 1,839,732 |
| Less: Deposits in investment pools and money market funds considered cash equivalent | <u>(62,400)</u> |
| Total investments per financial statements | <u>\$ 1,777,332</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 2021 was 81.34 mills for Clearfield County and 7.51 mills for Indiana County, as levied by the Board. Assessed valuations of property (\$21,590,155) 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, 2021 is \$267,986. 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.

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Notes to Financial Statements
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Uncollected taxes for the year ended June 30, 2021:

| | |
|--|--------------------------|
| Delinquent Real Estate | \$ 40,954 |
| Earned Income Taxes | 13,216 |
| Real Estate Transfer Taxes | <u>1,613</u> |
| Uncollected Taxes Recognized as Revenue (received within 60 days) | 55,783 |
| Real Estate Tax Deferred Inflow of Resources | <u>212,203</u> |
| Total Taxes Receivable | <u><u>\$ 267,986</u></u> |

6. Unearned Revenues

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Unearned revenues of \$28,601 in the governmental funds at June 30, 2021 represent grant monies received but not yet expended. Unearned revenues of \$14,636 in the proprietary fund at June 30, 2021 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, 2021, the following amounts are due from other governmental units:

| Due From | General Fund | Proprietary Fund |
|-------------|--------------------------|------------------------|
| Federal | \$ 435,543 | \$ 7,400 |
| State | 308,774 | 0 |
| Local | <u>52,089</u> | <u>0</u> |
| | <u><u>\$ 796,406</u></u> | <u><u>\$ 7,400</u></u> |

Harmony Area School District
Notes to Financial Statements
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8. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2021, 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 | 3,450 | 0 | 12,061,289 |
| Infrastructure | 217,927 | 0 | 0 | 217,927 |
| Furniture and equipment | 1,577,994 | 20,431 | 0 | 1,598,425 |
| Total capital assets, being depreciated | <u>13,853,760</u> | <u>23,881</u> | <u>0</u> | <u>13,877,641</u> |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | 6,397,437 | 345,714 | 0 | 6,743,151 |
| Infrastructure | 23,972 | 4,359 | 0 | 28,331 |
| Furniture and equipment | 1,315,708 | 50,895 | 0 | 1,366,603 |
| Total accumulated depreciation | <u>7,737,117</u> | <u>400,968</u> | <u>0</u> | <u>8,138,085</u> |
| Total capital assets, being depreciated, net | <u>6,116,643</u> | <u>(377,087)</u> | <u>0</u> | <u>5,739,556</u> |
| Governmental activities capital assets, net | <u>\$ 6,121,643</u> | <u>\$ (377,087)</u> | <u>\$ 0</u> | <u>\$ 5,744,556</u> |
| Business-Type Activities | | | | |
| Capital assets, being depreciated: | | | | |
| Equipment | \$ 278,892 | \$ 0 | \$ 0 | \$ 278,892 |
| Total capital assets, being depreciated | <u>278,892</u> | <u>0</u> | <u>0</u> | <u>278,892</u> |
| Less accumulated depreciation: | | | | |
| Equipment | 256,554 | 6,650 | 0 | 263,204 |
| Total accumulated depreciation | <u>256,554</u> | <u>6,650</u> | <u>0</u> | <u>263,204</u> |
| Business-type activities capital assets, net | <u>\$ 22,338</u> | <u>\$ (6,650)</u> | <u>\$ 0</u> | <u>\$ 15,688</u> |

**Harmony Area School District
Notes to Financial Statements
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

| | |
|--|-------------------|
| Instruction | \$ 248,473 |
| Instruction support | 26,971 |
| Administration and finance | 70,620 |
| Operation and maintenance of plant | 16,893 |
| Pupil transportation | 29,629 |
| Student activities | 8,382 |
| Total depreciation expense - governmental activities | <u>\$ 400,968</u> |

9. Defined Benefit Pension Plan

Plan Description

The District contributes to a governmental cost-sharing multiple-employer defined benefit pension plan administered by Pennsylvania Public School Employee's Retirement System (PSERS). Benefit provisions of the plan are established under the provisions of the Pennsylvania Public School Employees' Retirement Code (the Code) and may be amended by an act of the Pennsylvania State Legislature. The plan provides retirement and disability, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying plan members and beneficiaries. It also provides for refunds of a member's accumulated contribution upon termination of a member's employment in the public school sector. The members eligible to participate in the plan include all full-time employees, part-time hourly employees who render at least 500 hours of service in the school year, and part-time per diem employees who render at least 80 days of service in the school year. PSERS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained at www.psers.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

**Harmony Area School District
Notes to Financial Statements
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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.

