

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

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

**For the Year Ended
June 30, 2015**

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List of Report Distribution

December 10, 2015

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

Board Members:

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

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

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

In addition, 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, 2015, 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, 2015, 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.

Change in Accounting Principle

As discussed in Note 3 to the financial statements, in fiscal year 2015, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. 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 information, and budgetary comparison information on pages 5 through 11, page 51 and page 52, 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.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2015, on our consideration of Harmony Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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
December 10, 2015

Management's Discussion and Analysis

Harmony Area School District

2014-2015

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

Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

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

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

Governmental Funds

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

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

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the District's major funds, which are the General Fund and the Capital Projects Fund. The District's non-major funds are aggregated and reported in a separate column. The District's non-major fund includes 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 \$6,301,456 and expenditures of \$5,716,701, resulting in an excess of revenues over expenditures of \$584,755, before transfers and proceeds from the sale of fixed assets, for the year ended June 30, 2015. The transfers out totaled \$508,217, of which \$283,150 was to the Capital Projects Fund for bond interest payments and \$225,067 was to the Debt Service Fund to cover bond payments. After the transfers out and the proceeds from the sale of fixed assets (\$5,015), the general fund "final" excess of revenues over expenditures was \$81,553 for the year ended June 30, 2015. Harmony Area School District's general fund maintains a fund balance of \$1,227,196 at June 30, 2015. In addition to the general fund, the fund balance of the capital projects fund is \$1,106,888, and the fund balance of the debt service fund is \$11,849 at June 30, 2015. These amounts are reflected on the fund financial statements (modified accrual basis).

With limited funding and a low tax base, the School District continues to struggle with high cost of alternative education, special education, cyber/charter school and retirement costs. Enrollment continues to drop. Further projected increases in the Public School Employees Retirement System (PSERS) employer contribution will continue to cause an additional drain on the financial resources of all schools in Pennsylvania. Also, declining student enrollment will have an impact on the School District in the future years.

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

Table 1 summarizes the assets and deferred outflows of resources, the liabilities and deferred inflows of resources, and net position of the District at June 30, 2015 as compared to June 30, 2014.

Table 1
Condensed Schedule of Net Position

| | Governmental Activities | | Business-type Activities | | Total School District | | Change |
|---------------------------------------------------------|--------------------------------|----------------------|---------------------------------|------------------|------------------------------|----------------------|-------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2014-15 |
| Assets | | | | | | | |
| Current assets | \$ 3,114,702 | \$ 4,290,006 | \$ 23,122 | \$ 61,460 | \$ 3,137,824 | \$ 4,351,466 | \$ (1,213,642) |
| Non-current assets | 8,020,287 | 7,161,605 | 51,642 | 31,777 | 8,071,929 | 7,193,382 | 878,547 |
| Total assets | 11,134,989 | 11,451,611 | 74,764 | 93,237 | 11,209,753 | 11,544,848 | (335,095) |
| Deferred outflows of resources | 487,145 | 0 | 10,996 | 0 | 498,141 | 0 | 498,141 |
| Total assets and deferred outflows | <u>\$ 11,622,134</u> | <u>\$ 11,451,611</u> | <u>\$ 85,760</u> | <u>\$ 93,237</u> | <u>\$ 11,707,894</u> | <u>\$ 11,544,848</u> | <u>\$ 163,046</u> |
| Liabilities | | | | | | | |
| Current liabilities | \$ 784,250 | \$ 905,242 | \$ 107,289 | \$ 136,085 | \$ 891,539 | \$ 1,041,327 | \$ (149,788) |
| Long-term liabilities | 14,889,923 | 15,116,147 | 177,062 | 179,410 | 15,066,985 | 15,295,557 | (228,572) |
| Total liabilities | 15,674,173 | 16,021,389 | 284,351 | 315,495 | 15,958,524 | 16,336,884 | (378,360) |
| Deferred inflows of resources | 747,135 | 0 | 16,865 | 0 | 764,000 | 0 | 764,000 |
| Net Position | | | | | | | |
| Invested in capital assets, net of related debt | 1,029,516 | 1,111,387 | 51,642 | 31,777 | 1,081,158 | 1,143,164 | (62,006) |
| Restricted | 1,118,737 | 1,120,991 | 0 | 0 | 1,118,737 | 1,120,991 | (2,254) |
| Unrestricted | (6,947,427) | (6,802,156) | (267,098) | (254,035) | (7,214,525) | (7,056,191) | (158,334) |
| Total net position | (4,799,174) | (4,569,778) | (215,456) | (222,258) | (5,014,630) | (4,792,036) | (222,594) |
| Total liabilities, deferred inflows and net position | <u>\$ 11,622,134</u> | <u>\$ 11,451,611</u> | <u>\$ 85,760</u> | <u>\$ 93,237</u> | <u>\$ 11,707,894</u> | <u>\$ 11,544,848</u> | <u>\$ 163,046</u> |

Assets, Liabilities and Net Assets – Government-Wide

Current assets represented 27.99% of the total assets comprised largely of cash and cash equivalents of \$2,150,467, investments of \$425,095, taxes receivable of \$313,767, and intergovernmental receivables of \$215,583. Fixed assets including land, site and building improvements, furniture and equipment, and infrastructure assets represent 72.01% of total assets at \$8,071,929.

The total liability amount of \$15,958,524 consists primarily of bonds payable (\$6,990,771), net pension liability (\$7,916,000), compensated absences (\$193,147), vendor accounts payable (\$173,106), and accrued salaries and benefits (\$401,152).

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

The resulting negative \$5,014,630 in net position includes \$1,081,158 invested in capital assets, net of related debt, \$1,106,888 restricted for capital projects, \$11,849 restricted for debt service and negative \$7,214,525 in unrestricted net position. The large negative net position is caused by the recording of the net pension liability on the government-wide statements under GASB 68, *Accounting and Financial Reporting for Pensions*.

Table 2 summarizes the revenues, expenses, and changes in net position of the District for the year ended June 30, 2015 compared to the year ended June 30, 2014.

Table 2
Changes in Net Position

| | Governmental Activities | | Business-type Activities | | Total School District | | Change |
|------------------------------------|-------------------------|---------------------|--------------------------|--------------------|-----------------------|---------------------|------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2014-15 |
| Program Revenues: | | | | | | | |
| Charges for services | \$ 5,987 | \$ 2,661 | \$ 39,409 | \$ 78,467 | \$ 45,396 | \$ 81,128 | \$ (35,732) |
| Operating grants and contributions | 2,269,691 | 2,169,737 | 205,343 | 159,273 | 2,475,034 | 2,329,010 | 146,024 |
| Capital grants and contributions | 108,931 | 109,187 | 25,446 | 0 | 134,377 | 109,187 | 25,190 |
| General Revenues: | | | | | | | |
| Property and other taxes | 1,174,409 | 1,158,638 | 0 | 0 | 1,174,409 | 1,158,638 | 15,771 |
| Grants and entitlements | 2,733,439 | 2,733,439 | 0 | 0 | 2,733,439 | 2,733,439 | 0 |
| Investment earnings | 2,913 | 2,542 | 2 | 2 | 2,915 | 2,544 | 371 |
| Other | 6,954 | 19,836 | 0 | 0 | 6,954 | 19,836 | (12,882) |
| Total Revenues | <u>6,302,324</u> | <u>6,196,040</u> | <u>270,200</u> | <u>237,742</u> | <u>6,572,524</u> | <u>6,433,782</u> | <u>138,742</u> |
| Program Expenses: | | | | | | | |
| Instruction | 3,950,770 | 3,782,588 | 0 | 0 | 3,950,770 | 3,782,588 | 168,182 |
| Support services: | | | | | | | |
| Instructional student support | 411,404 | 491,052 | 0 | 0 | 411,404 | 491,052 | (79,648) |
| Administration and financial | 858,498 | 846,483 | 0 | 0 | 858,498 | 846,483 | 12,015 |
| Plant operation and maintenance | 402,980 | 370,256 | 0 | 0 | 402,980 | 370,256 | 32,724 |
| Pupil transportation | 446,674 | 466,954 | 0 | 0 | 446,674 | 466,954 | (20,280) |
| Student activities/community | 125,036 | 123,258 | 0 | 0 | 125,036 | 123,258 | 1,778 |
| Interest on long-term debt | 336,358 | 338,707 | 0 | 0 | 336,358 | 338,707 | (2,349) |
| Food Services | 0 | 0 | 263,398 | 259,604 | 263,398 | 259,604 | 3,794 |
| Total Expenses | <u>6,531,720</u> | <u>6,419,298</u> | <u>263,398</u> | <u>259,604</u> | <u>6,795,118</u> | <u>6,678,902</u> | <u>116,216</u> |
| Increase (decrease) in net assets | <u>\$ (229,396)</u> | <u>\$ (223,258)</u> | <u>\$ 6,802</u> | <u>\$ (21,862)</u> | <u>\$ (222,594)</u> | <u>\$ (245,120)</u> | <u>\$ 22,526</u> |

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

Revenues increased from the prior year by \$138,742, or 2.16%. Revenue increase is from the contingency funding that the District received for the 2014-15 year for a special needs student, and also, the realty transfer tax increased due to the Amish population moving to the District.

Expenses increased over the prior year by \$116,216. The increase in expenses is due to the cost for student attendance at cyber/charter schools.

