

Shaler Area School District

Financial Statements and
Required Supplementary and
Supplementary Information

Year Ended June 30, 2018 with
Independent Auditor's Reports

MaherDuessel

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SHALER AREA SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2018

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Independent Auditor's Report

**Board of Directors
Shaler Area School District**

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 Shaler Area School District (School District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School 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.

Auditor's 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 auditor's 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, the business-type activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2018, and the respective changes in its financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, the School District adopted Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which requires the School District to record its proportionate share of the Public School Employees' Retirement System (PSERS) net OPEB liability and related items on the government-wide financial statements and to record the School District's total OPEB liability. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, pension information, and other postemployment benefits information, as listed in the table of contents, 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 School District's basic financial statements. The supplementary

information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards 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*, and is also not a required part of the basic financial statements.

The supplementary information as listed in the table of contents and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information as listed in the table of contents and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2019 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Maher Duessel

Pittsburgh, Pennsylvania
February 6, 2019

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2018**

The Management's Discussion and Analysis (MD&A) of Shaler Area School District's (School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2018. The intent of this MD&A is to look at the School District's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

The MD&A is an element of the reporting model adopted by the Government Accounting Standards Board (GASB) in their Statement No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis - for the State and Local Governments.*" Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

The School District realized more favorable results than originally estimated. At year-end, the total General Fund balance increased \$2.2M from the previous year's \$9.3M to \$11.5M.

Several practices had been implemented to aid the School District to operate in a fiscally prudent manner in 2017/2018, and will continue through the future fiscal years. Rising Public School Employees' Retirement System (PSERS) costs, debt service increases, capital improvements, and flat level funding from state and federal resources are opposing forces that will be competing for financial resources in the next several years.

In summary, the 2017/2018 financial results are due to a number of items, including a strict enforcement of curtailing expenditures. As a result of the budget restrictions, there has been savings in supplies, equipment, and repairs. In addition, the results show large savings in benefits. The reduction of benefits included medical coverage as a result of lower rates than budgeted. Large reductions from budget were also recognized in the areas of professional fees, tuition, along with savings in transportation costs due to a new transportation contracted carrier. Overall on the revenue side, the School District experienced higher than anticipated receipts due to a number of factors. The School District's largest revenue source by far is derived locally at 65% of the total actual revenue. Within the local revenue, current real estate taxes make up the largest portion, in which the School District collected \$44.6M, or 54% of total General Fund revenue. Current and delinquent real estate and earned income taxes were higher than budgeted.

Notably, State revenue showed an increase in the State for the School District's debt reimbursement and minimal increases in the Basic and Special Education subsidies. Offsetting some of the increases were decreases due to transportation and no tuition funding. Monies received from the Commonwealth of Pennsylvania make up 33% of the School District's total revenue. Revenue received from federal sources, earmarked for certain programs, increased by \$20K.

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2018**

Financial Highlights (Continued)

Overall expenditures for the General Fund were approximately \$2.7M less than the original budget.

Employee benefits accounted for the largest portion of the favorable results. Benefits decreased \$511K, which is mostly attributable to medical and Social Security and retirement expenditures. The required School District's percentage cost of PSERS increased from 32.57% of payroll to 33.43% in 2018/2019.

Other favorable results included decreases in the majority of the object line items including professional fees, rentals, repairs, transportation, property insurance, supplies, software, books, gas and fuel, and equipment. There was a decrease in the transportation line item due to a change in the contracted carrier.

The School District continued to experience a positive cash flow as it relates to its variable rate debt service issues (swaps), which assisted in lowering the overall cost of debt service obligations of the School District and added to the Debt Service Fund of the School District.

In the 2018/2019 budgeting process, the Board of Directors adjusted the property tax millage upward from 23.28 mills to 23.53 mills.

