

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

**Single Audit as required by  
The Uniform Guidance**

**For the Year Ended  
June 30, 2016**

## Table of Contents

List of Report Distributions .....	2
Independent Auditors' Report .....	3
Management's Discussion and Analysis .....	5
Basic Financial Statements	
Statement of Net Position .....	13
Statement of Activities .....	15
Balance Sheet – Governmental Funds .....	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities .....	19
Statement of Net Position – Proprietary Fund .....	21
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund .....	22
Statement of Cash Flows – Proprietary Fund .....	23
Statement of Fiduciary Net Position – Fiduciary Funds .....	24
Statement of Changes in Fiduciary Net Position – Fiduciary Funds .....	25
Notes to Financial Statements .....	26
Supplemental Information	
Pension Schedules .....	52
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund .....	54
Schedule of Expenditures of Federal Awards and Certain State Grants .....	55
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 <i>Government Auditing Standards</i> .....	59
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance .....	61
Schedule of Findings and Questioned Costs.....	63
Schedule of Prior Audit Findings .....	65

**List of Report Distribution**

December 9, 2016

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, 2016, 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, historical pension information, and budgetary comparison information on pages 5 through 11, page 52 and 53, and page 54, 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 9, 2016, 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 9, 2016

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# Management's Discussion and Analysis

## *Harmony Area School District*

2015-2016

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

### **Financial Statements**

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

#### Government-Wide Financial Statements

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

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

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

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

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

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

#### Fund Financial Statements

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

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

Governmental Funds

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

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

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the District's major funds, which are the General Fund and the Capital Projects Fund. The District's non-major funds are aggregated and reported in a separate column. The District's non-major fund 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 \$6,317,252 and expenditures of \$5,457,732, resulting in an excess of revenues over expenditures of \$859,520, before transfers, for the year ended June 30, 2016. The transfers out totaled \$505,753, of which \$283,726 was to the Capital Projects Fund for bond interest payments and \$222,027 was to the Debt Service Fund to cover bond payments. After the transfers out, the general fund "final" excess of revenues over expenditures was \$353,767 for the year ended June 30, 2016. Harmony Area School District's general fund maintains a fund balance of \$1,580,963 at June 30, 2016. In addition to the general fund, the fund balance of the capital projects fund is \$1,206,906, and the fund balance of the debt service fund is \$10,164 at June 30, 2016. 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 the costs 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, 2016 as compared to June 30, 2015.

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

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total School District</b>		<b>Change</b>
	<b>2016</b>	<b>2015 *</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2015-16</b>
<b>Assets</b>							
Current assets	\$ 3,597,959	\$ 3,138,150	\$ 41,421	\$ 23,122	\$ 3,639,380	\$ 3,161,272	\$ 478,108
Non-current assets	7,633,819	8,020,287	44,877	51,642	7,678,696	8,071,929	(393,233)
Total assets	11,231,778	11,158,437	86,298	74,764	11,318,076	11,233,201	84,875
Deferred outflows of resources	560,501	487,145	37,247	10,996	597,748	498,141	99,607
Total assets and deferred outflows	<u>\$ 11,792,279</u>	<u>\$ 11,645,582</u>	<u>\$ 123,545</u>	<u>\$ 85,760</u>	<u>\$ 11,915,824</u>	<u>\$ 11,731,342</u>	<u>\$ 184,482</u>
<b>Liabilities</b>							
Current liabilities	\$ 704,575	\$ 784,250	\$ 124,658	\$ 107,289	\$ 829,233	\$ 891,539	\$ (62,306)
Long-term liabilities	15,197,216	14,889,923	210,929	177,062	15,408,145	15,066,985	341,160
Total liabilities	15,901,791	15,674,173	335,587	284,351	16,237,378	15,958,524	278,854
Deferred inflows of resources	450,961	747,135	10,949	16,865	461,910	764,000	(302,090)
<b>Net Position</b>							
Invested in capital assets, net of related debt	837,040	1,029,516	44,877	51,642	881,917	1,081,158	(199,241)
Restricted	1,217,070	1,142,185	0	0	1,217,070	1,142,185	74,885
Unrestricted	(6,614,583)	(6,947,427)	(267,868)	(267,098)	(6,882,451)	(7,214,525)	332,074
Total net position	(4,560,473)	(4,775,726)	(222,991)	(215,456)	(4,783,464)	(4,991,182)	207,718
Total liabilities, deferred inflows and net position	<u>\$ 11,792,279</u>	<u>\$ 11,645,582</u>	<u>\$ 123,545</u>	<u>\$ 85,760</u>	<u>\$ 11,915,824</u>	<u>\$ 11,731,342</u>	<u>\$ 184,482</u>

\* Governmental activities for 2015 have been adjusted for the increase in current assets and restricted net position for the reporting of U.S. Treasury investments at fair market value, versus at cost (\$23,448).

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

Current assets represented 32.16% of the total assets comprised largely of cash and cash equivalents of \$2,236,484, investments of \$683,936, taxes receivable of \$327,215, and intergovernmental receivables of \$359,975. Fixed assets including land, site and building improvements, furniture and equipment, and infrastructure assets represent 67.84% of total assets at \$7,678,696.

The total liability amount of \$16,237,378 consists primarily of bonds payable (\$6,796,779), net pension liability (\$8,360,000), compensated absences (\$189,038), vendor accounts payable (\$162,838), and accrued salaries and benefits (\$370,208).



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

The resulting negative \$4,783,464 in net position includes \$881,917 invested in capital assets, net of related debt, \$1,206,906 restricted for capital projects, \$10,164 restricted for debt service and negative \$6,882,451 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, 2016 compared to the year ended June 30, 2015.

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

	Governmental Activities		Business-type Activities		Total School District		Change 2015-16
	2016	2015	2016	2015	2016	2015	
Program Revenues:							
Charges for services	\$ 7,789	\$ 5,987	\$ 38,469	\$ 39,409	\$ 46,258	\$ 45,396	\$ 862
Operating grants and contributions	2,343,271	2,269,691	236,646	205,343	2,579,917	2,475,034	104,883
Capital grants and contributions	108,380	108,931	0	25,446	108,380	134,377	(25,997)
General Revenues:							
Property and other taxes	1,201,671	1,174,409	0	0	1,201,671	1,174,409	27,262
Grants and entitlements	2,767,395	2,733,439	0	0	2,767,395	2,733,439	33,956
Investment earnings	100,798	26,361	24	2	100,822	26,363	74,459
Other	0	6,954	0	0	0	6,954	(6,954)
Total Revenues	<u>6,529,304</u>	<u>6,325,772</u>	<u>275,139</u>	<u>270,200</u>	<u>6,804,443</u>	<u>6,595,972</u>	<u>208,471</u>
Program Expenses:							
Instruction	3,288,380	3,950,770	0	0	3,288,380	3,950,770	(662,390)
Support services:							
Instructional student support	693,293	411,404	0	0	693,293	411,404	281,889
Administration and financial	921,953	858,498	0	0	921,953	858,498	63,455
Plant operation and maintenance	508,455	402,980	0	0	508,455	402,980	105,475
Pupil transportation	432,485	446,674	0	0	432,485	446,674	(14,189)
Student activities/community	136,149	125,036	0	0	136,149	125,036	11,113
Interest on long-term debt	333,336	336,358	0	0	333,336	336,358	(3,022)
Food Services	0	0	282,674	263,398	282,674	263,398	19,276
Total Expenses	<u>6,314,051</u>	<u>6,531,720</u>	<u>282,674</u>	<u>263,398</u>	<u>6,596,725</u>	<u>6,795,118</u>	<u>(198,393)</u>
Increase (decrease) in net assets	<u>\$ 215,253</u>	<u>\$ (205,948)</u>	<u>\$ (7,535)</u>	<u>\$ 6,802</u>	<u>\$ 207,718</u>	<u>\$ (199,146)</u>	<u>\$ 406,864</u>

Revenues increased from the prior year by \$208,471, or 3.16%. Revenue increases were in Basic Education Subsidy (\$33,962) and the Keystone to Opportunity grant (\$128,844). These were offset by a decrease in Special Education Subsidy (\$100,206). In addition, the Capital Projects Fund reported an increase in the fair market value (\$97,569) of the U.S Treasury bond.