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 2014-15 Expenses | Actual 2013-14 Expenses | Over/(Under) From P/Y | 2014-15 Budget | (Over)/Under 2014-15 |
|-----------------|---------------------------------|----------------------------------------|----------------------------------------|----------------------------------|---------------------------|---------------------------------|
| 1100 | Regular Educational Programs | \$ 2,693,609 | \$ 2,461,610 | \$ 231,999 | \$ 2,699,078 | \$ 5,469 |
| 1200 | Special Education | 646,545 | 787,290 | (140,745) | 805,784 | 159,239 |
| 1300 | Vocational Education | 118,783 | 170,675 | (51,892) | 108,232 | (10,551) |
| 1400 | Other Instructional Programs | 70,443 | 56,775 | 13,668 | 61,290 | (9,153) |
| 1800 | Pre-Kindergarten | 110,040 | 104,808 | 5,232 | 115,078 | 5,038 |
| 2100 | Pupil Services | 188,982 | 196,374 | (7,392) | 217,229 | 28,247 |
| 2200 | Instructional Staff Services | 170,938 | 269,274 | (98,336) | 198,145 | 27,207 |
| 2300 | Administration | 500,763 | 515,827 | (15,064) | 507,553 | 6,790 |
| 2400 | Health Services | 90,920 | 105,760 | (14,840) | 111,621 | 20,701 |
| 2500 | Business | 192,896 | 184,412 | 8,484 | 190,739 | (2,157) |
| 2600 | Maintenance | 367,257 | 354,013 | 13,244 | 365,074 | (2,183) |
| 2700 | Transportation | 426,727 | 455,215 | (28,488) | 425,668 | (1,059) |
| 2800/2900 | IU Programs | 19,346 | 0 | 19,346 | 19,565 | 219 |
| 3000 | Student Activities/Community | 119,452 | 120,159 | (707) | 130,713 | 11,261 |
| 4000 | Facilities Acq, Const, and Impr | 0 | 100,072 | (100,072) | 0 | 0 |
| 5110 | Financing | 0 | 0 | 0 | 258,244 | 258,244 |
| 5200 | Interfund Transfers | 508,217 | 517,628 | (9,411) | 20,000 | (488,217) |
| | Total Expenditures | 6,224,918 | 6,399,892 | (174,974) | 6,234,013 | 9,095 |
| | Revenues | 6,306,471 | 6,194,566 | 111,905 | 6,035,869 | 270,602 |
| | Net Change | \$ 81,553 | \$ (205,326) | \$ 286,879 | \$ (198,144) | \$ 279,697 |

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

DIFFERENCES

1200 Charter School costs and additional costs for a special needs student (contingency funding received from the State for this student).
 5110/5200 District budgets debt service payments to 5110, but for reporting, they are expenditures of the Debt Service Fund, which are reported as transfers-out from General Fund. In addition, District budgets the QSCB debt service net of the interest subsidy (\$283,000). For reporting purposes, these amounts are shown at gross.

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 Change 2014-2015 |
|----------------------------|--------------------------------|---------------------|---------------------------------|------------------|---------------------|---------------------|----------------------------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | |
| Land | \$ 5,000 | \$ 5,000 | \$ 0 | \$ 0 | \$ 5,000 | \$ 5,000 | 0.00% |
| Construction in progress | 0 | 4,811,907 | 0 | 0 | 0 | 4,811,907 | -100.00% |
| Buildings and improvements | 7,338,187 | 2,261,377 | 0 | 0 | 7,338,187 | 2,261,377 | 224.50% |
| Infrastructure | 215,748 | 0 | 0 | 0 | 215,748 | 0 | 100.00% |
| Equipment and furniture | 461,352 | 83,321 | 51,642 | 31,777 | 512,994 | 115,098 | 345.70% |
| | <u>\$ 8,020,287</u> | <u>\$ 7,161,605</u> | <u>\$ 51,642</u> | <u>\$ 31,777</u> | <u>\$ 8,071,929</u> | <u>\$ 7,193,382</u> | 12.21% |

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

Long-Term Debt

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

Table 5
Outstanding Long-Term Debt

| | <u>Total School District</u> <u>2015</u> | <u>2014</u> | <u>Percent</u> <u>Change</u> |
|-----------------------------------------------------|---------------------------------------------|---------------------|---------------------------------|
| QSCB bonds (Series of 2011) | \$ 6,000,000 | \$ 6,000,000 | 0.00% |
| General obligation refunding bonds (Series of 2011) | <u>1,055,000</u> | <u>1,255,000</u> | -15.94% |
| Total | <u>\$ 7,055,000</u> | <u>\$ 7,255,000</u> | -2.76% |

MAJOR FINANCIAL ISSUES

The financial issues pertaining to the District for the 2014-15 year are as follows:

BUILDING IMPROVEMENTS

In the 2014-15 school year, the final renovations were completed. The water treatment facility was finished in November 2014. In addition, 10 interior doors were installed and trim painted, new bleachers and curtain installed in gymnasium, over 750 ceiling tiles were replaced, repaired drywall and painted upstairs hallway, had repairs done to natural gas meter that was not working in order to receive accurate billing for gas usage, which is a decrease from previous bills. Concrete renovation work was done at the elementary entrance.

CURRICULUM

A new computer based program called Compass was purchased using School Intervention Grant Funds to use with students for remediation. New advanced placement (AP) texts were purchased for students enrolled in AP History, AP Calculus, and AP Literature using Title 1 funds. Due to budget constraints, no other new curriculum materials were purchased for the 2014-15 school year.

TECHNOLOGY

During the 2014-15 school year, District technology goals focused on the implementation of a new wireless communication infrastructure within every classroom and office area of the building. The previous system had become worn-down in terms of hardware shelf-life, as well as old and antiquated for the needs of today's technology. A total of 16 new wireless access points were strategically distributed throughout needed hot-spots within the building, and these access points were managed by means of a control center. Additionally, the District invested resources and time into streamlining both the web-page hosting and District email capabilities into a more 21st Century practice, and also, a more fiscally responsible system for the District's long-term needs.

Contacting the District Financial Management

This financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional information, please contact Robin Kitchen, Business Manager, Harmony Area School District, 5239 Ridge Road, Westover, PA 16692 or 814-845-7918, extension 154.

BASIC FINANCIAL STATEMENTS

**Harmony Area School District
Statement of Net Position
June 30, 2015**

| | Governmental Activities | Business-Type Activities | Total |
|-------------------------------------------------|----------------------------|-----------------------------|---------------|
| Assets | | | |
| Current assets: | | | |
| Cash and equivalents | \$ 2,143,405 | \$ 7,062 | \$ 2,150,467 |
| Investments | 425,095 | 0 | 425,095 |
| Taxes receivable | 313,767 | 0 | 313,767 |
| Intergovernmental receivables | 209,737 | 5,846 | 215,583 |
| Other receivables | 8,345 | 0 | 8,345 |
| Inventories | 14,353 | 10,214 | 24,567 |
| Total current assets | 3,114,702 | 23,122 | 3,137,824 |
| Noncurrent assets: | | | |
| Land | 5,000 | 0 | 5,000 |
| Depreciable capital assets, net | 8,015,287 | 51,642 | 8,066,929 |
| Total noncurrent assets | 8,020,287 | 51,642 | 8,071,929 |
| Total assets | 11,134,989 | 74,764 | 11,209,753 |
| Deferred Outflows of Resources | | | |
| Defined benefit pension plan: | | | |
| Contributions subsequent to measurement date | 487,145 | 10,996 | 498,141 |
| Total deferred outflows of resources | 487,145 | 10,996 | 498,141 |
| Total assets and deferred outflows of resources | \$ 11,622,134 | \$ 85,760 | \$ 11,707,894 |

See accompanying notes to the basic financial statements.

Harmony Area School District
Statement of Net Position
June 30, 2015

| | Governmental Activities | Business-Type Activities | Total |
|-----------------------------------------------------------------------|----------------------------|-----------------------------|---------------|
| Liabilities | | | |
| Current liabilities: | | | |
| Internal balances | \$ (97,845) | \$ 97,845 | \$ 0 |
| Due to other governments | 1,116 | 0 | 1,116 |
| Accounts payable | 172,580 | 526 | 173,106 |
| Current portion of long-term obligations | 247,515 | 773 | 248,288 |
| Accrued interest payable | 15,223 | 0 | 15,223 |
| Accrued salaries and wages | 401,152 | 0 | 401,152 |
| Unearned revenues | 44,509 | 8,145 | 52,654 |
| Total current liabilities | 784,250 | 107,289 | 891,539 |
| Noncurrent liabilities: | | | |
| Bonds payable, net of discount | 6,790,771 | 0 | 6,790,771 |
| Net pension liability | 7,741,254 | 174,746 | 7,916,000 |
| Other post-employment benefits liability (OPEB) | 215,355 | 0 | 215,355 |
| Long-term portion of compensated absences | 142,543 | 2,316 | 144,859 |
| Total noncurrent liabilities | 14,889,923 | 177,062 | 15,066,985 |
| Total liabilities | 15,674,173 | 284,351 | 15,958,524 |
| Deferred Inflows of Resources | | | |
| Defined benefit pension plan: | | | |
| Change in proportionate share | 553,506 | 12,494 | 566,000 |
| Difference between projected and actual investment earnings | 193,629 | 4,371 | 198,000 |
| Total deferred inflows of resources | 747,135 | 16,865 | 764,000 |
| Net Position | | | |
| Invested in capital assets, net of debt | 1,029,516 | 51,642 | 1,081,158 |
| Restricted for debt service (spendable) | 11,849 | 0 | 11,849 |
| Restricted for capital projects (spendable) | 1,106,888 | 0 | 1,106,888 |
| Unrestricted | (6,947,427) | (267,098) | (7,214,525) |
| Total net position | (4,799,174) | (215,456) | (5,014,630) |
| Total liabilities, deferred inflows of resources, and net position | \$ 11,622,134 | \$ 85,760 | \$ 11,707,894 |

See accompanying notes to the basic financial statements.