Act 5 of 2017 (Act 5) introduced a hybrid benefit plan with two membership classes and a separate defined contribution plan for individuals who become new members on or after July 1, 2019. Act 5 created two new hybrid membership classes, Membership Class T-G (Class T-G) and Membership Class T-H (Class T-H) and the separate defined contribution membership class, Membership Class DC (Class DC).

Class T-G and Class T-H members who qualify for a defined benefit normal retirement benefit must work until age 67 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 97 with a minimum 35 years of service.

Defined benefits for T-G and T-H are 1.25% or 1.00%, 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. A members' right to a defined benefit is vested in 10 years.

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

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

Contributions

Member Contributions:

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

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

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

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

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Members who joined PSERS after June 30, 2019 are defaulted into Membership Class T-G rate of 8.25% (base rate) of the member's qualifying compensation. Members may elect Class T-H which has a rate of 7.50%. Each of these classes are a hybrid of defined benefit and defined contribution plans. Members may also elect Class DC, which is a defined contribution plan with a rate of 7.50%.

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, 2021, the rate of the employer's contribution was 34.51 percent of covered payroll. The 34.51 percent rate is composed of a pension contribution rate of 33.51 percent for pension defined benefits, 0.18 percent for the Act 5 defined contribution plan, and 0.82 percent for healthcare insurance premium assistance. Harmony Area School District's contributions to PSERS for the year ending June 30, 2021 were \$809,316, which includes the District's contributions to the defined contribution plan of \$4,222.

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

At June 30, 2021, the District reported a liability of \$7,681,000 for its proportionate share of the net pension liability, with \$7,473,307 reflected in the governmental activities and \$207,693 in the business-type activities. The net pension liability was measured as of June 30, 2020, 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, 2019 to June 30, 2020. 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, 2020, the District's proportion was 0.0156%, which was a decrease of 0.0002% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the District recognized pension expense of \$420,353, with \$407,138 in governmental activities and \$13,215 in business-type activities. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Harmony Area School District
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| | District-wide Deferred Outflows of Resources | District-wide Deferred Inflows of Resources |
|--|--|---|
| Difference between projected and actual experience | \$ 20,000 | \$ 184,000 |
| Changes in assumptions | 0 | 0 |
| Net difference between projected and actual investment earnings | 338,000 | 0 |
| Changes in proportions | 31,319 | 418,319 |
| Difference between employer contributions and proportionate share of total contributions | 0 | 0 |
| Contributions subsequent to the measurement date | 785,864 | 0 |
| | <u>\$ 1,175,183</u> | <u>\$ 602,319</u> |

\$785,864, 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, 2022. 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 |
|------------------------|---------------------|
| 2022 | \$ (309,000) |
| 2023 | (81,000) |
| 2024 | 76,000 |
| 2025 | 101,000 |
| 2026 | 0 |
| | <u>\$ (213,000)</u> |

Deferred outflows of resources are reflected on the Statement of Net Position for both the governmental activities (\$1,112,934) and the business-type activities (\$62,249). Deferred inflows of resources are also reflected on the Statement of Net Position for both the governmental activities (\$586,879) and the business-type activities (\$15,440).

Actuarial Assumptions

The total pension liability as of June 30, 2020 was determined by rolling forward the PSERS' total pension liability as of the June 30, 2019 actuarial valuation to June 30, 2020 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, 2020 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015.

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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 | 15.0% | 5.2% |
| Private equity | 15.0% | 7.2% |
| Fixed income | 36.0% | 1.1% |
| Commodities | 8.0% | 1.8% |
| Absolute return | 10.0% | 2.5% |
| Risk parity | 8.0% | 3.3% |
| Infrastructure/MLPs | 6.0% | 5.7% |
| Real estate | 10.0% | 5.5% |
| Cash | 6.0% | -1.0% |
| Financing (LIBOR) | -14.0% | -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, 2020.