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

Expenses decreased over the prior year by \$198,393. The decrease in overall expenses is due, in large part, to declining enrollment. The decrease in expenses for 2015-16 for 1100 – Regular Instruction was attributable to the reduction in staff to part time for Physical Education, Music, and Art. In addition, the consumer science position was not replaced with a new employee, but was filled in-house with current staffing. For 2015-16, 1200 – Special Education recognized a decrease in expenses with the movement of the special education coordinator and secretary moving out of this function and into the 2200's, based on new account coding by PDE. Also, for 2015-16, 2700 – Transportation expenses decreased due to a reduction in the transportation required for special needs students to facilities outside the District, as the students did not return to the district.

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

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

<b>Function</b>	<b>Description</b>	<b>Actual 2015-16 Expenses</b>	<b>Actual 2014-15 Expenses</b>	<b>Over/(Under) From P/Y</b>	<b>2015-16 Budget</b>	<b>(Over)/Under 2015-16</b>
1100	Regular Educational Programs	\$ 2,431,563	\$ 2,693,609	\$ (262,046)	\$ 2,545,068	\$ 113,505
1200	Special Education	526,654	646,545	(119,891)	545,915	19,261
1300	Vocational Education	153,023	118,783	34,240	170,400	17,377
1400	Other Instructional Programs	59,358	70,443	(11,085)	135,784	76,426
1800	Pre-Kindergarten	118,095	110,040	8,055	114,402	(3,693)
2100	Pupil Services	142,088	188,982	(46,894)	148,144	6,056
2200	Instructional Staff Services	304,169	170,938	133,231	248,260	(55,909)
2300	Administration	504,644	500,763	3,881	535,534	30,890
2400	Health Services	88,359	90,920	(2,561)	102,283	13,924
2500	Business	189,071	192,896	(3,825)	197,288	8,217
2600	Maintenance	392,506	367,257	25,249	406,533	14,027
2700	Transportation	403,708	426,727	(23,019)	429,225	25,517
2800/2900	IU Programs	17,349	19,346	(1,997)	17,476	127
3000	Student Activities/Community	127,090	119,452	7,638	141,539	14,449
5110	Financing	55	0	55	304,935	304,880
5200	Interfund Transfers	505,753	508,217	(2,464)	71,885	(433,868)
	Total Expenditures	5,963,485	6,224,918	(261,433)	6,114,671	151,186
	Revenues	6,317,252	6,306,471	10,781	6,114,671	202,581
	Net Change	<u>\$ 353,767</u>	<u>\$ 81,553</u>	<u>\$ 272,214</u>	<u>\$ 0</u>	<u>\$ 353,767</u>

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

**DIFFERENCES**

- 1100 The reduction in staff to part time for Physical Education, Music, and Art. In addition, the consumer science position was not replaced with a new employee, but was filled in-house with current staffing.
- 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**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>		<b>Percentage Change 2015-16</b>
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	
Land	\$ 5,000	\$ 5,000	\$ 0	\$ 0	\$ 5,000	\$ 5,000	0.00%
Buildings and improvements	6,994,901	7,338,187	0	0	6,994,901	7,338,187	-4.68%
Infrastructure	211,389	215,748	0	0	211,389	215,748	100.00%
Equipment and furniture	422,529	461,352	44,877	51,642	467,406	512,994	-8.89%
	<u>\$ 7,633,819</u>	<u>\$ 8,020,287</u>	<u>\$ 44,877</u>	<u>\$ 51,642</u>	<u>\$ 7,678,696</u>	<u>\$ 8,071,929</u>	-4.87%

**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>2016</u>	<u>2015</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>855,000</u>	<u>1,055,000</u>	-18.96%
Total	<u>\$ 6,855,000</u>	<u>\$ 7,055,000</u>	-2.83%

**MAJOR FINANCIAL ISSUES**

The financial issues pertaining to the District for the 2015-16 year are as follows:

**BUILDING IMPROVEMENTS**

For the 2015-16 school year, new insulated garage doors were installed at the maintenance building, as the previous doors were not insulated. This will save on heating costs of this building. Gym floor restorations were completed. Transfer switch installed and completed for emergency use on the generator. A new water heater was installed for domestic hot water. Sixty (60) night locks, which are part of ALICE program, were installed on all interior doors.

**CURRICULUM**

New Math resource books were purchased for the Elementary to align with the PA Common Core Standards. No other new curriculum materials were purchased for the 2015-2016 school year due to budget constraints.

**TECHNOLOGY**

During the 2015-16 school year, several necessary technology upgrades took place that focused on preventative maintenance and keeping our infrastructure up to speed. A brand new firewall/web-filter was implemented in order to replace the previous one, which had been online for six years and was beginning to slow down and wasn't meeting our filtering needs. Our new firewall gave us full functionality and maintains a safe online environment. Another big project was the purchase and implementation of a new telephone system for the school, as the old system was having major hardware breakdowns during the 2015-16 school year. The new phone system has greater capability in terms of regulation/monitoring of users as well as voicemail and online features. District printers that are networked for use by students and staff in the laboratory areas were also upgraded in order to create a more efficient system, with better financial reliability as well as enhanced printing capability. Finally many of the original mounted projectors in classrooms began to fail after six or more years of use and a rotational schedule was put into place to start to swap these projectors out for new ones. That process began in 2015-16 by upgrading eight classrooms and will continue on a cyclical basis.

**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, 2016**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Current assets:			
Cash and equivalents	\$ 2,203,695	\$ 32,789	\$ 2,236,484
Investments	683,936	0	683,936
Taxes receivable	327,215	0	327,215
Intergovernmental receivables	359,975	0	359,975
Other receivables	8,785	0	8,785
Inventories	14,353	8,632	22,985
Total current assets	3,597,959	41,421	3,639,380
Noncurrent assets:			
Land	5,000	0	5,000
Depreciable capital assets, net	7,628,819	44,877	7,673,696
Total noncurrent assets	7,633,819	44,877	7,678,696
Total assets	11,231,778	86,298	11,318,076
<b>Deferred Outflows of Resources</b>			
Defined benefit pension plan:			
Change in proportionate share	0	22,910	22,910
Contributions subsequent to measurement date	560,501	14,337	574,838
Total deferred outflows of resources	560,501	37,247	597,748
Total assets and deferred outflows of resources	\$ 11,792,279	\$ 123,545	\$ 11,915,824

See accompanying notes to the basic financial statements.

**Harmony Area School District  
Statement of Net Position  
June 30, 2016**

	Governmental Activities	Business-Type Activities	Total
<b>Liabilities</b>			
Current liabilities:			
Internal balances	\$ (116,345)	\$ 116,345	\$ 0
Due to other governments	2,013	0	2,013
Accounts payable	161,607	1,231	162,838
Current portion of long-term obligations	251,450	809	252,259
Accrued interest payable	13,523	0	13,523
Accrued salaries and wages	370,208	0	370,208
Payroll deductions and withholdings	12,119	0	12,119
Unearned revenues	10,000	6,273	16,273
Total current liabilities	704,575	124,658	829,233
Noncurrent liabilities:			
Bonds payable, net of discount	6,591,779	0	6,591,779
Net pension liability	8,151,499	208,501	8,360,000
Other post-employment benefits liability (OPEB)	314,587	0	314,587
Long-term portion of compensated absences	139,351	2,428	141,779
Total noncurrent liabilities	15,197,216	210,929	15,408,145
Total liabilities	15,901,791	335,587	16,237,378
<b>Deferred Inflows of Resources</b>			
Defined benefit pension plan:			
Change in proportionate share	401,231	9,679	410,910
Difference between projected and actual investment earnings	16,577	423	17,000
Difference between projected and actual experience	33,153	847	34,000
Total deferred inflows of resources	450,961	10,949	461,910
<b>Net Position</b>			
Invested in capital assets, net of debt	837,040	44,877	881,917
Restricted for debt service (spendable)	10,164	0	10,164
Restricted for capital projects (spendable)	1,206,906	0	1,206,906
Unrestricted	(6,614,583)	(267,868)	(6,882,451)
Total net position	(4,560,473)	(222,991)	(4,783,464)
Total liabilities, deferred inflows of resources, and net position	\$ 11,792,279	\$ 123,545	\$ 11,915,824

See accompanying notes to the basic financial statements.