**Harmony Area School District
Statement of Activities
For the Year Ended June 30, 2015**

| | 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 | \$ 3,950,770 | \$ 0 | \$ 1,365,323 | \$ 0 | \$ (2,585,447) | \$ 0 | \$ (2,585,447) |
| Instructional student support | 411,404 | 0 | 223,461 | 0 | (187,943) | 0 | (187,943) |
| Administration and financial support | 858,498 | 0 | 5,746 | 0 | (852,752) | 0 | (852,752) |
| Operations and maintenance of plant | 402,980 | 2,413 | 0 | 108,931 | (291,636) | 0 | (291,636) |
| Pupil transportation | 446,674 | 0 | 392,014 | 0 | (54,660) | 0 | (54,660) |
| Student activities | 125,036 | 3,574 | 0 | 0 | (121,462) | 0 | (121,462) |
| Interest on long-term debt | 336,358 | 0 | 283,147 | 0 | (53,211) | 0 | (53,211) |
| Total governmental activities | 6,531,720 | 5,987 | 2,269,691 | 108,931 | (4,147,111) | 0 | (4,147,111) |
| Business-Type Activities: | | | | | | | |
| Food service | 263,398 | 39,409 | 205,343 | 25,446 | 0 | 6,800 | 6,800 |
| Total primary government | <u>\$ 6,795,118</u> | <u>\$ 45,396</u> | <u>\$ 2,475,034</u> | <u>\$ 134,377</u> | <u>(4,147,111)</u> | <u>6,800</u> | <u>(4,140,311)</u> |
| General Revenues: | | | | | | | |
| Taxes levied | | | | | 1,174,409 | 0 | 1,174,409 |
| Grants, subsidies and contributions, not restricted | | | | | 2,733,439 | 0 | 2,733,439 |
| Investment earnings | | | | | 2,913 | 2 | 2,915 |
| Miscellaneous | | | | | 6,954 | 0 | 6,954 |
| Total general revenues | | | | | <u>3,917,715</u> | <u>2</u> | <u>3,917,717</u> |
| Change in net position | | | | | (229,396) | 6,802 | (222,594) |
| Net position, beginning of year, restated | | | | | <u>(4,569,778)</u> | <u>(222,258)</u> | <u>(4,792,036)</u> |
| Net position, end of year | | | | | <u>\$ (4,799,174)</u> | <u>\$ (215,456)</u> | <u>\$ (5,014,630)</u> |

See accompanying notes to the basic financial statements.

**Harmony Area School District
Balance Sheet
Governmental Funds
June 30, 2015**

| | General Fund | Major Fund Capital Projects | Non-Major Fund Debt Service | Total Governmental Funds |
|-----------------------------------------------------------------------|---------------------|-----------------------------------|-----------------------------------|--------------------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 1,419,636 | \$ 711,920 | \$ 11,849 | \$ 2,143,405 |
| Investments | 0 | 425,095 | 0 | 425,095 |
| Taxes receivable | 313,767 | 0 | 0 | 313,767 |
| Due from other funds | 127,972 | 0 | 0 | 127,972 |
| Due from other governments | 209,737 | 0 | 0 | 209,737 |
| Other receivables | 8,345 | 0 | 0 | 8,345 |
| Inventories | 14,353 | 0 | 0 | 14,353 |
| | | | | |
| Total assets | 2,093,810 | 1,137,015 | 11,849 | 3,242,674 |
| | | | | |
| Deferred Outflows of Resources | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| | | | | |
| Total assets and deferred outflows of resources | <u>\$ 2,093,810</u> | <u>\$ 1,137,015</u> | <u>\$ 11,849</u> | <u>\$ 3,242,674</u> |
| | | | | |
| Liabilities | | | | |
| Due to other funds | \$ 0 | \$ 30,127 | \$ 0 | \$ 30,127 |
| Due to other governments | 1,116 | 0 | 0 | 1,116 |
| Accounts payable | 172,580 | 0 | 0 | 172,580 |
| Accrued salaries and benefits | 401,152 | 0 | 0 | 401,152 |
| Unearned revenues | 44,509 | 0 | 0 | 44,509 |
| | | | | |
| Total liabilities | <u>619,357</u> | <u>30,127</u> | <u>0</u> | <u>649,484</u> |
| | | | | |
| Deferred Inflows of Resources | | | | |
| Delinquent taxes receivable | <u>247,257</u> | <u>0</u> | <u>0</u> | <u>247,257</u> |
| | | | | |
| Total deferred inflows of resources | <u>247,257</u> | <u>0</u> | <u>0</u> | <u>247,257</u> |
| | | | | |
| Fund Balance | | | | |
| Nonspendable fund balance | 14,353 | 0 | 0 | 14,353 |
| Restricted fund balance | 0 | 1,106,888 | 11,849 | 1,118,737 |
| Unassigned fund balance | 1,212,843 | 0 | 0 | 1,212,843 |
| | | | | |
| Total fund balance | <u>1,227,196</u> | <u>1,106,888</u> | <u>11,849</u> | <u>2,345,933</u> |
| | | | | |
| Total liabilities, deferred inflows of resources, and fund balance | <u>\$ 2,093,810</u> | <u>\$ 1,137,015</u> | <u>\$ 11,849</u> | <u>\$ 3,242,674</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, 2015**

Total fund balance – governmental funds \$ 2,345,933

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 \$13,741,714 and the accumulated depreciation is \$5,721,427. 8,020,287

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. 247,257

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

| | | |
|------------------------------------|--------------------|--------------|
| General obligation bonds | \$(7,055,000) | |
| Compensated absences | (190,058) | |
| Accrued interest payable | (15,223) | |
| Bond discount, net of amortization | 64,229 | |
| OPEB liability | (215,355) | |
| Net pension liability | <u>(7,741,254)</u> | (15,152,661) |

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

| | | |
|---------------------------------------|------------------|------------------|
| Deferred outflows related to pensions | \$487,145 | |
| Deferred inflows related to pensions | <u>(747,135)</u> | <u>(259,990)</u> |

Net position of governmental activities \$ (4,799,174)

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, 2015

| | General Fund | Major Fund Capital Projects | Non-Major Fund Debt Service | Total Governmental Funds |
|-------------------------------------------------|---------------------|-----------------------------------|-----------------------------------|--------------------------------|
| Revenues | | | | |
| Local sources | \$ 1,259,709 | \$ 1,630 | \$ 3 | \$ 1,261,342 |
| State sources | 4,278,423 | 0 | 0 | 4,278,423 |
| Federal sources | 763,324 | 0 | 0 | 763,324 |
| Total revenues | <u>6,301,456</u> | <u>1,630</u> | <u>3</u> | <u>6,303,089</u> |
| Expenditures | | | | |
| Instruction | 3,639,420 | 0 | 0 | 3,639,420 |
| Support services | 1,957,829 | 0 | 0 | 1,957,829 |
| Non-instructional services | 119,452 | 0 | 0 | 119,452 |
| Capital outlay | 0 | 1,114,924 | 0 | 1,114,924 |
| Debt service (principal and interest) | 0 | 305,280 | 226,445 | 531,725 |
| Total expenditures | <u>5,716,701</u> | <u>1,420,204</u> | <u>226,445</u> | <u>7,363,350</u> |
| Excess of revenues over (under) expenditures | <u>584,755</u> | <u>(1,418,574)</u> | <u>(226,442)</u> | <u>(1,060,261)</u> |
| Other financing sources (uses) | | | | |
| Interfund transfers | (508,217) | 283,150 | 225,067 | 0 |
| Sale/compensation for fixed assets | 5,015 | 0 | 0 | 5,015 |
| Total other financing sources (uses) | <u>(503,202)</u> | <u>283,150</u> | <u>225,067</u> | <u>5,015</u> |
| Net change in fund balance | 81,553 | (1,135,424) | (1,375) | (1,055,246) |
| Fund balance, beginning of year, restated | <u>1,145,643</u> | <u>2,242,312</u> | <u>13,224</u> | <u>3,401,179</u> |
| Fund balance, end of year | <u>\$ 1,227,196</u> | <u>\$ 1,106,888</u> | <u>\$ 11,849</u> | <u>\$ 2,345,933</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, 2015**

Total net change in fund balance – governmental funds \$(1,055,246)

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

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

| | | |
|----------------------|------------------|---------|
| Capital outlay | \$1,135,352 | |
| Depreciation expense | <u>(276,670)</u> | 858,682 |

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. (5,779)

Repayment of bond principal is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net position. 200,000

Interest on long-term debt is recognized in the governmental funds when it is due. In the statement of activities, interest expense is recognized as interest accrues. This amount represents the difference. 1,373

In the governmental funds, compensated absences are measured by the amounts used. The statement of activities measures by the amounts earned. This amount represents the difference. 21,354

Post-employment benefits are recognized as expenditures in the governmental funds when they are paid. In the statement of activities, post-employment benefits are recognized as expenses when incurred. This amount represents the difference. (100,157)

Governmental funds report district pension contributions as expenditures in the year required to be made. However, in the Statement of Activities, the cost of pension benefits earned, net of employee contributions, is reported as pension expense.

| | | |
|--------------------------------------------------------|------------------|-----------|
| District pension contributions | \$ 487,145 | |
| Cost of benefits earned, net of employee contributions | <u>(630,761)</u> | (143,616) |

Governmental funds report bond discounts as expenditures in the year of issue. In the statement of activities, they are amortized over the term of the debt. This is the amount of amortization expense in the current period. (6,007)

Change in net position of governmental activities \$ (229,396)

See accompanying notes to the basic financial statements.