Discount Rate

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

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

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

| | <u>1% Decrease 6.25%</u> | <u>Current Discount Rate 7.25%</u> | <u>1% Increase 8.25%</u> |
|---|------------------------------|--|------------------------------|
| District's proportionate share of the net pension liability | \$ 9,503,000 | \$ 7,681,000 | \$ 6,138,000 |

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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, 2020, there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria

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

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

Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2020, 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, 2021 was 0.82% 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 \$19,230 for the year ended June 30, 2021.

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

At June 30, 2021 the District reported a liability of \$337,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, 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, 2019 to June 30, 2020. 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

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June 30, 2020, the District's proportion was 0.0156%, which was a decrease of 0.0002% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the District recognized OPEB expense of \$8,618. At June 30, 2021, 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 | \$ 3,000 | \$ 0 |
| Changes in assumptions | 14,000 | 7,000 |
| Net difference between projected and actual investment earnings | 1,000 | 0 |
| Changes in proportions | 0 | 30,000 |
| Difference between employer contributions and proportionate share of total contributions | 0 | 0 |
| Contributions subsequent to the measurement date | 19,230 | 0 |
| | <u>\$ 37,230</u> | <u>\$ 37,000</u> |

\$19,230 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year Ended June 30, | |
|------------------------|--------------------|
| 2022 | \$ (7,000) |
| 2023 | (7,000) |
| 2024 | (5,000) |
| 2025 | 0 |
| 2026 | 0 |
| | <u>\$ (19,000)</u> |

Actuarial Assumptions

The Total OPEB Liability as of June 30, 2020 was determined by rolling forward the PSERS' Total OPEB Liability as of June 30, 2019 to June 30, 2020 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay.
- Investment return – 2.66% - S&P 20-Year Municipal Bond Rate.
- Salary growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables of Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

The actuarial assumptions used in the June 30, 2020 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, 2018 determined the employer contribution rate for fiscal year 2020.
- 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 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.

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 | 50.3% | -1.00% |
| US Core Fixed Income | 46.5% | -0.10% |
| Non-US Developed Fixed | <u>3.2%</u> | -0.10% |
| | <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, 2020.

**Harmony Area School District
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Discount Rate

The discount rate used to measure the Total OPEB liability was 2.66%. 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 2.66% which represents the S&P 20-year Municipal Bond Rate at June 30, 2020, 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 2.66%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.66%) or 1 percentage point higher (3.66%) than the current rate:

| | 1% Decrease 1.66% | Current Discount Rate 2.66% | 1% Increase 3.66% |
|---|----------------------|--------------------------------------|----------------------|
| District's proportionate share of the net OPEB liability | \$ 384,000 | \$ 337,000 | \$ 298,000 |

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

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2020, 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, 2020, 93,693 retirees from the PSERS system were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2020, 688 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, 2020, 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:

| | 1% Decrease | Current Trend Rate | 1% Increase |
|---|-------------|--------------------------|-------------|
| District's proportionate share of the net OPEB liability | \$ 337,000 | \$ 337,000 | \$ 337,000 |

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OPEB Plan Fiduciary Net Position

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

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

Plan Description

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

Eligibility

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

Duration of Healthcare Benefits

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

Participant Contributions for Healthcare Coverage

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

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The number of participants as of July 1, 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 | <u>57</u> |

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 \$996,000 was measured as of June 30, 2020, and was rolled forward using actuarial assumptions to the valuation date of June 30, 2021.

Actuarial Assumptions and Other Inputs

- Discount Rate – 2.16% as of June 30, 2021.
- Healthcare Cost Trend Rates – 6.40% for 2022, 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, 2021.
- 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.

Changes in the District's net OPEB liability for the plan for the fiscal year ended June 30, 2021 was as follows:

| | |
|--------------------------|-------------------|
| Balance at July 1, 2020 | \$ 942,000 |
| Service cost | 54,000 |
| Interest | 21,000 |
| Gains and losses | 0 |
| Changes in assumptions | 5,000 |
| Benefit payments | <u>(26,000)</u> |
| Net changes | <u>54,000</u> |
| Balance at June 30, 2021 | <u>\$ 996,000</u> |

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 2.16%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.16%) or 1 percentage point higher (3.16%) than the current discount rate.