**Harmony Area School District  
Statement of Activities  
For the Year Ended June 30, 2016**

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
Instruction	\$ 3,288,380	\$ 0	\$ 1,407,327	\$ 0	\$ (1,881,053)	\$ 0	\$ (1,881,053)
Instructional student support	693,293	0	277,641	0	(415,652)	0	(415,652)
Administration and financial support	921,953	0	6,262	0	(915,691)	0	(915,691)
Operations and maintenance of plant	508,455	2,413	368,283	108,380	(29,379)	0	(29,379)
Pupil transportation	432,485	0	0	0	(432,485)	0	(432,485)
Student activities	136,149	5,376	0	0	(130,773)	0	(130,773)
Interest on long-term debt	333,336	0	283,758	0	(49,578)	0	(49,578)
Total governmental activities	6,314,051	7,789	2,343,271	108,380	(3,854,611)	0	(3,854,611)
<b>Business-Type Activities:</b>							
Food service	282,674	38,469	236,646	0	0	(7,559)	(7,559)
Total primary government	<u>\$ 6,596,725</u>	<u>\$ 46,258</u>	<u>\$ 2,579,917</u>	<u>\$ 108,380</u>	<u>(3,854,611)</u>	<u>(7,559)</u>	<u>(3,862,170)</u>
<b>General Revenues:</b>							
Taxes levied					1,201,671	0	1,201,671
Grants, subsidies and contributions, not restricted					2,767,395	0	2,767,395
Investment earnings					100,798	24	100,822
Total general revenues					4,069,864	24	4,069,888
Change in net position					215,253	(7,535)	207,718
Net position, beginning of year, restated					(4,775,726)	(215,456)	(4,991,182)
Net position, end of year					<u>\$ (4,560,473)</u>	<u>\$ (222,991)</u>	<u>\$ (4,783,464)</u>

See accompanying notes to the basic financial statements.



**Harmony Area School District  
Balance Sheet  
Governmental Funds  
June 30, 2016**

	General Fund	Major Fund Capital Projects	Non-Major Fund Debt Service	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 1,660,148	\$ 533,383	\$ 10,164	\$ 2,203,695
Investments	0	683,936	0	683,936
Taxes receivable	327,215	0	0	327,215
Due from other funds	126,758	0	0	126,758
Due from other governments	262,457	0	0	262,457
Other receivables	8,785	0	0	8,785
Inventories	14,353	0	0	14,353
Total assets	2,399,716	1,217,319	10,164	3,627,199
<b>Deferred Outflows of Resources</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total assets and deferred outflows of resources	<u>\$ 2,399,716</u>	<u>\$ 1,217,319</u>	<u>\$ 10,164</u>	<u>\$ 3,627,199</u>
<b>Liabilities</b>				
Due to other funds	\$ 0	\$ 10,413	\$ 0	\$ 10,413
Due to other governments	2,013	0	0	2,013
Accounts payable	161,607	0	0	161,607
Accrued salaries and benefits	370,208	0	0	370,208
Payroll deductions and withholdings	12,119	0	0	12,119
Unearned revenues	10,000	0	0	10,000
Total liabilities	<u>555,947</u>	<u>10,413</u>	<u>0</u>	<u>566,360</u>
<b>Deferred Inflows of Resources</b>				
Delinquent taxes receivable	<u>262,806</u>	<u>0</u>	<u>0</u>	<u>262,806</u>
Total deferred inflows of resources	<u>262,806</u>	<u>0</u>	<u>0</u>	<u>262,806</u>
<b>Fund Balance</b>				
Nonspendable fund balance	14,353	0	0	14,353
Restricted fund balance	0	1,206,906	10,164	1,217,070
Assigned fund balance	700,000	0	0	700,000
Unassigned fund balance	866,610	0	0	866,610
Total fund balance	<u>1,580,963</u>	<u>1,206,906</u>	<u>10,164</u>	<u>2,798,033</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 2,399,716</u>	<u>\$ 1,217,319</u>	<u>\$ 10,164</u>	<u>\$ 3,627,199</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, 2016**

**Total fund balance – governmental funds** \$2,798,033

**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 \$13,753,194 and the accumulated depreciation is \$6,119,375. 7,633,819

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. 262,806

The Rental and Sinking Fund Subsidy revenue from the state for bond payments made in fiscal year 2016 have been approved and will be collected within the next year, but will not provide current financial resources, and thus, is not reported as revenue or receivable in the funds. 97,518

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	\$(6,855,000)	
Compensated absences	(185,801)	
Accrued interest payable	(13,523)	
Bond discount, net of amortization	58,221	
OPEB liability	(314,587)	
Net pension liability	<u>(8,151,499)</u>	(15,462,189)

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	\$560,501	
Deferred inflows related to pensions	<u>(450,961)</u>	<u>109,540</u>

**Net position of governmental activities** \$(4,560,473)

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, 2016**

	General Fund	Major Fund Capital Projects	Non-Major Fund Debt Service	Total Governmental Funds
<b>Revenues</b>				
Local sources	\$ 1,263,417	\$ 98,968	\$ 19	\$ 1,362,404
State sources	4,122,280	0	0	4,122,280
Federal sources	931,555	0	0	931,555
Total revenues	<u>6,317,252</u>	<u>98,968</u>	<u>19</u>	<u>6,416,239</u>
<b>Expenditures</b>				
Instruction	3,288,693	0	0	3,288,693
Support services	2,041,894	844	36	2,042,774
Non-instructional services	127,090	0	0	127,090
Debt service (principal and interest)	53	305,280	223,695	529,028
Refund of prior year receipts	2	0	0	2
Total expenditures	<u>5,457,732</u>	<u>306,124</u>	<u>223,731</u>	<u>5,987,587</u>
Excess of revenues over (under) expenditures	<u>859,520</u>	<u>(207,156)</u>	<u>(223,712)</u>	<u>428,652</u>
<b>Other financing sources (uses)</b>				
Interfund transfers	<u>(505,753)</u>	<u>283,726</u>	<u>222,027</u>	<u>0</u>
Total other financing sources (uses)	<u>(505,753)</u>	<u>283,726</u>	<u>222,027</u>	<u>0</u>
Net change in fund balance	353,767	76,570	(1,685)	428,652
Fund balance, beginning of year, restated	<u>1,227,196</u>	<u>1,130,336</u>	<u>11,849</u>	<u>2,369,381</u>
Fund balance, end of year	<u>\$ 1,580,963</u>	<u>\$ 1,206,906</u>	<u>\$ 10,164</u>	<u>\$ 2,798,033</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, 2016**

**Total net change in fund balance – governmental funds** \$ 428,652

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

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

Capital outlay	\$ 11,480	
Depreciation expense	<u>(397,948)</u>	(386,468)

Because some property taxes will not be collected for several months after the District’s fiscal year ends, they are not considered as “available” revenues in the governmental funds. Deferred inflows of resources from tax revenues increased by this amount this year. 15,549

The Rental and Sinking Fund subsidy revenue from the state for bond payments made in fiscal year 2016 has been approved and will be collected within the next year, but will not provide current financial resources, and thus, is not reported as revenue in the funds. 97,518

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. Accrued interest expense decreased by this amount this year. 1,698

In the governmental funds, compensated absences are measured by the amounts used. The statement of activities measures by the amounts earned. The liability for compensated absences decreased by this amount this year. 4,258

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. The liability for post-employment benefits increased by this amount this year. (99,232)

**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, 2016**

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

District pension contributions	\$ 560,501	
Pension expense	<u>(601,216)</u>	(40,715)

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**

\$ 215,253

See accompanying notes to the basic financial statements.