Harmony Area School District
Statement of Net Position
Proprietary Fund
June 30, 2015

| | <u>Food Service</u> |
|-------------------------------------------------------------------|-------------------------|
| Assets | |
| Current assets: | |
| Cash and cash equivalents | \$ 7,062 |
| Due from other governments | 5,846 |
| Inventory | <u>10,214</u> |
| Total current assets | <u>23,122</u> |
| Noncurrent assets: | |
| Machinery and equipment, net | <u>51,642</u> |
| Total noncurrent assets | <u>51,642</u> |
| Total assets | <u>74,764</u> |
| Deferred Outflows of Resources | |
| Defined benefit pension plan: | |
| Contributions subsequent to measurement date | <u>10,996</u> |
| Total assets and deferred outflows of resources | <u>\$ 85,760</u> |
| Liabilities | |
| Current liabilities: | |
| Due to other funds | \$ 97,845 |
| Accounts payable | 526 |
| Current portion of compensated absences | 773 |
| Unearned revenues | <u>8,145</u> |
| Total current liabilities | <u>107,289</u> |
| Noncurrent liabilities: | |
| Long-term portion of compensated absences | 2,316 |
| Net pension liability | <u>174,746</u> |
| Total noncurrent liabilities | <u>177,062</u> |
| Total liabilities | <u>284,351</u> |
| Deferred Inflows of Resources | |
| Defined benefit pension plan: | |
| Change in proportionate share | 4,371 |
| Difference between projected and actual investment earnings | <u>12,494</u> |
| Total deferred inflows of resources | <u>16,865</u> |
| Net Position | |
| Invested in capital assets | 51,642 |
| Unrestricted | <u>(267,098)</u> |
| Total net position | <u>(215,456)</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 85,760</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, 2015

| | Food Service |
|-------------------------------------------------|-----------------|
| Operating revenues | |
| Food service revenue | \$ 34,738 |
| Other operating revenue | 4,671 |
| Total operating revenues | 39,409 |
| Operating expenses | |
| Salaries | 65,323 |
| Employee benefits | 39,605 |
| Other purchased services | 7,236 |
| Supplies | 145,387 |
| Depreciation | 5,581 |
| Other operating expenses | 266 |
| Total operating expenses | 263,398 |
| Operating income (loss) | (223,989) |
| Nonoperating revenues (expenses) | |
| Earnings on investments | 2 |
| State sources | 18,644 |
| Federal sources | 186,699 |
| Total nonoperating revenues (expenses) | 205,345 |
| Income before contributions | (18,644) |
| Capital contributions | 25,446 |
| Change in net position | 6,802 |
| Total net position, beginning of year, restated | (222,258) |
| Total net position, end of year | \$ (215,456) |

See accompanying notes to the basic financial statements.

**Harmony Area School District
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2015**

| | Food Service |
|-----------------------------------------------------------------------------------------------------------|---------------------|
| Cash flows from operating activities | |
| Cash received from users | \$ 36,147 |
| Cash received from other operating revenue | 4,671 |
| Cash payments to employees for services | (131,768) |
| Cash payments to suppliers for goods and services | (153,501) |
| Cash payments for other operating expenses | <u>(266)</u> |
| Net cash provided by (used for) operating activities | <u>(244,717)</u> |
| Cash flows from non-capital financing activities | |
| State sources | 18,594 |
| Federal sources | <u>184,610</u> |
| Net cash provided by (used for) non-capital financing activities | <u>203,204</u> |
| Cash flows from investing activities | |
| Earnings on investments | <u>2</u> |
| Net cash provided by (used for) investing activities | <u>2</u> |
| Net increase (decrease) in cash and cash equivalents | (41,511) |
| Cash and cash equivalents, beginning of year | <u>48,573</u> |
| Cash and cash equivalents, end of year | <u>\$ 7,062</u> |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | |
| Operating income (loss) | <u>\$ (223,989)</u> |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for): | |
| Depreciation | 5,581 |
| (Increase) decrease in inventories | (1,034) |
| (Increase) decrease in deferred outflows of resources | (10,996) |
| Increase (decrease) in accounts payable | (30,299) |
| Increase (decrease) in accrued salaries/benefits | 372 |
| Increase (decrease) in unearned revenues | 1,409 |
| Increase (decrease) in net pension liability | (2,626) |
| Increase (decrease) in deferred inflows of resources | <u>16,865</u> |
| Total adjustments | <u>(20,728)</u> |
| Net cash provided by (used for) operating activities | <u>\$ (244,717)</u> |
| Non-cash capital financing activities | |
| Capital contribution to purchase capital assets | <u>\$ 25,446</u> |

See accompanying notes to the basic financial statements.

**Harmony Area School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015**

| | Agency <u>Fund</u> | Private Purpose <u>Trust</u> | Total Fiduciary <u>Funds</u> |
|----------------------------------------------------------------------|-----------------------|------------------------------------|------------------------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 17,696 | \$ 2,987 | \$ 20,683 |
| Total assets | 17,696 | 2,987 | 20,683 |
| Deferred Outflows of Resources | | | |
| | <u>0</u> | <u>0</u> | <u>0</u> |
| Total assets and deferred outflows of resources | <u>\$ 17,696</u> | <u>\$ 2,987</u> | <u>\$ 20,683</u> |
| Liabilities | | | |
| Due to students | \$ 17,696 | \$ 0 | \$ 17,696 |
| Total liabilities | <u>17,696</u> | <u>0</u> | <u>17,696</u> |
| Deferred Inflows of Resources | | | |
| | <u>0</u> | <u>0</u> | <u>0</u> |
| Net Position | | | |
| Held in trust for scholarships | <u>0</u> | <u>2,987</u> | <u>2,987</u> |
| Total net position | <u>0</u> | <u>2,987</u> | <u>2,987</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 17,696</u> | <u>\$ 2,987</u> | <u>\$ 20,683</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, 2015

| | Private Purpose Trust |
|---------------------------------|--------------------------|
| Additions: | |
| Gifts and contributions | \$ 500 |
| Other additions | <u>1</u> |
| Total additions | <u>501</u> |
| Deductions: | |
| Scholarships awarded | <u>250</u> |
| Total deductions | <u>250</u> |
| Change in net position | 251 |
| Net position, beginning of year | <u>2,736</u> |
| Net position, end of year | <u>\$ 2,987</u> |

See accompanying notes to the basic financial statements.

Harmony Area School District
Notes to Financial Statements
June 30, 2015

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 300 students from Westover Borough and the Townships of Chest and Burnside, all located in Clearfield County, Pennsylvania, and Cherry Tree Borough in Indiana County, Pennsylvania.

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District (a) appoints a voting majority of the organization's governing board; (b) is able to impose its will on the organization; or (c) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burden on, the School District. Additionally, the School District is required to consider other organizations for which the nature and significance of their relationship with the School District are such that exclusion would cause the School District's financial statements to be misleading. The School District has no component units.

2. Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The more significant of these accounting policies are described below.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

Harmony Area School District
Notes to Financial Statements
June 30, 2015

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 liabilities is reported as fund balance. The following are the School District's major governmental funds:

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

Capital 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, 2015

Proprietary Funds

Proprietary funds focus on the determination of net position, changes in net position and cash flows and are classified as either internal service or enterprise funds. Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the School District. There are no internal service funds. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods and services. The following is the School District's major enterprise fund:

Food Service Fund – This fund accounts for the financial transactions related to the food service operation of the School District.

Fiduciary Fund

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

C. Measurement Focus

Government-wide Financial Statements

Government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, 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, deferred outflows of resources, 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, 2015

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 2M, and deferred inflows and outflows of resources in Note 2N.

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 6). 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, 2015

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 2015.

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. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2015, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Inventory

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

**Harmony Area School District
Notes to Financial Statements
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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, 2015.

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2015. 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, 2015 are reported as unearned revenue.

H. Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net 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.

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

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

I. 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.

J. 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.

**Harmony Area School District
Notes to Financial Statements
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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.

K. Fund Balance Classification

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

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

As of June 30, 2015, fund balance components, other than unassigned, consist of the following:

| | Nonspendable | Restricted |
|-----------------------|--------------|--------------|
| General fund: | | |
| Inventory | \$ 14,353 | \$ 0 |
| Capital projects fund | 0 | 1,106,888 |
| Debt service fund | 0 | 11,849 |
| Total | \$ 14,353 | \$ 1,118,737 |

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.

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Notes to Financial Statements
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L. Accrued Liabilities and Long-term Obligations

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

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

M. 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.

N. 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 statement of net position. The deferred outflows of resources reported in this year’s financial statements include a deferred outflow of resources for contributions made to the District’s cost-sharing multi-employer defined benefit pension plan between the measurement date of the net pension liability from the plan and the end of the District’s fiscal year. No deferred outflows of resources affect the fund financial statements in the current year. See further details on deferred outflows of resources related to the pension plan in Note 11.

Deferred Inflows of Resources

The District’s statement 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). Deferred inflows of resources are reported on the District’s statement of net position for actual pension plan investment earnings in excess of the expected amounts included in determining pension expense. They further include deferred amounts arising from the change in the District’s proportionate share of net pension liability. Deferred inflow amounts related to investment earnings and proportionate share are amortized to pension expense on a straight-line basis over five years and 5.15 years, respectively, including the current year. See further detail on deferred inflows of resources related to the pension at Note 11.

Harmony Area School District
Notes to Financial Statements
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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 (\$247,257).

O. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

The government-wide statement of net position reports \$1,118,737 of restricted net position, of which \$1,106,888 is restricted by enabling legislation for Capital Projects, and \$11,849 by bond indenture for Debt Service.

P. 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.

Q. 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.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension expense, 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.

Harmony Area School District
Notes to Financial Statements
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3. Changes in Accounting Principles and Restatement of Net Position

For the year ended June 30, 2015, the District has implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (an amendment of GASB Statement No. 27). This statement's primary objective is to improve accounting and financial reporting by state and local governments for pensions. It establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense/expenditures.

The District's employees are provided with defined benefit pensions through a cost-sharing multiple-employer pension plan. In accordance with GASB Statement No. 68, cost-sharing employers such as the District are required to recognize a liability for their proportionate share of the collective net pension liability. The District is further required 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.

This change in accounting principle has resulted in a restatement (decrease) of the District's net position for governmental activities, effective July 1, 2014, in the amount of \$7,857,628, representing the General Fund's portion of the District's proportionate share of the prior year collective net pension liability. This restatement affects the governmental activities on the government-wide financial statements only.

The change also resulted in a restatement (decrease) of the District's net position for business-type activities, effective July 1, 2014, in the amount of \$177,372, representing the Proprietary Fund's portion of the District's proportionate share of the prior year collective net pension liability. This restatement affects both the business-type activities on the government-wide financial statements and the proprietary fund financial statements.

4. Cash and Cash Equivalents and Investments

Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to invest its monies as follows:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository.