**Harmony Area School District
Notes to Financial Statements
June 30, 2021**

| | <u>1% Decrease</u> 1.16% | <u>Current Rate</u> 2.16% | <u>1% Increase</u> 3.16% |
|-------------------------------|-----------------------------|----------------------------------|-----------------------------|
| District's net OPEB liability | \$ 1,070,000 | \$ 996,000 | \$ 922,000 |

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

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

| | <u>1% Decrease</u> | <u>Current Rate</u> | <u>1% Increase</u> |
|-------------------------------|--------------------|-------------------------|--------------------|
| District's net OPEB liability | \$ 880,000 | \$ 996,000 | \$ 1,133,000 |

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

For the year ended June 30, 2021, the District recognized an OPEB expense of \$55,000. At June 30, 2021, the District reported deferred outflows and inflows related to OPEB from the following sources:

| | <u>Deferred Outflows Of Resources</u> | <u>Deferred Inflows Of Resources</u> |
|---|---|--|
| Difference between expected and actual experience | \$ 82,000 | \$ 0 |
| Changes in assumptions | 17,000 | 192,000 |
| | <u>\$ 99,000</u> | <u>\$ 192,000</u> |

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

| <u>Year Ended June 30,</u> | |
|--------------------------------|--------------------|
| 2022 | \$ (20,000) |
| 2023 | (20,000) |
| 2024 | (20,000) |
| 2025 | (21,000) |
| 2026 | (12,000) |
| Thereafter | 0 |
| | <u>\$ (93,000)</u> |

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

Harmony Area School District
Notes to Financial Statements
June 30, 2021

13. Long-Term Obligations

During the fiscal year ended June 30, 2021, 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 | \$ 6,000,000 | \$ 188,571 | \$ 12,124 | \$ 6,200,695 |
| Principal retirement | 0 | 0 | (5,976) | (5,976) |
| Changes in compensated absences | 0 | 25,724 | 0 | 25,724 |
| End of year | 6,000,000 | 214,295 | 6,148 | 6,220,443 |
| Unamortized original issue discount | (13,716) | 0 | 0 | (13,716) |
| | 5,986,284 | 214,295 | 6,148 | 6,206,727 |
| Less: current portion | 0 | (53,100) | (6,148) | (59,248) |
| Long-term liabilities | <u>\$ 5,986,284</u> | <u>\$ 161,195</u> | <u>\$ 0</u> | <u>\$ 6,147,479</u> |

The future annual payments required to amortize outstanding bonds and notes payable as of June 30, 2021, including total interest payments are as follows:

| Year Ended June 30, | General Obligation Bonds and Notes | | | |
|------------------------|------------------------------------|---------------------|-----------------------------|---------------------|
| | Interest | Principal | Federal Interest Subsidy | Total |
| 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 | 305,280 | 0 | (292,153) | 13,127 |
| 2027-2030 | 1,068,480 | 6,000,000 | (1,022,535) | 6,045,945 |
| | <u>\$ 2,595,044</u> | <u>\$ 6,006,148</u> | <u>\$ (2,483,300)</u> | <u>\$ 6,117,892</u> |

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.

Harmony Area School District
Notes to Financial Statements
June 30, 2021

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, 2021 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, 2021 is \$1,777,845, which is reflected in the Capital Projects Fund.

2017 Chevy Traverse Loan

The District entered into a financing agreement with First National Bank of Pennsylvania on March 24, 2017 for the purchase of a Chevy Traverse in the amount of \$29,309. The terms for repayment are annual payments of \$6,300 including interest at a rate of 2.59% per annum for a 58 month term, maturing January 15, 2022. The outstanding balance at June 30, 2021 was \$6,148.

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, 2021. Faculty, administration, and support staff are compensated at the per diem rate of \$100, \$90 and \$50, respectively, for unused sick days. The School District has computed a liability of \$214,295 at June 30, 2021 with \$212,595 reflected in the governmental activities fund and \$1,700 reflected in the proprietary fund for unused sick days. The District has estimated \$53,100 as current and \$161,195 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.

Harmony Area School District
Notes to Financial Statements
June 30, 2021

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, 2021 was \$39,317.