**Harmony Area School District  
Statement of Net Position  
Proprietary Fund  
June 30, 2016**

	<u>Food Service</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 32,789
Inventory	<u>8,632</u>
Total current assets	<u>41,421</u>
Noncurrent assets:	
Machinery and equipment, net	<u>44,877</u>
Total noncurrent assets	<u>44,877</u>
Total assets	<u>86,298</u>
<b>Deferred Outflows of Resources</b>	
Defined benefit pension plan:	
Change in proportionate share	22,910
Contributions subsequent to measurement date	<u>14,337</u>
Total deferred outflows of resources	<u>37,247</u>
Total assets and deferred outflows of resources	<u><u>\$ 123,545</u></u>
<b>Liabilities</b>	
Current liabilities:	
Due to other funds	\$ 116,345
Accounts payable	1,231
Current portion of compensated absences	809
Unearned revenues	<u>6,273</u>
Total current liabilities	<u>124,658</u>
Noncurrent liabilities:	
Long-term portion of compensated absences	2,428
Net pension liability	<u>208,501</u>
Total noncurrent liabilities	<u>210,929</u>
Total liabilities	<u>335,587</u>
<b>Deferred Inflows of Resources</b>	
Defined benefit pension plan:	
Change in proportionate share	9,679
Difference between projected and actual investment earnings	423
Difference between projected and actual experience	<u>847</u>
Total deferred inflows of resources	<u>10,949</u>
<b>Net Position</b>	
Invested in capital assets	44,877
Unrestricted	<u>(267,868)</u>
Total net position	<u>(222,991)</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 123,545</u></u>

See accompanying notes to the basic financial statements.

**Harmony Area School District**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Fund**  
**For the Year Ended June 30, 2016**

	<u>Food Service</u>
<b>Operating revenues</b>	
Food service revenue	\$ 36,357
Other operating revenue	<u>2,112</u>
Total operating revenues	<u>38,469</u>
<b>Operating expenses</b>	
Salaries	63,829
Employee benefits	40,596
Purchased property services	6,579
Other purchased services	496
Supplies	164,357
Depreciation	6,765
Other operating expenses	<u>52</u>
Total operating expenses	<u>282,674</u>
Operating income (loss)	<u>(244,205)</u>
<b>Nonoperating revenues (expenses)</b>	
Earnings on investments	24
State sources	20,037
Federal sources	<u>216,609</u>
Total nonoperating revenues (expenses)	<u>236,670</u>
Change in net position	(7,535)
Total net position, beginning of year	<u>(215,456)</u>
Total net position, end of year	<u><u>\$ (222,991)</u></u>

See accompanying notes to the basic financial statements.

**Harmony Area School District  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended June 30, 2016**

	Food Service
<b>Cash flows from operating activities</b>	
Cash received from users	\$ 34,485
Cash received from other operating revenue	2,112
Cash payments to employees for services	(84,189)
Cash payments to suppliers for goods and services	(169,145)
Cash payments for other operating expenses	<u>(52)</u>
Net cash provided by (used for) operating activities	<u>(216,789)</u>
<b>Cash flows from non-capital financing activities</b>	
State sources	20,318
Federal sources	<u>222,174</u>
Net cash provided by (used for) non-capital financing activities	<u>242,492</u>
<b>Cash flows from investing activities</b>	
Earnings on investments	<u>24</u>
Net cash provided by (used for) investing activities	<u>24</u>
Net increase (decrease) in cash and cash equivalents	25,727
Cash and cash equivalents, beginning of year	<u>7,062</u>
Cash and cash equivalents, end of year	<u>\$ 32,789</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>	
Operating income (loss)	<u>\$ (244,205)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	6,765
(Increase) decrease in inventories	1,582
(Increase) decrease in deferred outflows of resources	(26,251)
Increase (decrease) in accounts payable	19,205
Increase (decrease) in accrued salaries/benefits	148
Increase (decrease) in unearned revenues	(1,872)
Increase (decrease) in net pension liability	33,755
Increase (decrease) in deferred inflows of resources	<u>(5,916)</u>
Total adjustments	<u>27,416</u>
Net cash provided by (used for) operating activities	<u>\$ (216,789)</u>

See accompanying notes to the basic financial statements.



**Harmony Area School District  
Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2016**

	Agency <u>Fund</u>	Private Purpose <u>Trust</u>	Total Fiduciary <u>Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 13,093	\$ 2,739	\$ 15,832
Total assets	13,093	2,739	15,832
<b>Deferred Outflows of Resources</b>			
	<u>0</u>	<u>0</u>	<u>0</u>
Total assets and deferred outflows of resources	<u>\$ 13,093</u>	<u>\$ 2,739</u>	<u>\$ 15,832</u>
<b>Liabilities</b>			
Due to students	\$ 13,093	\$ 0	\$ 13,093
Total liabilities	<u>13,093</u>	<u>0</u>	<u>13,093</u>
<b>Deferred Inflows of Resources</b>			
	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net Position</b>			
Held in trust for scholarships	<u>0</u>	<u>2,739</u>	<u>2,739</u>
Total net position	<u>0</u>	<u>2,739</u>	<u>2,739</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 13,093</u>	<u>\$ 2,739</u>	<u>\$ 15,832</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, 2016**

	Private Purpose Trust
<b>Additions:</b>	
Other additions	\$ 2
Total additions	2
<b>Deductions:</b>	
Scholarships awarded	250
Total deductions	250
Change in net position	(248)
Net position, beginning of year	2,987
Net position, end of year	\$ 2,739

See accompanying notes to the basic financial statements.

**Harmony Area School District**  
**Notes to Financial Statements**  
**June 30, 2016**

**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, 2016**

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

Fund Financial Statements

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

**B. Fund Accounting**

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

Governmental Funds

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

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

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

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

**Harmony Area School District**  
**Notes to Financial Statements**  
**June 30, 2016**

Proprietary Funds

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

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

Fiduciary Fund

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

**C. Measurement Focus**

Government-wide Financial Statements

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

Fund Financial Statements

Fund financial statements are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e. revenues and other financing sources) and uses (i.e. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the proprietary fund is accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources, as well as all liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e. revenues) and decreases (i.e. expenses) in total net position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

**Harmony Area School District**  
**Notes to Financial Statements**  
**June 30, 2016**

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

Fiduciary funds are reported using the economic resources measurement focus.

**D. Basis of Accounting**

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

Revenues - Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 5). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: property taxes available as an advance, interest, tuition, grants, fees, and rentals.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**Harmony Area School District**  
**Notes to Financial Statements**  
**June 30, 2016**

**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 2016.

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

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

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

**F. Investment Valuation**

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

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

**Harmony Area School District**  
**Notes to Financial Statements**  
**June 30, 2016**

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

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. Inventory**

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

Inventories in governmental funds are stated at cost by the first-in, first-out method. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, an estimated value of inventories (\$14,353) is reported as an asset in the General Fund. The inventories in the General Fund are equally offset by nonspendable fund balance, which indicates they do not constitute "available spending resources" even though they are a component of net current assets. The General Fund is the only governmental fund that has material inventory balances as of June 30, 2016.