The deposit and investment policy of the school district adheres to state statutes and prudent business practice. Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and include investments with original maturities of three months or less. Cash and cash equivalents consist of demand deposits at a local bank. The market values of deposits are equal to the cost of the deposits.

**Harmony Area School District
Notes to Financial Statements
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The District invests in the Pennsylvania School District Liquid Asset Fund (PSDLAF). 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 also invests in long-term certificates of deposit at local financial institutions and U.S. Treasury Bonds. The investments are stated at cost including accrued interest which approximates market value.

Cash

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a policy for custodial credit risk, however, the District’s deposits in excess of the FDIC limit are collateralized in accordance with the Pennsylvania Security for Public Deposits Act. As of June 30, 2015, \$1,902,306 of the District’s bank balance of \$2,152,306 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>1,902,306</u> |
| Total | <u>\$1,902,306</u> |

Reconciliation to Financial Statements

| | |
|-------------------------------------|--------------------|
| Uninsured amount above | \$1,902,306 |
| Add: Insured amount | 250,000 |
| Less: Outstanding checks | <u>(52,491)</u> |
| Carrying amount – bank balances | 2,099,815 |
| Add: Petty cash | 250 |
| Pooled cash equivalents | 70,857 |
| Money markets | <u>228</u> |
| Total cash per financial statements | <u>\$2,171,150</u> |

Investments

As of June 30, 2015, the District had the following investments:

| <u>Investment</u> | <u>Maturity</u> | <u>Fair Value</u> |
|-----------------------------------------------|-----------------|-------------------|
| Wilmington Trust Pooled Account | N/A | \$ 11,848 |
| PA School District Liquid Asset Fund (PSDLAF) | N/A | 59,009 |
| United States Treasury | 30 years | 425,095 |
| Money Market Accounts | N/A | <u>228</u> |
| Total | | <u>\$496,180</u> |

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.

**Harmony Area School District
Notes to Financial Statements
June 30, 2015**

Credit Risk

The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2015 the District's investments were rated as follows:

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

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 | \$496,180 |
| Less: Deposits in investment pools and money market accounts considered cash equivalent | <u>(71,085)</u> |
| Total investments per financial statements | <u>\$425,095</u> |

5. 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 2015 was 83.05 mills for Clearfield County and 73.54 mills for Indiana County, as levied by the Board. Assessed valuations of property (\$12,748,870) 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 |

6. 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, 2015 is \$313,767. The School District, in accordance with accounting principles generally accepted in the United States of America, recognized the delinquent and unpaid taxes receivable. An allowance for uncollectible taxes was not established by the administration. A portion of the amount estimated to be collectible which was measurable and available within 60 days was recognized as revenue and the balance recorded as a deferred inflow of resources in the fund financial statements.

**Harmony Area School District
Notes to Financial Statements
June 30, 2015**

Uncollected taxes for the year ended June 30, 2015:

| | |
|----------------------------------------------------------------------|------------------|
| Delinquent Real Estate | \$ 48,359 |
| Earned Income Taxes | 13,898 |
| Real Estate Transfer Taxes | <u>4,253</u> |
| Uncollected Taxes Recognized as Revenue (received within 60 days) | 66,510 |
| Real Estate Tax Deferred Inflow of Resources | <u>247,257</u> |
| Total Taxes Receivable | <u>\$313,767</u> |

7. Unearned Revenues

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Unearned revenue of \$44,509 in the governmental funds at June 30, 2015 represents federal grant monies received, but not yet expended. Unearned revenues of \$8,145 in the proprietary fund at June 30, 2015 represent donated commodities inventory which will be recognized as both revenue and expense when consumed.

8. 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, 2015, the following amounts are due from other governmental units:

| <u>Due From</u> | <u>General Fund</u> | <u>Proprietary Fund</u> |
|-----------------|---------------------|-------------------------|
| Federal | \$ 57,412 | \$5,565 |
| State | 150,540 | 281 |
| Local | <u>1,785</u> | <u>0</u> |
| | <u>\$209,737</u> | <u>\$5,846</u> |

**Harmony Area School District
Notes to Financial Statements
June 30, 2015**

9. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

| | Beginning Balance | Additions | Deductions | Transfers | Ending Balance |
|----------------------------------------------|----------------------|-------------------|-------------------|--------------------|---------------------|
| Governmental Activities | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 5,000 | \$ 0 | \$ 0 | \$ 0 | \$ 5,000 |
| Construction in progress | <u>4,811,907</u> | <u>1,114,924</u> | <u>0</u> | <u>(5,926,831)</u> | <u>0</u> |
| Total capital assets, not being depreciated | <u>4,816,907</u> | <u>1,114,924</u> | <u>0</u> | <u>(5,926,831)</u> | <u>5,000</u> |
| Capital assets, being depreciated: | | | | | |
| Buildings and improvements | 6,697,018 | 0 | 0 | 5,313,976 | 12,010,994 |
| Infrastructure | 0 | 0 | 0 | 217,927 | 217,927 |
| Furniture and equipment | <u>1,092,437</u> | <u>20,428</u> | <u>0</u> | <u>394,928</u> | <u>1,507,793</u> |
| Total capital assets, being depreciated | <u>7,789,455</u> | <u>20,428</u> | <u>0</u> | <u>5,926,831</u> | <u>13,736,714</u> |
| Less accumulated depreciation: | | | | | |
| Buildings and improvements | 4,435,641 | 237,166 | 0 | 0 | 4,672,807 |
| Infrastructure | 0 | 2,179 | 0 | 0 | 2,179 |
| Furniture and equipment | <u>1,009,116</u> | <u>37,325</u> | <u>0</u> | <u>0</u> | <u>1,046,441</u> |
| Total accumulated depreciation | <u>5,444,757</u> | <u>276,670</u> | <u>0</u> | <u>0</u> | <u>5,721,427</u> |
| Total capital assets, being depreciated, net | <u>2,344,698</u> | <u>(256,242)</u> | <u>0</u> | <u>5,926,831</u> | <u>8,015,287</u> |
| Governmental activities capital assets, net | <u>\$ 7,161,605</u> | <u>\$ 858,682</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 8,020,287</u> |
| Business-Type Activities | | | | | |
| Capital assets, being depreciated: | | | | | |
| Equipment | <u>\$ 259,859</u> | <u>\$ 25,446</u> | <u>\$ (7,300)</u> | <u>\$ 0</u> | <u>\$ 278,005</u> |
| Total capital assets, being depreciated | <u>259,859</u> | <u>25,446</u> | <u>(7,300)</u> | <u>0</u> | <u>278,005</u> |
| Less accumulated depreciation: | | | | | |
| Equipment | <u>228,082</u> | <u>5,581</u> | <u>(7,300)</u> | <u>0</u> | <u>226,363</u> |
| Total accumulated depreciation | <u>228,082</u> | <u>5,581</u> | <u>(7,300)</u> | <u>0</u> | <u>226,363</u> |
| Business-type activities capital assets, net | <u>\$ 31,777</u> | <u>\$ 19,865</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 51,642</u> |

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

Governmental Activities:

| | |
|------------------------------------------------------|------------------|
| Instruction | \$176,433 |
| Instruction support | 18,372 |
| Administration and finance | 38,338 |
| Operation and maintenance of plant | 17,996 |
| Pupil transportation | 19,947 |
| Student activities | <u>5,584</u> |
| Total depreciation expense - governmental activities | <u>\$276,670</u> |

Harmony Area School District
Notes to Financial Statements
June 30, 2015

10. Defined Benefit Pension Plan

Plan Description

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

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 become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

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

**Harmony Area School District
Notes to Financial Statements
June 30, 2015**

Contributions

Member Contributions:

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

Employer Contributions:

The contribution required of participating employers is based on an actuarial valuation and is expressed as a percentage of annual covered payroll during the period for which the amount is determined. Before July 1, 1995, the school district and the Commonwealth shared the employer contribution rate equally. Since July 1, 1995, the school districts are required to pay the entire employer contribution rate and are reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the market value/personal income aid ratio (as defined in Act 29 of 1994), which is at least one-half of the total employer rate.

The District's contractually required contribution rate, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year with an additional amount to finance any unfunded accrued liability. For the fiscal year ended June 30, 2015, the rate of the employer's contribution was 21.40 percent of covered payroll. The 21.40 percent rate is composed of a pension contribution rate of 20.50 percent for pension benefits and 0.90 percent for healthcare insurance premium assistance. Harmony Area School District's contributions to PSERS for the year ending June 30, 2015 were \$534,007.

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

At June 30, 2015, the District reported a liability of \$7,916,000 for its proportionate share of the net pension liability, with \$7,741,254 reflected in the governmental activities and \$174,746 in the business-type activities. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the system's total pension liability as of June 30, 2013 to June 30, 2014. 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, 2014, the District's proportion was 0.0200%, which was an increase of 0.0006% from its proportion measured as of June 30, 2013.

**Harmony Area School District
Notes to Financial Statements
June 30, 2015**

For the year ended June 30, 2015, the District recognized pension expense of \$645,000, with \$630,761 in governmental activities and \$14,239 in business-type activities. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|------------------------------------------------------------------------------------------|-----------------------------------|----------------------------------|
| Difference between expected and actual experience | \$ 0 | \$ 0 |
| Changes in assumptions | 0 | 0 |
| Net difference between projected and actual investment earnings | 0 | 566,000 |
| Changes in proportions | 0 | 198,000 |
| Difference between employer contributions and proportionate share of total contributions | 0 | 0 |
| Contributions subsequent to the measurement date | 498,141 | 0 |
| | \$ 498,141 | \$ 764,000 |

\$498,141 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, 2016. 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 |
|------------------------|--------------|
| 2016 | \$ (189,000) |
| 2017 | (189,000) |
| 2018 | (189,000) |
| 2019 | (189,000) |
| 2020 | (8,000) |
| 2021 | 0 |
| Thereafter | 0 |
| | \$ (764,000) |

Deferred outflows of resources are reflected on the Statement of Net Position for both the governmental activities (\$487,145) and the business-type activities (\$10,996). Deferred inflows of resources are also reflected on the Statement of Net Position for both the governmental activities (\$747,135) and the business-type activities (\$16,865).