Using the Annual Financial Report (AFR)

The Annual Financial Report consists of a financial section and a single audit section, which is issued to comply with federal guidelines as required by *Government Auditing Standards* and the Uniform Guidance. Within the financial section are the MD&A (this section) and a series of financial statements and notes to those statements. These statements are organized so that the reader can understand the School District as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The first two statements are government-wide financial statements - the statement of net position and the statement of activities. These provide both long-term and short-term information about the School District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the School District's operations in more detail than the government-wide financial statements. The government fund statements tell how general School District services were financed in the short-term as well as what remains for future spending. Proprietary fund statements offer short- and long-term financial information about the activities that the School District operates like a business. For this School District, this is our Food Service Fund. Fiduciary fund statements provide information about financial relationships where the School District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2018**

Using the Annual Financial Report (AFR) (Continued)

The financial statements also include notes to explain some of the information in the financial statements and provide more detailed data.

Figure A-1 shows how the required parts of the financial section are arranged and relate to one another:

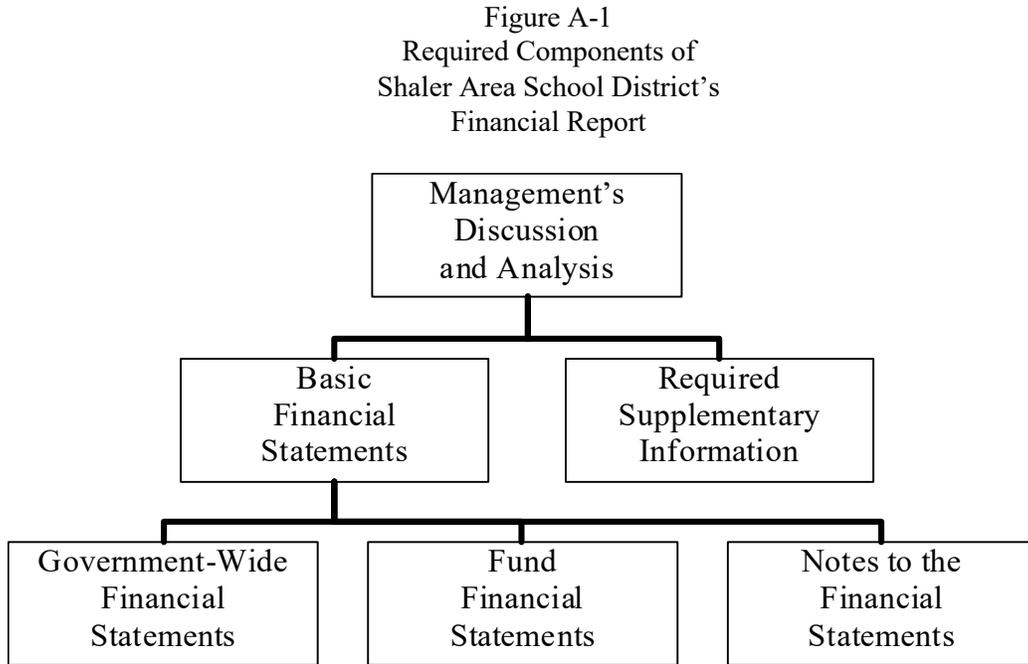


Figure A-2 summarizes the major features of the School District's financial statements, including the portion of the School District they cover and the types of information they contain. The remainder of this overview section of the MD&A explains the structure and contents of each of the statements.

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2018**

Using the Annual Financial Report (AFR) (Continued)

Figure A-2
Major Features of Shaler Area School District's
Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School District (except fiduciary funds)	The activities of the School District that are not proprietary or fiduciary, such as education, administration, and community services	Activities the School District operates similar to private business - food services	Instances in which the School District is the trustee or agent to someone else's resources
Required financial statements	Statement of net position; statement of activities	Balance sheet; statement of revenues, expenditures, and changes in fund balance	Statement of net position; statement of revenues, expenses and changes in net position; statement of cash flows	Statement of fiduciary net position; statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

Overview of Financial Statements

Government-Wide Financial Statements

The government-wide financial statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the School District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2018**

Overview of Financial Statements (Continued)

Government-Wide Financial Statements (Continued)

The two government-wide financial statements report the School District's net position and how they have changed.