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2016. 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, 2016 are reported as unearned revenue.

**I. Capital Assets**

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets used by the enterprise fund are reported in both the business-type activities column on the government-wide statement of net position and in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of fifteen (\$1,500) hundred dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.



**Harmony Area School District  
Notes to Financial Statements  
June 30, 2016**

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

**J. Original Issue Discounts and Premiums**

Bond premiums and discounts are reported as direct adjustments to the face amount of the bond and are deferred and amortized over the life of the bond using the straight-line method of amortization.

**K. Receivables and Payables**

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

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

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

**L. Fund Balance Classification**

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

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

**Harmony Area School District  
Notes to Financial Statements  
June 30, 2016**

- 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, 2016, fund balance components, other than unassigned, consist of the following:

	<u>Nonspendable</u>	<u>Restricted</u>	<u>Assigned</u>
General fund:			
Inventory	\$ 14,353	\$ 0	\$ 0
Future retirement costs	0	0	280,250
Future health care costs	0	0	419,750
Capital projects fund	0	1,206,906	0
Debt service fund	0	10,164	0
Total	<u>\$ 14,353</u>	<u>\$ 1,217,070</u>	<u>\$ 700,000</u>

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

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

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

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

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

**N. Unearned Revenues**

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

**Harmony Area School District**  
**Notes to Financial Statements**  
**June 30, 2016**

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

Deferred Outflows of Resources

The District reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide 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. They further include a deferred amount arising from the change in the business-type activities' proportionate share of the net pension liability, which is amortized to pension expense over 22 years, including the current 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 10.

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 experience and investment earnings in excess of the expected amounts included in determining pension expense. These deferred inflows of resources are amortized to pension expense over a total of 5.15 and 5 years, respectively, including the current year. They further include deferred amounts arising from the change in the District's proportionate share, as well as the governmental activities' proportionate share, of the net pension liability, which are amortized to pension expense over a total of 5.15 and 22 years, respectively, including the current year. See further detail on deferred inflows of resources related to the pension at Note 10.

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 (\$262,806).

**P. Net Position**

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

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

The government-wide statement of net position reports \$1,217,070 of restricted net position, of which \$1,206,906 is restricted by enabling legislation for Capital Projects, and \$10,164 by bond indenture for Debt Service.

**Harmony Area School District**  
**Notes to Financial Statements**  
**June 30, 2016**

**Q. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**R. 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.

**3. Cash and Cash Equivalents and Investments**

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

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

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

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

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

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

**Harmony Area School District  
Notes to Financial Statements  
June 30, 2016**

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

The deposit and investment policy of the school district adheres to state statutes and prudent business practice. Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and include investments with original maturities of three months or less. Cash and cash equivalents include demand deposits at a local financial institution. The market values of deposits are equal to the cost of the deposits. Cash and cash equivalents further include money markets and pooled funds with Pennsylvania School District Liquid Asset Fund (PSDLAF), which are further discussed below.

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

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

**Cash**

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk, however, the District's deposits in excess of the FDIC limit are collateralized in accordance with the Pennsylvania Security for Public Deposits Act. As of June 30, 2016, \$1,951,916 of the District's bank balance of \$2,201,916 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>1,951,916</u>
Total	<u>\$1,951,916</u>

Reconciliation to Financial Statements

Uninsured amount above	\$1,951,916
Add: Insured amount	250,000
Add: Deposits in transit	498
Less: Outstanding checks	<u>(19,823)</u>
Carrying amount – bank balances	2,182,591
Add: Petty cash	250
Pooled cash equivalents	59,082
Money markets	<u>10,393</u>
Total cash per financial statements	<u>\$2,252,316</u>

**Harmony Area School District  
Notes to Financial Statements  
June 30, 2016**

**Investments**

As of June 30, 2016, the District had the following investments and maturities:

<u>Investment</u>	<u>Maturity</u>	<u>Value</u>
PA School District Liquid Asset Fund (PSDLAF)	<1 year	\$ 59,082
United States Treasury (Level 1)	30 years	683,936
Money Market Accounts	<1 year	<u>10,393</u>
Total		<u>\$753,411</u>

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

Interest Rate Risk

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

Credit Risk

State law limits investments to those authorized by State statutes. However, the District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2016 the District's investments were rated as follows:

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

Concentration of Credit Risk

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

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.

**Harmony Area School District  
Notes to Financial Statements  
June 30, 2016**

Reconciliation to Financial Statements

Total investments above	\$753,411
Less: Deposits in investment pools and money market accounts considered cash equivalent	<u>(69,475)</u>
Total investments per financial statements	<u>\$683,936</u>

**4. Real Estate Taxes**

Real estate taxes for the School District are collected from Westover and Cherry Tree Boroughs and Chest and Burnside Townships. The tax on real estate for public school purposes for fiscal 2016 was 83.09 mills for Clearfield County and 75.27 mills for Indiana County, as levied by the Board. Assessed valuations of property (\$13,083,745) are determined by Clearfield and Indiana Counties, and the elected tax collectors are responsible for collection. The schedule for real estate taxes levied for each fiscal year is as follows:

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

**5. Taxes Receivable**

The elected tax collectors are required to return any uncollected real estate taxes to the county's tax claim bureau by January 15. It has been determined the amount of outstanding taxes as of June 30, 2016 is \$327,215. The School District, in accordance with accounting principles generally accepted in the United States of America, recognized the delinquent and unpaid taxes receivable. An allowance for uncollectible taxes was not established by the administration. A portion of the amount estimated to be collectible which was measurable and available within 60 days was recognized as revenue and the balance recorded as a deferred inflow of resources in the fund financial statements.

Uncollected taxes for the year ended June 30, 2016:

Delinquent Real Estate	\$ 51,910
Earned Income Taxes	11,067
Real Estate Transfer Taxes	<u>1,432</u>
Uncollected Taxes Recognized as Revenue (received within 60 days)	64,409
Real Estate Tax Deferred Inflow of Resources	<u>262,806</u>
Total Taxes Receivable	<u>\$327,215</u>

**Harmony Area School District  
Notes to Financial Statements  
June 30, 2016**

**6. Unearned Revenues**

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Unearned revenue of \$10,000 in the governmental funds at June 30, 2016 represents local donated monies received, but not yet expended. Unearned revenues of \$6,273 in the proprietary fund at June 30, 2016 represent donated commodities inventory which will be recognized as both revenue and expense when consumed.

**7. Due From Other Governments**

Amounts due from other governments represent receivables for revenues earned by the School District or collections made by another governmental unit on behalf of the School District. At June 30, 2016, the following amounts are due from other governmental units:

<u>Due From</u>	<u>General Fund</u>	<u>Proprietary Fund</u>	<u>Governmental Activities</u>
Federal	\$ 82,692	\$0	\$ 82,692
State	175,504	0	273,022
Local	<u>4,261</u>	<u>0</u>	<u>4,261</u>
	<u>\$262,457</u>	<u>\$0</u>	<u>\$359,975</u>

**8. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 5,000	\$ 0	\$ 0	\$ 5,000
Total capital assets, not being depreciated	<u>5,000</u>	<u>0</u>	<u>0</u>	<u>5,000</u>
Capital assets, being depreciated:				
Buildings and improvements	12,010,994	0	0	12,010,994
Infrastructure	217,927	0	0	217,927
Furniture and equipment	<u>1,507,793</u>	<u>11,480</u>	<u>0</u>	<u>1,519,273</u>
Total capital assets, being depreciated	<u>13,736,714</u>	<u>11,480</u>	<u>0</u>	<u>13,748,194</u>
Less accumulated depreciation:				
Buildings and improvements	4,672,807	343,286	0	5,016,093
Infrastructure	2,179	4,359	0	6,538
Furniture and equipment	<u>1,046,441</u>	<u>50,303</u>	<u>0</u>	<u>1,096,744</u>
Total accumulated depreciation	<u>5,721,427</u>	<u>397,948</u>	<u>0</u>	<u>6,119,375</u>
Total capital assets, being depreciated, net	<u>8,015,287</u>	<u>(386,468)</u>	<u>0</u>	<u>7,628,819</u>
Governmental activities capital assets, net	<u>\$ 8,020,287</u>	<u>\$ (386,468)</u>	<u>\$ 0</u>	<u>\$ 7,633,819</u>