Actuarial assumptions

The total pension liability as of June 30, 2014 was determined by rolling forward the System's total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.50%, includes inflation at 3.00%
- Salary increases – Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%

**Harmony Area School District
Notes to Financial Statements
June 30, 2015**

- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

The actuarial assumptions used in the June 30, 2013 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

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> |
|------------------------------|--------------------------|-----------------------------------------------|
| Public markets global equity | 19.0% | 5.0% |
| Private markets (equity) | 21.0% | 6.5% |
| Private real estate | 13.0% | 4.7% |
| Global fixed income | 8.0% | 2.0% |
| U.S. long treasuries | 3.0% | 1.4% |
| TIPS | 12.0% | 1.2% |
| High yield bonds | 6.0% | 1.7% |
| Cash | 3.0% | 0.9% |
| Absolute return | 10.0% | 4.8% |
| Risk parity | 5.0% | 3.9% |
| MLPs/Infrastructure | 3.0% | 5.3% |
| Commodities | 6.0% | 3.3% |
| Financing (LIBOR) | <u>-9.0%</u> | 1.1% |
| | <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, 2014.

**Harmony Area School District
Notes to Financial Statements
June 30, 2015**

Discount rate

The discount rate used to measure the total pension liability was 7.50%. 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 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate:

| | <u>1% Decrease</u> | <u>Current Discount Rate</u> | <u>1% Increase</u> |
|-------------------------------------------------------------|--------------------|------------------------------|--------------------|
| | 6.50% | 7.50% | 8.50% |
| District's proportionate share of the net pension liability | \$ 9,874,000 | \$ 7,916,000 | \$ 6,244,000 |

Pension plan fiduciary net position

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

12. Post-employment Healthcare Benefits

The Public School Employees' Retirement System (PSERS) provides a health insurance premium assistance program (premium assistance), a post-employment healthcare plan as defined in the Public School Employees' Retirement Code and amended by Act 29. The program is available to all eligible annuitants who elect to participate. Under this program, an employer contribution rate for premium assistance was established to provide reserves in the Health Insurance Account that are sufficient for the payment of premium assistance benefits.

Participating eligible annuitants are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their monthly insurance premium. In order to receive premium assistance, eligible annuitants must obtain their health insurance through their employer or the System's Health Options Program (HOP), in which the system acts as a conduit between the insurance companies and the eligible annuitant.

**Harmony Area School District
Notes to Financial Statements
June 30, 2015**

13. Long-Term Obligations

During the fiscal year ended June 30, 2015, general long-term obligations changed as follows:

| | Bonds Payable | Compensated Absences | Total General Long-term Debt |
|-------------------------------------|---------------------|-------------------------|------------------------------------|
| Beginning of year | \$ 7,255,000 | \$ 214,128 | \$ 7,469,128 |
| Principal retirement | (200,000) | 0 | (200,000) |
| Changes in compensated absences | <u>0</u> | <u>(20,981)</u> | <u>(20,981)</u> |
| End of year | 7,055,000 | 193,147 | 7,248,147 |
| Unamortized original issue discount | <u>(64,229)</u> | <u>0</u> | <u>(64,229)</u> |
| | 6,990,771 | 193,147 | 7,183,918 |
| Less: current portion | <u>(200,000)</u> | <u>(48,288)</u> | <u>(248,288)</u> |
| Long-term liabilities | <u>\$ 6,790,771</u> | <u>\$ 144,859</u> | <u>\$ 6,935,630</u> |

The future annual payments required to amortize outstanding bonds payable as of June 30, 2015, including total interest payments are as follows:

| Year Ended June 30, | General Obligation Bonds | | | |
|------------------------|--------------------------|---------------------|-----------------------------|---------------------|
| | Interest | Principal | Federal Interest Subsidy | Total |
| 2016 | 328,975 | 200,000 | (295,153) | 233,822 |
| 2017 | 325,575 | 205,000 | (295,153) | 235,422 |
| 2018 | 321,475 | 210,000 | (295,153) | 236,322 |
| 2019 | 316,855 | 210,000 | (295,153) | 231,702 |
| 2020 | 311,605 | 230,000 | (295,153) | 246,452 |
| 2021-2025 | 1,526,400 | 0 | (1,475,765) | 50,635 |
| 2026-2030 | <u>1,373,760</u> | <u>6,000,000</u> | <u>(1,034,536)</u> | <u>6,339,224</u> |
| | <u>\$ 4,504,645</u> | <u>\$ 7,055,000</u> | <u>\$ (3,986,066)</u> | <u>\$ 7,573,579</u> |

General Obligation Refunding Bonds, Series of 2011

In November 2011, the District issued \$1,810,000 of general obligation refunding bonds (Series of 2011) to refund the Series of 2006 general obligation bonds and to pay all costs incidental to the issuance of these bonds. The bonds bear interest rates ranging from 1.00% to 2.75% with annual principal maturities from January 2012 through January 2020. The projected savings from the refinancing was \$31,171. The balance outstanding at June 30, 2015 was \$1,055,000.

Harmony Area School District
Notes to Financial Statements
June 30, 2015

State Public School Building Authority, Series of 2011

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

The District had been approved by the Pennsylvania Department of Education to receive financing from proceeds of the QSCBs to finance the District's project. The loan of \$6,000,000 was used for building renovations, including a new roof, boiler system, electrical wiring and security entry ways, as well as for payment of all costs incidental to the issuance of this loan. The loan bears interest at a rate of 5.088%, with principal maturity in September 2029. Due to the interest subsidy, the effective interest rate should be 0.00%. However, the federal sequestration reduced the amount of the subsidy, making the effective rate of the bonds 0.169%. The balance outstanding at June 30, 2015 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, 2015 is \$425,323, which is reflected in the Capital Projects Fund.

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, 2015. Faculty and support staff are compensated at the per diem rate of \$90.00 and \$25.00, respectively, for unused sick days. The School District has computed a liability of \$193,147 at June 30, 2015 with \$190,058 reflected in the general fund and \$3,089 reflected in the proprietary fund for unused sick days. The District has estimated \$48,288 as current and \$144,859 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. Compensated absences liabilities for governmental activities will be paid by the general fund; whereas, those related to business-type activities will be paid by the proprietary fund.

**Harmony Area School District
Notes to Financial Statements
June 30, 2015**

14. Operating Leases

The School District entered into noncancellable operating leases for computers and copiers. Rental expenditures under all operating lease agreements were \$40,994 for fiscal year 2015. 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 |
|------------------------|-----------|
| 2016 | \$ 34,585 |
| 2017 | 32,926 |
| 2018 | 19,068 |
| 2019 | 4,047 |
| 2020 | 337 |

15. Other Post-employment benefits

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended June 30, 2010, the District recognizes the cost of postemployment healthcare in the year when employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the District's future cash flows. Because the District is adopting the requirements of GASB Statement No. 45 prospectively, recognition of the liability accumulated from prior years will be phased in over 20 years, commencing with the 2010 liability.

Plan Descriptions: The District provides continuation of individual medical insurance coverage to employees who retire from the District until the retiree reaches age 65 or becomes eligible for Medicare, whichever occurs first. Retirees are eligible for the District incentive upon retirement after attaining either 1) age 55 with 25 years of PSERS service and 10 years of service with the District or 2) 30 years of service at any age with the District. The District pays the full premium for the first year of retirement for the employee only. Any increases in the cost of the monthly premium for individual medical insurance above and beyond the premium rate at retirement shall be paid by the employee. In addition, the employee can purchase additional coverage, at the cost of the employee.

All contracts with the District's union employees will be renegotiated at various times in the future and, thus, costs and benefits are subject to change.

OPEB benefits are administered by District personnel. No separate financial statements are issued.

The number of participants as of June 30, 2013, the effective date of the triennial OPEB valuation, follows. There have been no significant changes in the number covered or the type of coverage since that date.

| | |
|-------------------|-----------|
| | District |
| Active employees | 55 |
| Retired employees | <u>7</u> |
| Total | <u>62</u> |

**Harmony Area School District
Notes to Financial Statements
June 30, 2015**

Funding Policy: The District currently pays for postemployment health care benefits on a pay-as-you-go basis, and these financial statements assume that pay-as-you-go funding will continue.

Annual OPEB Cost and Net OPEB Obligation: The District's annual other post-employment (OPEB) cost is calculated based on the annual required contribution (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers with fewer than 100 total members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 20 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed, and changes in the District's net OPEB obligation.

| | District |
|-----------------------------------------|-------------------|
| Annual required contribution (ARC) | \$ 273,118 |
| Interest on Net OPEB Obligation | 4,608 |
| Adjustment to ARC | <u>(6,057)</u> |
| Annual OPEB cost (expense) | 271,669 |
| Contribution for the fiscal year | <u>(171,512)</u> |
| Increase in Net OPEB Obligation | 100,157 |
| Net OPEB Obligation June 30, 2014 | <u>115,198</u> |
| Net OPEB Obligation June 30, 2015 | <u>\$ 215,355</u> |
| Percent of annual OPEB cost contributed | 63.13% |

As of June 30, 2013, the actuarial accrued liability for benefits was \$2,129,245, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$2,637,000, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 80.74 percent.

The District's annual OPEB cost, the percentage of cost contributed to the plan and the net OPEB obligation (asset) of the fiscal years ending June 30, 2015, 2014 and 2013 for the benefits were as follows:

| Year Ended | Annual OPEB Cost | Percentage of OPEB Cost Contributed | Net OPEB (Asset) Obligation |
|---------------|------------------|-------------------------------------|-----------------------------|
| June 30, 2015 | \$ 271,669 | 63.13% | \$ 215,355 |
| June 30, 2014 | \$ 264,028 | 51.94% | \$ 115,198 |
| June 30, 2013 | \$ 256,601 | 53.65% | \$ (11,688) |

**Harmony Area School District
Notes to Financial Statements
June 30, 2015**

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 57, or at the first subsequent year in which the member would qualify for benefits.