14. Operating Leases

The School District entered into noncancellable operating leases for copiers and printers. Rental expenditures under all operating lease agreements were \$21,082 for fiscal year 2021. Future minimum rental payments required under operating leases that have remaining lease terms as of June 30 are as follows:

| Year Ended June 30, | Payment |
|------------------------|-----------|
| 2022 | \$ 20,976 |
| 2023 | 20,976 |
| 2024 | 20,976 |
| 2025 | 20,976 |
| 2026 | 13,984 |

15. Interfund Transactions

The following is a summary of interfund receivables and payables at June 30, 2021:

| | Receivables | Payables |
|--|-------------------|-------------------|
| General Fund (Major Fund) | \$ 127,256 | \$ 4,619 |
| Proprietary Fund - Food Service (Major Fund) | 4,619 | 127,256 |
| | <u>\$ 131,875</u> | <u>\$ 131,875</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.

**Harmony Area School District
Notes to Financial Statements
June 30, 2021**

Interfund transfers during the year ended June 30, 2021 consisted of the following:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|------------------------------------|---------------------|----------------------|
| Capital Projects Fund (Major Fund) | \$ 705,981 | \$ 0 |
| General Fund (Major Fund) | <u>0</u> | <u>705,981</u> |
| | <u>\$ 705,981</u> | <u>\$ 705,981</u> |

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

16. Contingent Liabilities

Grant Programs

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

17. Self-Insurance - Medical Insurance

The School District is participating in the insurance consortium with the HDH Group Health Consortium to provide for the medical care for eligible employees and their dependents. The consortium, which administers the plan, monitors the School's deposit into the school district trust account to be held for the benefits described above and Highmark Services, the plan administrator, processes and pays the claims. The consortium limits its liability by stop-loss insurance coverage. Harmony Area School District's liability at June 30, 2021, for unpaid claims incurred prior to fiscal year end is not readily determinable. No liability has been recorded for these claims at June 30, 2021, 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, 2021 and the two previous fiscal years, no settlements exceeded insurance coverage.

Harmony Area School District
Notes to Financial Statements
June 30, 2021

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, 2021 for CIU programs amounted to \$201,848. At June 30, 2021, the District had a balance due to CIU of \$30,746 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 2020-21 was \$148,763.

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, 2021, the District had a balance due to the APVTS of \$3,933. (See Note 13 for additional information on Lease Rental Debt for the APVTS.)

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:

Harmony Area School District
Notes to Financial Statements
June 30, 2021

| Year Ended June 30, | Payment |
|------------------------|------------------|
| 2022 | \$ 3,125 |
| 2023 | 3,125 |
| 2024 | 3,125 |
| 2025 | 3,125 |
| 2026 | 3,125 |
| 2027-2031 | 15,625 |
| 2032-2034 | 9,375 |
| Total | <u>\$ 40,625</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 66% of its revenue from the State of Pennsylvania in the form of state subsidies. Changes in funding levels by the State could have a material effect on future operations of the District.

21. Nonmonetary Transactions

The District receives one of its federal program subsidies by means of noncash transfer. The U.S. Department of Agriculture, through the Pennsylvania Department of Agriculture, provides food commodities under the National School Lunch Program. These nonmonetary commodity items are valued at market values and recorded as revenue as utilized. The total food commodities donated by the federal government for the fiscal year 2021 totaled \$14,104.

22. Risks and Uncertainties

COVID-19

The COVID-19 pandemic, whose effects first became known in January 2020, continues to disrupt school district operations, impacting the District's students, employees, and vendors. Harmony Area School District continues to closely monitor its new sources of government funding and corresponding expenditures that have arisen in response to the pandemic. The extent of the impact of COVID-19 on the District's operational and financial performance will depend on certain developments, including future legislation and funding, as well the duration and spread of the outbreak, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact the District's financial position and changes in financial position and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

Harmony Area School District
Notes to Financial Statements
June 30, 2021

23. Change in Accounting Principle and Restatement of Net Position and Fund Balance

For the year ended June 30, 2021, the District has implemented GASB Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes. This statement establishes criteria for identifying fiduciary activities of all state and local governments based primarily on 1) whether a government is controlling the assets of the fiduciary activity, and 2) the beneficiaries with whom a fiduciary relationship exists. The statement further provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. This change in accounting principle resulted in prior period restatements as discussed below.