**Harmony Area School District  
Notes to Financial Statements  
June 30, 2016**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<b>Business-Type Activities</b>				
Capital assets, being depreciated:				
Equipment	\$ 278,005	\$ 0	\$ 0	\$ 278,005
Total capital assets, being depreciated	<u>278,005</u>	<u>0</u>	<u>0</u>	<u>278,005</u>
Less accumulated depreciation:				
Equipment	<u>226,363</u>	<u>6,765</u>	<u>0</u>	<u>233,128</u>
Total accumulated depreciation	<u>226,363</u>	<u>6,765</u>	<u>0</u>	<u>233,128</u>
Business-type activities capital assets, net	<u>\$ 51,642</u>	<u>\$ (6,765)</u>	<u>\$ 0</u>	<u>\$ 44,877</u>

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

**Governmental Activities:**

Instruction	\$218,804
Instruction support	46,131
Administration and finance	61,345
Operation and maintenance of plant	33,832
Pupil transportation	28,777
Student activities	<u>9,059</u>
Total depreciation expense - governmental activities	<u>\$397,948</u>

**9. Defined Benefit Pension Plan**

Plan Description

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

Funding Policy

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

**Harmony Area School District  
Notes to Financial Statements  
June 30, 2016**

Benefits provided

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

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

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

Contributions

Member Contributions:

Active members who joined 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%.

**Harmony Area School District  
Notes to Financial Statements  
June 30, 2016**

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, 2016, the rate of the employer's contribution was 25.84 percent of covered payroll. The 25.84 percent rate is composed of a pension contribution rate of 25.00 percent for pension benefits and 0.84 percent for healthcare insurance premium assistance. Harmony Area School District's contributions to PSERS for the year ending June 30, 2016 were \$594,152.

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

At June 30, 2016, the District reported a liability of \$8,360,000 for its proportionate share of the net pension liability, with \$8,151,499 reflected in the governmental activities and \$208,501 in the business-type activities. The net pension liability was measured as of June 30, 2015, 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, 2014 to June 30, 2015. 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, 2015, the District's proportion was 0.0193%, which was a decrease of 0.0007% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$617,141, with \$601,216 in governmental activities and \$15,925 in business-type activities. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	District-wide Deferred Outflows of Resources	District-wide Deferred Inflows of Resources
Difference between projected and actual experience	\$ 0	\$ 34,000
Changes in assumptions	0	0
Net difference between projected and actual investment earnings	0	17,000
Changes in proportions	22,910	410,910
Difference between employer contributions and proportionate share of total contributions	0	0
Contributions subsequent to the measurement date	574,838	0
	\$ 597,748	\$ 461,910

**Harmony Area School District  
Notes to Financial Statements  
June 30, 2016**

\$574,838, 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, 2017. 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
2017	\$ (154,000)
2018	(154,000)
2019	(154,000)
2020	23,000
2021	0
2022	0
Thereafter	0
	<u>\$ (439,000)</u>

Deferred outflows of resources are reflected on the Statement of Net Position for both the governmental activities (\$560,501) and the business-type activities (\$37,247). Deferred inflows of resources are also reflected on the Statement of Net Position for both the governmental activities (\$450,961) and the business-type activities (\$10,949).

Actuarial assumptions

The total pension liability as of June 30, 2015 was determined by rolling forward the System's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015 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%
- 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, 2014 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.

**Harmony Area School District  
Notes to Financial Statements  
June 30, 2016**

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	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	-14.0%	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, 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 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>1% Increase 8.50%</u>
District's proportionate share of the net pension liability	\$ 10,304,000	\$ 8,360,000	\$ 6,726,000

**Harmony Area School District  
Notes to Financial Statements  
June 30, 2016**

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](http://www.psers.state.pa.us).

**11. Post-employment Healthcare Benefits**

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

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

**12. Long-Term Obligations**

During the fiscal year ended June 30, 2016, general long-term obligations changed as follows:

	<u>Bonds Payable</u>	<u>Compensated Absences</u>	<u>Total General Long-term Obligations</u>
Beginning of year	\$ 7,055,000	\$ 193,147	\$ 7,248,147
Principal retirement	(200,000)	0	(200,000)
Changes in compensated absences	<u>0</u>	<u>(4,109)</u>	<u>(4,109)</u>
End of year	6,855,000	189,038	7,044,038
Unamortized original issue discount	<u>(58,221)</u>	<u>0</u>	<u>(58,221)</u>
	6,796,779	189,038	6,985,817
Less: current portion	<u>(205,000)</u>	<u>(47,259)</u>	<u>(252,259)</u>
Long-term liabilities	<u>\$ 6,591,779</u>	<u>\$ 141,779</u>	<u>\$ 6,733,558</u>

**Harmony Area School District  
Notes to Financial Statements  
June 30, 2016**

The future annual payments required to amortize outstanding bonds payable as of June 30, 2016, including total interest payments are as follows:

Year Ended June 30,	General Obligation Bonds			
	Interest	Principal	Federal Interest Subsidy	Total
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	305,280	0	(295,153)	10,127
2022-2026	1,526,400	0	(1,475,765)	50,635
2027-2030	1,068,480	6,000,000	(739,383)	6,329,097
	<u>\$ 4,175,670</u>	<u>\$ 6,855,000</u>	<u>\$ (3,690,913)</u>	<u>\$ 7,339,757</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, 2016 was \$855,000.

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, 2016 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, 2016 is \$683,936, which is reflected in the Capital Projects Fund.

**Harmony Area School District  
Notes to Financial Statements  
June 30, 2016**

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, 2016. 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 \$189,038 at June 30, 2016 with \$185,801 reflected in the general fund and \$3,237 reflected in the proprietary fund for unused sick days. The District has estimated \$47,259 as current and \$141,779 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.

**13. Operating Leases**

The School District entered into noncancellable operating leases for computers and copiers. Rental expenditures under all operating lease agreements were \$24,688 for fiscal year 2016. 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
2017	\$ 22,612
2018	20,185
2019	12,902
2020	9,192
2021	8,117

**14. 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. Under GASB Statement No. 45, 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.



**Harmony Area School District  
Notes to Financial Statements  
June 30, 2016**

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, 2016, 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	41
Retired employees	<u>8</u>
Total	<u>49</u>

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

*Annual 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)	\$ 205,062
Interest on Net OPEB Obligation	6,999
Adjustment to ARC	<u>(10,497)</u>
Annual OPEB cost (expense)	201,564
Contribution for the fiscal year	<u>(102,332)</u>
Increase in Net OPEB Obligation	99,232
Net OPEB Obligation June 30, 2015	<u>215,355</u>
Net OPEB Obligation June 30, 2016	<u>\$ 314,587</u>
Percent of annual OPEB cost contributed	50.77%

As of June 30, 2016, the actuarial accrued liability for benefits was \$1,762,625, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$2,371,669, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 74.32 percent.

**Harmony Area School District  
Notes to Financial Statements  
June 30, 2016**

The District's annual OPEB cost, the percentage of cost contributed to the plan, and the net OPEB obligation of the fiscal years ending June 30, 2016, 2015, and 2014 for the benefits were as follows:

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
June 30, 2016	\$ 201,564	50.77%	\$ 314,587
June 30, 2015	\$ 271,669	63.13%	\$ 215,355
June 30, 2014	\$ 264,028	51.94%	\$ 115,198

*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 58, 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 Getzen 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 ten years, was used.