Mortality – Life expectancies were based on mortality tables from the National Center for Health Statistics. The RP2000 Mortality Table for Males and Females Projected 10 years was used.

Turnover – The District’s turnover is based on the Standard Turnover Assumptions from GASB 45, paragraph 35b.

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums was based on the Gentzen Model promulgated by the Society of Actuaries for use in long-term trend projections. A rate of 8.0 percent initially, reduced to an ultimate rate of 4.7 percent after six years, was used.

Health insurance premiums – Health insurance premiums for fiscal year 2013 were used as the basis for calculation of the present value of total benefits to be paid.

Payroll growth rate – The expected long-term payroll growth rate was assumed to be 3.5 percent, based on historical trends.

In the June 30, 2013 actuarial valuation, the liabilities were computed using a simplified version of the entry age actuarial cost method and level percentage of payroll amortization. The actuarial assumptions utilized a 4% discount rate. Because the plan is unfunded, reference to the general assets, which are short-term in nature (such as money market funds), was considered in the selection of the 4% rate.

16. Interfund Transactions

The following is a summary of interfund receivables and payables at June 30, 2015:

| | <u>Receivables</u> | <u>Payables</u> |
|----------------------------------------------|--------------------|------------------|
| General Fund (Major Fund) | \$127,972 | \$ 0 |
| Capital Projects Fund (Major Fund) | 0 | 30,127 |
| Proprietary Fund – Food Service (Major Fund) | 0 | 97,845 |
| | <u>\$127,972</u> | <u>\$127,972</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. The interfund balances above between the General Fund and the Capital Projects Fund represent an amount due back to the General Fund for the QSCB subsidy deposited into the Capital Projects Fund.

**Harmony Area School District
Notes to Financial Statements
June 30, 2015**

Interfund transfers during the year ended June 30, 2015 consisted of the following:

| | <u>Transfers In</u> | <u>Transfers Out</u> | <u>Equity Transfer</u> |
|----------------------------------------------|---------------------|----------------------|------------------------|
| Debt Service Fund (Non-Major Fund) | \$225,067 | \$ 0 | \$ 0 |
| Capital Projects Fund (Major Fund) | 283,150 | 0 | (25,446) |
| Proprietary Fund - Food Service (Major Fund) | 0 | 0 | 25,446 |
| General Fund (Major Fund) | <u>0</u> | <u>508,217</u> | <u>0</u> |
| | <u>\$508,217</u> | <u>\$508,217</u> | <u>\$ 0</u> |

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

In the year ended June 30, 2015, the Capital Projects Fund made an equity transfer to the Proprietary Fund for the Food Service Fund's share of the prior bond proceeds used to purchase capital assets for the Food Service Fund during the year ended June 30, 2015.

17. Jointly Governed Organization

The School District governs, with five other school districts, a vocational-technical school. Each district is represented on the Vo-Tech's school board. However, no on-going financial interest or responsibility exists between the School District and the Vo-Tech, other than a share in paying the debt service on the bond issues, which is included in tuition expense. Harmony Area School District's share of this debt service for 2014-15 is 3.33%. The District's portion of tuition expense for its students attending the Vo-Tech for fiscal 2015 was \$118,783.

18. 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.

19. 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, 2015, for unpaid claims incurred prior to fiscal year end is not readily determinable. No liability has been recorded for these claims at June 30, 2015, as the District recognizes medical claim expenses as claims are paid.

**Harmony Area School District
Notes to Financial Statements
June 30, 2015**

20. Risk Management

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has purchased various insurance policies to safeguard its assets from risk of loss. Insurance coverage appears to be consistent with previous years. During the year ended June 30, 2015 and the two previous fiscal years, no settlements exceeded insurance coverage.

21. Related Party Transactions

Intermediate Unit Participation

The District is a member of Central (CIU) Intermediate Unit 10. The District avails itself of various services provided by this membership including special education, curriculum development, and certain internal service functions. The total of services provided to Harmony Area School District for the year ended June 30, 2015 for CIU programs amounted to \$3,302. There are no amounts payable to the IU at June 30, 2015.

Technology Center School Participation

The District is served by the Clearfield County Career and Technology Center. Students of the District have available at the Technology Center courses and curriculums related to the technical training fields. Harmony Area School District made tuition payments totaling \$118,783 for the current year. There are no amounts due to or from the Technology Center at June 30, 2015.

22. 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.

23. 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 received. The total food commodities donated by the federal government for the fiscal year 2015 totaled \$14,958.

24. Subsequent Event

In October 2015, the District secured a Tax and Revenue Anticipation Note in the principal amount of \$650,000. The Note is structured as a non-revolving draw-down note and is to provide interim financing to support the District's operating needs until the State budget impasse is resolved. With the lack of a State budget, the District is not receiving any State subsidies or Federal pass-through funding.

The Note bears interest at a fixed rate of 1.96%, with the entire principal balance and accrued interest due on the earlier of the maturity date of February 28, 2016 or the time when the State funds have been received by the District.

Harmony Area School District
Required Supplementary Information – Pension Schedules
June 30, 2015

Schedule of Proportionate Share of the Net Pension Liability

| | <u>2015</u> | <u>2014</u> |
|-------------------------------------------------------------------------------------------------------|--------------|--------------|
| District's proportion of net pension liability | 0.0200% | 0.0206% |
| District's proportionate share of net pension liability | \$ 7,916,000 | \$ 8,433,000 |
| District's covered-employee payroll | \$ 2,553,156 | \$ 2,642,725 |
| District's proportionate share of net pension liability as percentage of its covered-employee payroll | 310.05% | 319.10% |
| Plan fiduciary net position as a percentage of the total pension liability | 57.24% | 54.49% |

Schedule of District Contributions

| | <u>2015</u> | <u>2014</u> |
|-----------------------------------------------------------------------|------------------|------------------|
| Contractually required contributions | \$ 402,942 | \$ 300,425 |
| Contributions in relation to the contractually required contributions | <u>(402,942)</u> | <u>(300,425)</u> |
| Contribution deficiency (excess) | <u>\$ 0</u> | <u>\$ 0</u> |
| Covered-employee payroll | \$ 2,553,156 | \$ 2,642,725 |
| Contributions as a percentage of covered-employee payroll | 15.78% | 11.37% |

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, 2015

| | Budgeted Amounts Original | Final | Actual (Budgetary Basis) | Variance with Final Budget Favorable (Unfavorable) |
|---------------------------------------------------|------------------------------|---------------------|--------------------------------|----------------------------------------------------------|
| Revenues | | | | |
| Local sources | \$ 1,300,550 | \$ 1,305,534 | \$ 1,259,709 | \$ (45,825) |
| State sources | 4,199,838 | 4,194,854 | 4,278,423 | 83,569 |
| Federal sources | <u>535,481</u> | <u>535,481</u> | <u>763,324</u> | <u>227,843</u> |
| Total revenues | <u>6,035,869</u> | <u>6,035,869</u> | <u>6,301,456</u> | <u>265,587</u> |
| Expenditures | | | | |
| Instruction: | | | | |
| Regular programs | 2,610,715 | 2,699,078 | 2,693,609 | 5,469 |
| Special programs | 805,784 | 805,784 | 646,545 | 159,239 |
| Vocational education programs | 108,232 | 108,232 | 118,783 | (10,551) |
| Other instructional programs | 61,290 | 61,290 | 70,443 | (9,153) |
| Pre-kindergarten | 146,759 | 115,078 | 110,040 | 5,038 |
| Support services: | | | | |
| Pupil personnel | 217,229 | 217,229 | 188,982 | 28,247 |
| Instructional staff | 254,827 | 198,145 | 170,938 | 27,207 |
| Administration | 507,553 | 507,553 | 500,763 | 6,790 |
| Pupil health | 111,621 | 111,621 | 90,920 | 20,701 |
| Business | 190,739 | 190,739 | 192,896 | (2,157) |
| Operation and maintenance of plant | 365,074 | 365,074 | 367,257 | (2,183) |
| Student transportation | 425,668 | 425,668 | 426,727 | (1,059) |
| Central | 19,565 | 19,565 | 19,346 | 219 |
| Operation of noninstructional services: | | | | |
| Student activities | 130,713 | 130,713 | 119,452 | 11,261 |
| Debt service: | | | | |
| Principal and interest | <u>258,244</u> | <u>258,244</u> | <u>0</u> | <u>258,244</u> |
| Total expenditures | <u>6,214,013</u> | <u>6,214,013</u> | <u>5,716,701</u> | <u>497,312</u> |
| Excess (deficiency) of revenues over expenditures | <u>(178,144)</u> | <u>(178,144)</u> | <u>584,755</u> | <u>762,899</u> |
| Other financing sources (uses) | | | | |
| Interfund transfers | (20,000) | (20,000) | (508,217) | (488,217) |
| Sale/compensation for fixed assets | <u>0</u> | <u>0</u> | <u>5,015</u> | <u>5,015</u> |
| Total other financing sources (uses) | <u>(20,000)</u> | <u>(20,000)</u> | <u>(503,202)</u> | <u>(483,202)</u> |
| Net change in fund balance | (198,144) | (198,144) | 81,553 | 279,697 |
| Fund balance, beginning of year | <u>1,350,969</u> | <u>1,350,969</u> | <u>1,145,643</u> | <u>(205,326)</u> |
| Fund balance, end of year | <u>\$ 1,152,825</u> | <u>\$ 1,152,825</u> | <u>\$ 1,227,196</u> | <u>\$ 74,371</u> |

See accompanying notes to the basic financial statements.