Student Activities Funds

In accordance with GASB Statement 84, the District's student activities funds, previously reported as an agency fund, now meet the definition of a custodial fund. As this new guidance changes the recognition of liabilities in fiduciary funds, the District restated the net position of the custodial student activities fund effective July 1, 2020 resulting in an increase in net position of \$30,602.

Scholarship Funds

Based on the criteria established by GASB Statement No. 84, the District's scholarship funds, previously reported as private purpose trust funds, no longer meet the criteria of fiduciary activities. The activity of the scholarship funds is now reported in the general fund. Accordingly, the net position of the governmental activities, as well as the fund balance of the general fund, was restated effective July 1, 2020 resulting in an increase of \$4,992. A corresponding decrease was recognized in the net position of the fiduciary private purpose fund.

Harmony Area School District
Required Supplementary Information – Pension Schedules
June 30, 2021

Schedule of Proportionate Share of the Net Pension Liability

| | <u>2021</u> | <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 | 0.0156% | 0.0158% | 0.0164% | 0.0168% | 0.0182% | 0.0193% | 0.0200% | 0.0206% |
| District's proportionate share of net pension liability | \$ 7,681,000 | \$ 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 * | \$ 2,192,669 | \$ 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 | 350.30% | 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 | 54.32% | 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, 2020 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, 2021

Schedule of District Contributions

| | <u>2021</u> | <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> |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Contractually required contributions | \$ 785,864 | \$ 729,353 | \$ 707,853 | \$ 710,003 | \$ 640,333 | \$ 574,838 | \$ 494,377 | \$ 360,698 | \$ 289,420 | \$ 195,828 |
| Contributions in relation to the contractually required contributions | <u>(785,864)</u> | <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> |
| 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 | \$ 2,269,973 | \$ 2,192,669 | \$ 2,180,809 | \$ 2,212,320 | \$ 2,234,180 | \$ 2,353,613 | \$ 2,483,173 | \$ 2,553,156 | \$ 2,642,725 | N/A |
| Contributions as a percentage of covered-employee payroll | 34.62% | 33.26% | 32.46% | 32.09% | 28.66% | 24.42% | 19.91% | 14.13% | 10.95% | 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, 2021

Schedule of Proportionate Share of the Net OPEB Liability

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|---|--------------|--------------|--------------|--------------|--------------|
| District's proportion of net OPEB liability | 0.0156% | 0.0158% | 0.0164% | 0.0168% | 0.0182% |
| District's proportionate share of net OPEB liability | \$ 337,000 | \$ 336,000 | \$ 342,000 | \$ 342,000 | \$ 392,000 |
| District's covered-employee payroll* | \$ 2,192,669 | \$ 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 | 15.37% | 15.41% | 15.46% | 15.31% | 16.66% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 5.69% | 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, 2020 and prior).

Schedule of District Contributions

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Contractually required contributions | \$ 19,230 | \$ 18,618 | \$ 18,022 | \$ 18,567 | \$ 18,201 |
| Contributions in relation to the contractually required contributions | <u>(19,230)</u> | <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> | <u>\$ 0</u> |
| Covered-employee payroll | \$ 2,269,973 | \$ 2,192,669 | \$ 2,180,809 | \$ 2,212,320 | \$ 2,234,180 |
| Contributions as a percentage of covered-employee payroll | 0.85% | 0.85% | 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, 2021

Schedule of Changes in District's OPEB liability:

| | 2021 | 2020 | 2019 | 2018 |
|--|-------------------|-------------------|---------------------|-------------------|
| Service cost | \$ 54,000 | \$ 53,000 | \$ 51,000 | \$ 54,000 |
| Interest | 21,000 | 35,000 | 37,000 | 33,000 |
| Gains and losses | 0 | 114,000 | 0 | 0 |
| Changes of assumptions | 5,000 | (251,000) | 19,000 | (25,000) |
| Benefit payments | (26,000) | (41,000) | (41,000) | (46,000) |
| Net change in total OPEB liability | 54,000 | (90,000) | 66,000 | 16,000 |
| Total OPEB liability - beginning | 942,000 | 1,032,000 | 966,000 | 950,000 |
| Total OPEB liability - ending | <u>\$ 996,000</u> | <u>\$ 942,000</u> | <u>\$ 1,032,000</u> | <u>\$ 966,000</u> |
| Covered payroll | \$ 2,125,019 | \$ 2,183,665 | \$ 1,846,856 | \$ 2,175,601 |
| District net OPEB liability as a percentage of its covered-employee payroll | 46.87% | 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, 2021