*Health insurance premiums* – Health insurance premiums for fiscal year 2016 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, 2016 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 3.25% 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 3.25% rate.

**Harmony Area School District  
Notes to Financial Statements  
June 30, 2016**

**15. Interfund Transactions**

The following is a summary of interfund receivables and payables at June 30, 2016:

	<u>Receivables</u>	<u>Payables</u>
General Fund (Major Fund)	\$126,758	\$ 0
Capital Projects Fund (Major Fund)	0	10,413
Proprietary Fund – Food Service (Major Fund)	0	116,345
	<u>\$126,758</u>	<u>\$126,758</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.

Interfund transfers during the year ended June 30, 2016 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Debt Service Fund (Non-Major Fund)	\$222,027	\$ 0
Capital Projects Fund (Major Fund)	283,726	0
General Fund (Major Fund)	0	505,753
	<u>\$505,753</u>	<u>\$505,753</u>

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

**16. Contingent Liabilities**

Grant Programs

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

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

The School District is participating in the insurance consortium with the HDH Group Health Consortium to provide for the medical care for eligible employees and their dependents. The consortium, which administers the plan, monitors the School's deposit into the school district trust account to be held for the benefits described above and Highmark Services, the plan administrator, processes and pays the claims. The consortium limits its liability by stop-loss insurance coverage. Harmony Area School District's liability at June 30, 2016, for unpaid claims incurred prior to fiscal year end is not readily determinable. No liability has been recorded for these claims at June 30, 2016, as the District recognizes medical claim expenses as claims are paid.

**Harmony Area School District  
Notes to Financial Statements  
June 30, 2016**

**18. Risk Management**

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has purchased various insurance policies to safeguard its assets from risk of loss. Insurance coverage appears to be consistent with previous years. During the year ended June 30, 2016 and the two previous fiscal years, no settlements exceeded insurance coverage.

**19. Related Party Transactions**

Intermediate Unit Participation

The District is a member of Central (CIU) Intermediate Unit 10. The District avails itself of various services provided by this membership including special education, curriculum development, and certain internal service functions. The total of services provided to Harmony Area School District for the year ended June 30, 2016 for CIU programs amounted to \$4,596. The amount payable to the IU at June 30, 2016 was \$3,159.

Jointly Governed Organization

The School District governs, along with five other school districts, the Clearfield County Career and Technology Center (Tech Center). Each district is represented on the Tech Center's school board. However, no on-going financial interest or responsibility exists between the School District and the Tech Center, other than a share in paying the debt service on the bond issue, which is included in tuition expense. The District's share of this debt service for fiscal year 2016 is 5.33%. Students of the District have available at the Tech Center courses and curriculums related to the technical training fields. Costs of the Tech Center are shared with other local school districts. The District's tuition expense for its students attending the Tech Center for fiscal year 2016 was \$153,023. At June 30, 2016, the District had a balance due to the Tech Center of \$4,261.

**20. Economic Dependency**

Harmony Area School District receives approximately 63% of its revenue from the State of Pennsylvania in the form of state subsidies. Changes in funding levels by the State could have a material effect on future operations of the District.

**21. Nonmonetary Transactions**

The District receives one of its federal program subsidies by means of noncash transfer. The U.S. Department of Agriculture, through the Pennsylvania Department of Agriculture, provides food commodities under the National School Lunch Program. These nonmonetary commodity items are valued at market values and recorded as revenue as utilized. The total food commodities donated by the federal government for the fiscal year 2016 totaled \$14,390.

**22. Restatement of Beginning Net Position and Fund Balance**

The beginning fund balance of the Capital Projects Fund has been restated to adjust the investment in the U.S. Treasuries as of July 1, 2015, to the fair market value (from cost). The restatement increases the beginning fund balance by \$23,448. This restatement also increases the beginning net position for the governmental activities by \$23,448.

**Harmony Area School District  
Required Supplementary Information – Pension Schedules  
June 30, 2016**

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of net pension liability	0.0193%	0.0200%	0.0206%
District's proportionate share of net pension liability	\$ 8,360,000	\$ 7,916,000	\$ 8,433,000
District's covered-employee payroll *	\$ 2,483,173	\$ 2,553,156	\$ 2,642,725
District's proportionate share of net pension liability as percentage of its covered-employee payroll	336.67%	310.05%	319.10%
Plan fiduciary net position as a percentage of the total pension liability	54.36%	57.24%	54.49%

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

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

See accompanying notes to the basic financial statements.

**Harmony Area School District**  
**Required Supplementary Information – Pension Schedules**  
**June 30, 2016**

**Schedule of District Contributions**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contributions	\$ 574,838	\$ 494,377	\$ 360,698	\$ 289,420	\$ 195,828	\$ 125,987	\$ 95,526	\$ 102,652	\$ 142,937	\$ 123,038
Contributions in relation to the contractually required contributions	<u>(574,838)</u>	<u>(494,377)</u>	<u>(360,698)</u>	<u>(289,420)</u>	<u>(195,828)</u>	<u>(125,987)</u>	<u>(95,526)</u>	<u>(102,652)</u>	<u>(142,937)</u>	<u>(123,038)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered-employee payroll	\$ 2,291,022	\$ 2,483,173	\$ 2,553,156	\$ 2,642,725						
Contributions as a percentage of covered-employee payroll	25.09%	19.91%	14.13%	10.95%						

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

See accompanying notes to the basic financial statements.

**Harmony Area School District**  
**Schedule of Revenues, Expenditures and Changes**  
**In Fund Balance – Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts Original	Final	Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
<b>Revenues</b>				
Local sources	\$ 1,279,216	\$ 1,279,216	\$ 1,263,417	\$ (15,799)
State sources	4,078,333	4,078,333	4,122,280	43,947
Federal sources	<u>757,122</u>	<u>757,122</u>	<u>931,555</u>	<u>174,433</u>
Total revenues	<u>6,114,671</u>	<u>6,114,671</u>	<u>6,317,252</u>	<u>202,581</u>
<b>Expenditures</b>				
Instruction:				
Regular programs	2,545,068	2,545,068	2,431,563	113,505
Special programs	545,915	545,915	526,654	19,261
Vocational education programs	170,400	170,400	153,023	17,377
Other instructional programs	135,784	135,784	59,358	76,426
Pre-kindergarten	114,402	114,402	118,095	(3,693)
Support services:				
Pupil personnel	148,144	148,144	142,088	6,056
Instructional staff	248,260	248,260	304,169	(55,909)
Administration	535,534	535,534	504,644	30,890
Pupil health	102,283	102,283	88,359	13,924
Business	197,288	197,288	189,071	8,217
Operation and maintenance of plant	406,533	406,533	392,506	14,027
Student transportation	429,225	429,225	403,708	25,517
Central	17,476	17,476	17,349	127
Operation of noninstructional services:				
Student activities	141,539	141,539	127,090	14,449
Debt service:				
Principal and interest	<u>304,935</u>	<u>304,935</u>	<u>55</u>	<u>304,880</u>
Total expenditures	<u>6,042,786</u>	<u>6,042,786</u>	<u>5,457,732</u>	<u>585,054</u>
Excess (deficiency) of revenues over expenditures	<u>71,885</u>	<u>71,885</u>	<u>859,520</u>	<u>787,635</u>
<b>Other financing sources (uses)</b>				
Interfund transfers	(67,250)	(67,250)	(505,753)	(438,503)
Budgetary reserve	<u>(4,635)</u>	<u>(4,635)</u>	<u>0</u>	<u>4,635</u>
Total other financing sources (uses)	<u>(71,885)</u>	<u>(71,885)</u>	<u>(505,753)</u>	<u>(433,868)</u>
Net change in fund balance	0	0	353,767	353,767
Fund balance, beginning of year	<u>995,643</u>	<u>995,643</u>	<u>1,227,196</u>	<u>231,553</u>
Fund balance, end of year	<u>\$ 995,643</u>	<u>\$ 995,643</u>	<u>\$ 1,580,963</u>	<u>\$ 585,320</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, 2016**