Harmony Area School District
Schedule of Expenditures of Federal Awards and Certain State Grants
For the Year Ended June 30, 2015

| Federal/Grant Project Title | Source | Federal C.F.D.A. Code Number | Pass Through Grantors Number | Grant Period Beginning/End Date | Program Or Award Amount | Total Received For the Year | Accrued (Unearned) Revenue at July 1, 2014 | Revenue Recognized | Expenditures | Accrued (Unearned) Revenue June 30, 2015 |
|-------------------------------------------------------------------------------------------------------------|--------|------------------------------------|---------------------------------------|------------------------------------|----------------------------------|--------------------------------------|-----------------------------------------------------|-----------------------|----------------|---------------------------------------------------|
| <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | | | | | | | | |
| Passed through the Pennsylvania Department of Public Welfare Medical Assistance Program - Reimbursement: | | | | | | | | | | |
| SBAP Admin. Reimbursement | I | 93.778 | N/A | 07/01/14-06/30/15 | N/A | \$ 817 | \$ 534 | \$ 283 | \$ 283 | \$ 0 |
| Total U.S. Department of Health and Human Services | | | | | | <u>817</u> | <u>534</u> | <u>283</u> | <u>283</u> | <u>0</u> |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | | | | | | | | |
| Passed through the Pennsylvania Department of Education: | | | | | | | | | | |
| ECIA Title I | I | 84.010 | 013-140183 | 07/01/13-09/30/14 | \$ 132,453 | 17,660 | 15,575 | 2,085 | 2,085 | 0 |
| ECIA Title I | I | 84.010 | 013-150183 | 07/01/14-09/30/15 | 119,207 | 111,297 | 0 | 119,207 | 119,207 | 7,910 |
| Program Improvement - Set-Aside | I | 84.010 | 042-140183 | 07/01/14-09/30/15 | 79,699 | 54,793 | 0 | 58,149 | 58,149 | 3,356 |
| Academic Achievement Award | I | 84.010 | 077-150183 | 03/18/15-09/30/15 | 47,000 | 20,143 | 0 | 0 | 0 | (20,143) |
| ECIA Title I Cluster | | | | | 378,359 | 203,893 | 15,575 | 179,441 | 179,441 | (8,877) |
| ECIA Title II Part A | I | 84.367 | 020-140183 | 07/01/13-09/30/14 | 44,798 | (21) | (21) | 0 | 0 | 0 |
| ECIA Title II Part A | I | 84.367 | 020-150183 | 07/01/14-09/30/15 | 44,757 | 35,809 | 0 | 44,335 | 44,335 | 8,526 |
| Striving Readers Comprehensive Literacy | I | 84.371C | 143-130183 | 07/01/13-09/30/14 | 293,547 | 48,924 | 46,019 | 2,905 | 2,905 | 0 |
| Striving Readers Comprehensive Literacy | I | 84.371C | 143-140183 | 10/01/14-09/30/15 | 277,578 | 277,578 | 0 | 253,212 | 253,212 | (24,366) |
| Total passed through the Pennsylvania Department of Education | | | | | <u>1,039,039</u> | <u>566,183</u> | <u>61,573</u> | <u>479,893</u> | <u>479,893</u> | <u>(24,717)</u> |
| Passed through Central Intermediate Unit 10: | | | | | | | | | | |
| IDEA Part B, Section 611 | I | 84.027 | N/A | 07/01/13-06/30/14 | 63,925 | 30,487 | 30,487 | 0 | 0 | 0 |
| IDEA Part B, Section 619 | I | 84.173 | N/A | 07/01/14-06/30/15 | 2,013 | 0 | 0 | 2,013 | 2,013 | 2,013 |
| IDEA Part B, Section 611 | I | 84.027 | N/A | 07/01/14-06/30/15 | 68,302 | 32,695 | 0 | 68,302 | 68,302 | 35,607 |
| Subtotal Special Education Cluster (IDEA) | | | | | 134,240 | 63,182 | 30,487 | 70,315 | 70,315 | 37,620 |
| Total passed through Central Intermediate Unit 10 | | | | | <u>134,240</u> | <u>63,182</u> | <u>30,487</u> | <u>70,315</u> | <u>70,315</u> | <u>37,620</u> |
| Total U.S. Department of Education | | | | | <u>1,173,279</u> | <u>629,365</u> | <u>92,060</u> | <u>550,208</u> | <u>550,208</u> | <u>12,903</u> |

See accompanying notes to the basic financial statements.

Harmony Area School District
Schedule of Expenditures of Federal Awards and Certain State Grants
For the Year Ended June 30, 2015

| Federal/Grant Project Title | Source Code | Federal C.F.D.A. Number | Pass Through Grantors Number | Grant Period Beginning/End Date | Program Or Award Amount | Total Received For the Year | Accrued (Unearned) Revenue at July 1, 2014 | Revenue Recognized | Expenditures | Accrued (Unearned) Revenue June 30, 2015 |
|-----------------------------------------------------------------|----------------|-------------------------------|---------------------------------------|------------------------------------|----------------------------------|--------------------------------------|-----------------------------------------------------|-----------------------|--------------|---------------------------------------------------|
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | | | | | | | | | |
| Passed through the Pennsylvania Department of Agriculture: | | | | | | (a) | (b) | | (c) | (d) |
| National School Lunch - USDA Commodities | I | 10.555 | N/A | 07/01/14-06/30/15 | N/A | 14,958 | (6,736) | 13,549 | 13,549 | (8,145) |
| Passed through the Pennsylvania Department of Education: | | | | | | | | | | |
| National School Lunch | I | 10.555 | N/A | 07/01/14-06/30/15 | N/A | 116,136 | 2,279 | 117,651 | 117,651 | 3,794 |
| Severe Needs Breakfast | I | 10.553 | N/A | 07/01/14-06/30/15 | N/A | 54,925 | 1,197 | 55,499 | 55,499 | 1,771 |
| Subtotal Nutrition Cluster | | | | | | 186,019 | (3,260) | 186,699 | 186,699 | (2,580) |
| State Matching Funds | S | N/A | N/A | 07/01/14-06/30/15 | N/A | 9,446 | 231 | 9,496 | 9,496 | 281 |
| Total passed through the Pennsylvania Department of Agriculture | | | | | | 195,465 | (3,029) | 196,195 | 196,195 | (2,299) |
| Total U.S. Department of Agriculture | | | | | | 195,465 | (3,029) | 196,195 | 196,195 | (2,299) |
| Total Financial Assistance | | | | | \$ 1,173,279 | \$ 825,647 | \$ 89,565 | \$ 746,686 | \$ 746,686 | \$ 10,604 |

See accompanying notes to the basic financial statements.

**Harmony Area School District
Schedule of Expenditures of Federal Awards and Certain State Grants
For the Year Ended June 30, 2015**

Notes to Schedule of Expenditures of Federal Awards and Certain State Grants

Note A – Significant Accounting Policies

The accompanying schedule of expenditures of federal awards and certain state grants is prepared on the accrual basis of accounting.

Note B – Donated Commodities

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2015, the District had food commodities totaling \$8,145 in inventory.

- (a) Total amount of commodities received from the Department of Agriculture.
- (b) Beginning inventory at July 1, 2014.
- (c) Total amount of commodities used.
- (d) Ending inventory at June 30, 2015.

Note C – Direct/Indirect Funding

The following source codes reflect program funding:

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

Note D – Reconciliation to Financial Statements

| | |
|---------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Total Federal Sources reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds | \$ 763,324 |
| Less: Federal interest subsidy (QSCB) | (283,148) |
| Plus: IDEA-B passed through, recorded as Local Sources | <u>70,315</u> |
| Total Federal Expenditures – Governmental Funds | <u>550,491</u> |
| Total Federal Sources reported on Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds | <u>186,699</u> |
| Total Federal Expenditures – Proprietary Fund | <u>186,699</u> |
| Total Federal Expenditures | <u>\$ 737,190</u> |

**Harmony Area School District
Schedule of Expenditures of Federal Awards and Certain State Grants
For the Year Ended June 30, 2015**

Notes to Schedule of Expenditures of Federal Awards and Certain State Grants

Note E – Test of 50% Rule

| | | |
|-------------------------------------------------------------------------------------|------------------|-------|
| Total Expenditures | \$746,686 | |
| Less: State’s share of National School Lunch and Severe Needs Breakfast Programs | <u>(9,496)</u> | |
| Total Federal Expenditures | <u>\$737,190</u> | |
| Nutrition Cluster | \$186,699 | |
| Striving Readers Comprehensive Literacy | <u>256,117</u> | |
| Tested | <u>\$442,816</u> | = 60% |
| Total Federal Expenditures | \$737,190 | |

**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, 2015 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 December 10, 2015.

Internal Control Over Financial Reporting

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

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 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 questioned costs, that we consider to be a significant deficiency - **#2015-001**.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harmony Area School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Harmony Area School District's Response to Findings

Harmony Area School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. 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
December 10, 2015

**Independent Auditors' Report on Compliance for Each Major Federal Program and on
Internal Control Over Compliance Required by OMB Circular A-133**

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

Report on Compliance for Each Major Federal Program

We have audited Harmony Area School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Harmony Area School District's major federal programs for the year ended June 30, 2015. Harmony Area School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Harmony Area School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harmony Area School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Harmony Area School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Harmony Area School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of Harmony Area School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Harmony Area School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harmony Area School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Kotzan CPA and Associates, P.C.

Kotzan CPA & Associates, P.C.
Johnstown, Pennsylvania
December 10, 2015

**Harmony Area School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *unmodified*

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

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

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

Significant deficiency identified not considered to be material weakness(es)? Yes X None reported

Type of auditors' report issued on compliance for major programs: *unmodified*

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? Yes X No

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|-------------------------------------------|
| 10.553/10.555 | Nutrition Cluster |
| 84.371C | Striving Readers Comprehensive Literacy |

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes X No

**Harmony Area School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015**

Section II – Financial Statement Findings

INTERNAL CONTROL OVER FINANCIAL REPORTING

Finding #2015-001

CONDITION:

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

CRITERIA:

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

CAUSE:

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

EFFECT:

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

RECOMMENDATION:

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

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.

Section III – Federal Award Findings and Questioned Costs – No findings or questioned costs.