| | Budgeted Original | Amounts Final | Actual (Budgetary Basis) | Variance with Final Budget Favorable (Unfavorable) |
|---|---------------------|---------------------|--------------------------|--|
| Revenues | | | | |
| Local sources | \$ 1,451,155 | \$ 1,451,155 | \$ 1,481,484 | \$ 30,329 |
| State sources | 4,310,295 | 4,310,295 | 4,561,317 | 251,022 |
| Federal sources | 466,716 | 466,716 | 699,181 | 232,465 |
| Total revenues | <u>6,228,166</u> | <u>6,228,166</u> | <u>6,741,982</u> | <u>513,816</u> |
| Expenditures | | | | |
| Instruction: | | | | |
| Regular programs | 2,359,368 | 2,359,368 | 2,410,819 | (51,451) |
| Special programs | 723,700 | 723,700 | 708,489 | 15,211 |
| Vocational education programs | 150,000 | 150,000 | 148,763 | 1,237 |
| Other instructional programs | 43,079 | 43,079 | 47,992 | (4,913) |
| Nonpublic school programs | 0 | 0 | 821 | (821) |
| Pre-kindergarten | 140,000 | 140,000 | 164,156 | (24,156) |
| Support services: | | | | |
| Pupil personnel | 213,374 | 213,374 | 154,569 | 58,805 |
| Instructional staff | 137,890 | 137,890 | 113,695 | 24,195 |
| Administration | 615,418 | 615,418 | 559,402 | 56,016 |
| Pupil health | 109,839 | 109,839 | 97,719 | 12,120 |
| Business | 203,966 | 203,966 | 169,789 | 34,177 |
| Operation and maintenance of plant | 451,514 | 451,514 | 461,330 | (9,816) |
| Student transportation | 403,709 | 403,709 | 390,814 | 12,895 |
| Central | 73,317 | 73,317 | 87,005 | (13,688) |
| Operation of noninstructional services: | | | | |
| Student activities | 140,852 | 140,852 | 110,306 | 30,546 |
| Community | 0 | 0 | 250 | (250) |
| Debt service: | | | | |
| Principal and interest | 6,300 | 6,300 | 6,300 | 0 |
| Total expenditures | <u>5,772,326</u> | <u>5,772,326</u> | <u>5,632,219</u> | <u>140,107</u> |
| Excess (deficiency) of revenues over expenditures | <u>455,840</u> | <u>455,840</u> | <u>1,109,763</u> | <u>653,923</u> |
| Other financing sources (uses) | | | | |
| Interfund transfers | (661,182) | (661,182) | (705,981) | (44,799) |
| Budgetary reserve | (20,000) | (20,000) | 0 | 20,000 |
| Total other financing sources (uses) | <u>(681,182)</u> | <u>(681,182)</u> | <u>(705,981)</u> | <u>(24,799)</u> |
| Net change in fund balance | (225,342) | (225,342) | 403,782 | 629,124 |
| Fund balance, beginning of year, restated | <u>2,109,603</u> | <u>2,109,603</u> | <u>2,585,837</u> | <u>476,234</u> |
| Fund balance, end of year | <u>\$ 1,884,261</u> | <u>\$ 1,884,261</u> | <u>\$ 2,989,619</u> | <u>\$ 1,105,358</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, 2021 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 17, 2022.

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) as a basis for designing 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item #2021-001, to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harmony Area School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Harmony Area School District's Response to the Finding

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

Purpose of this Report

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

Kotzan CPA and Associates, P.C.

Kotzan CPA & Associates, P.C.
Johnstown, Pennsylvania
January 17, 2022

**Harmony Area School District
Schedule of Findings and Responses
Year Ended June 30, 2021**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *unmodified*

Internal control over financial reporting:

| | | |
|---|-----------------------|---------------------------------|
| Material weakness(es) identified? | <u> </u> Yes | <u> X </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 #2021-001

CONDITION:

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

CRITERIA:

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

CAUSE:

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

EFFECT:

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

RECOMMENDATION:

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

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.