Federal/Grant Project Title	Federal Source Code	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, 2015	Revenue Recognized	Expenditures	Passed Through to Subrecipients	Accrued (Unearned) Revenue June 30, 2016
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>											
Passed through the Pennsylvania Department of Public Welfare Medical Assistance Program - Reimbursement:											
SBAP Admin. Reimbursement	I	93.778	N/A	07/01/15-06/30/16	N/A	\$ 0	\$ 0	\$ 597	\$ 597	\$ 0	\$ 597
Total U.S. Department of Health and Human Services						0	0	597	597	0	597
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>											
Passed through the Pennsylvania Department of Education:											
ECIA Title I	I	84.010	013-150183	07/01/14-09/30/15	\$ 119,207	7,910	7,910	0	0	0	0
ECIA Title I	I	84.010	013-160183	07/01/15-09/30/16	108,043	79,390	0	87,343	87,343	0	7,953
Program Improvement - Set-Aside	I	84.010	042-140183	07/01/14-09/30/15	79,699	24,906	3,356	21,550	21,550	0	0
Program Improvement - Set-Aside	I	84.010	042-150183	07/01/15-09/30/16	66,653	53,323	0	66,653	66,653	0	13,330
Academic Achievement Award	I	84.010	077-150183	03/18/15-09/30/15	47,000	26,857	(20,143)	47,000	47,000	0	0
ECIA Title I Cluster					420,602	192,386	(8,877)	222,546	222,546	0	21,283
ECIA Title II Part A	I	84.367	020-150183	07/01/14-09/30/15	44,757	8,948	8,526	422	422	0	0
ECIA Title II Part A	I	84.367	020-160183	07/01/15-09/30/16	44,421	32,585	0	37,758	37,758	0	5,173
Striving Readers Comprehensive Literacy	I	84.371C	143-140183	10/01/14-09/30/15	277,578	0	(24,366)	24,366	24,366	0	0
Striving Readers Comprehensive Literacy	I	84.371C	143-150183	10/01/15-09/30/16	454,178	340,634	0	360,595	360,595	0	19,961
Total passed through the Pennsylvania Department of Education					1,241,536	574,553	(24,717)	645,687	645,687	0	46,417
Passed through Central Intermediate Unit10:											
IDEA Part B, Section 619	I	84.173	131-140010	07/01/14-06/30/15	2,013	2,013	2,013	0	0	0	0
IDEA Part B, Section 611	I	84.027	062-150010	07/01/14-06/30/15	68,302	35,607	35,607	0	0	0	0
IDEA Part B, Section 619	I	84.173	131-150010	07/01/15-06/30/16	335	335	0	335	335	0	0
IDEA Part B, Section 611	I	84.027	062-160010	07/01/15-06/30/16	67,358	31,680	0	67,358	67,358	0	35,678
Subtotal Special Education Cluster (IDEA)					138,008	69,635	37,620	67,693	67,693	0	35,678
Total passed through Central Intermediate Unit 10					138,008	69,635	37,620	67,693	67,693	0	35,678
Total U.S. Department of Education					1,379,544	644,188	12,903	713,380	713,380	0	82,095

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, 2016**

Federal/Grant Project Title	Federal Source Code	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, 2015	Revenue Recognized	Expenditures	Passed Through to Subrecipients	Accrued (Unearned) Revenue June 30, 2016
<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	07/01/15-06/30/16	N/A	14,390	(8,145)	16,262	16,262	0	(6,273)
Passed through the Pennsylvania Department of Education:											
National School Lunch	I	10.555	N/A	07/01/15-06/30/16	N/A	132,586	3,794	128,792	128,792	0	0
Severe Needs Breakfast	I	10.553	N/A	07/01/15-06/30/16	N/A	64,088	1,771	62,317	62,317	0	0
Subtotal Nutrition Cluster						211,064	(2,580)	207,371	207,371	0	(6,273)
Fresh Fruit and Vegetable	I	10.582	N/A	07/01/15-06/30/16	N/A	9,238	0	9,238	9,238	0	0
State Matching Funds	S	N/A	N/A	07/01/15-06/30/16	N/A	10,461	281	10,180	10,180	0	0
Total passed through the Pennsylvania Department of Agriculture						230,763	(2,299)	226,789	226,789	0	(6,273)
Total U.S. Department of Agriculture						230,763	(2,299)	226,789	226,789	0	(6,273)
Total Financial Assistance					<u>\$ 1,379,544</u>	<u>\$ 874,951</u>	<u>\$ 10,604</u>	<u>\$ 940,766</u>	<u>\$ 940,766</u>	<u>\$ 0</u>	<u>\$ 76,419</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, 2016**

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

**Note A – Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Harmony Area School District under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Harmony Area School District, it is not intended to and does not present the financial position, changes in financial position, or cash flows of Harmony Area School District.

**Note B – Summary of Significant Accounting Policies**

- (1) Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Harmony Area School District has elected not to use the 10 percent de minimis indirect cost rate, as allowed under the Uniform Guidance.

**Note C – Donated Commodities**

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2016, the District had food commodities totaling \$6,273 in inventory.

- (a) Total amount of commodities received from the Department of Agriculture.
- (b) Beginning inventory at July 1, 2015.
- (c) Total amount of commodities used.
- (d) Ending inventory at June 30, 2016.

**Note D – Direct/Indirect Funding**

The following source codes reflect program funding:

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

**Harmony Area School District  
Schedule of Expenditures of Federal Awards and Certain State Grants  
For the Year Ended June 30, 2016**

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

**Note E – Reconciliation to Financial Statements**

Total Federal Sources reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	\$ 931,555
Less: Federal interest subsidy (QSCB)	(283,757)
School Based Access Medicaid Reimbursement Program	(1,514)
Plus: IDEA-B passed through, recorded as Local Sources	<u>67,693</u>
Total Federal Expenditures – Governmental Funds	713,977
Total Federal Sources reported on Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	<u>216,609</u>
Total Federal Expenditures – Proprietary Fund	<u>216,609</u>
Total Federal Expenditures	<u>\$ 930,586</u>

**Note F – Test of 20% Rule (Low Risk)**

Total Expenditures	\$ 940,766	
Less: State’s share of National School Lunch and Severe Needs Breakfast Programs	<u>(10,180)</u>	
Total Federal Expenditures	<u>\$ 930,586</u>	
Nutrition Cluster	<u>\$ 207,371</u>	
Tested	<u>\$ 207,371</u>	= 22%
Total Federal Expenditures	\$ 930,586	

**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, 2016 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 9, 2016.

**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 - **#2016-001**.

**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 the Finding**

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 9, 2016

**Independent Auditors' Report on Compliance for Each Major Federal Program and on  
Internal Control Over Compliance Required by the Uniform Guidance**

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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

## 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 the Uniform Guidance, 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.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Kotzan CPA and Associates, P.C.*

Kotzan CPA & Associates, P.C.  
Johnstown, Pennsylvania  
December 9, 2016

**Harmony Area School District  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2016**

**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 2 CFR 200.516(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

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?   X   Yes            No



**Harmony Area School District  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2016**

**Section II – Financial Statement Findings**

*INTERNAL CONTROL OVER FINANCIAL REPORTING*

**Finding #2016-001**

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.**

**Harmony Area School District  
Schedule of Prior Audit Findings  
Year Ended June 30, 2016**

**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.

RECOMMENDATION:

We recommended 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 agreed with the recommendation and acknowledged that with limited staff, compensating controls are relied on, in lieu of segregating duties. However, management will continue to review the duties of the business manager and the business office staff, as well as the options for segregating these duties.