Net position, the difference between the School District's assets and liabilities, is only one way to measure the School District's financial health or position.

Over time, increases or decreases in the School District's net position are an indication of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the School District, you need to consider additional non-financial factors, such as changes in the School District's property tax base and the performance of the students.

The government-wide financial statements of the School District are divided into two categories:

- § Governmental activities - All of the School District's basic services are included here, such as instruction, administration, and community services. Property taxes and state and federal subsidies and grants finance most of these activities.
- § Business-type activities - The School District operates a food service operation and charges fees to staff, students, and visitors to help it cover the costs of the food service operation.

Fund Financial Statements

The School District's fund financial statements, which begin with page 3, provide detailed information about the most significant funds - not the School District as a whole. Some funds are required by state law and bond requirements.

Governmental funds - Most of the School District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the financial statements.

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2018**

Overview of Financial Statements (Continued)

Fund Financial Statements (Continued)

Proprietary funds - These funds are used to account for the School District activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the School District charges customers for services it provides - whether to outside customers or to other units in the School District - these services are generally reported in proprietary funds. The Food Service Fund is the School District's proprietary fund and is the same as the business-type activities we report in the government-wide financial statements, but provide more detail and additional information, such as cash flows.

Fiduciary funds - The School District is the trustee, or fiduciary, for some scholarship funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net position on page 11. We exclude these activities from the School District's other financial statements, because the School District cannot use these assets to finance its operations.

Financial Analysis of the School District as a Whole

The School District's total net position was a deficit \$(131,179,767) at June 30, 2018 and a deficit \$(129,951,599) at June 30, 2017.

Table A-1
Years Ended June 30, 2018 and 2017
Net Position

	2018			2017 (restated)		
	Governmental Activities	Business-Type Activities	Totals	Governmental Activities	Business-Type Activities	Totals
Current and Other Assets	\$ 36,037,150	\$421,362	\$ 36,458,512	\$ 45,733,543	\$225,333	\$ 45,958,876
Capital Assets	<u>73,759,539</u>	<u>80,840</u>	<u>73,840,379</u>	<u>63,230,776</u>	<u>106,106</u>	<u>63,336,882</u>
Total Assets	<u>109,766,689</u>	<u>502,202</u>	<u>110,298,891</u>	<u>108,964,319</u>	<u>331,439</u>	<u>109,295,758</u>
Deferred Outflows of Resources	<u>25,648,085</u>	<u>-</u>	<u>25,648,085</u>	<u>30,713,853</u>	<u>-</u>	<u>30,713,853</u>
Current and Other Liabilities	12,302,315	264,046	12,566,361	10,469,687	80,844	10,550,531
Noncurrent Liabilities						
Due Within One Year	4,861,311	-	4,861,311	4,786,052	-	4,786,052
Due in More Than One Year	<u>243,470,809</u>	<u>-</u>	<u>243,470,809</u>	<u>247,754,163</u>	<u>-</u>	<u>247,754,163</u>
Total Liabilities	<u>260,634,435</u>	<u>264,046</u>	<u>260,898,481</u>	<u>263,009,902</u>	<u>80,844</u>	<u>263,090,746</u>
Deferred Inflows of Resources	<u>6,332,241</u>	<u>-</u>	<u>6,332,241</u>	<u>6,870,464</u>	<u>-</u>	<u>6,870,464</u>

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2018**

Financial Analysis of the School District as a Whole (Continued)

Table A-1 (Cont'd)
Years Ended June 30, 2018 and 2017
Net Position

	2018			2017		
	Governmental Activities	Business- Type Activities	Totals	Governmental Activities	Business- Type Activities	Totals
Net Position:						
Net Investment in Capital Assets	\$ (28,763,188)	\$80,840	\$ (28,682,348)	\$ (5,358,560)	\$106,106	\$ (5,252,454)
Restricted	3,327,053	-	3,327,053	498,169	-	498,169
Unrestricted	<u>(106,085,767)</u>	<u>157,316</u>	<u>(105,928,451)</u>	<u>(119,797,803)</u>	<u>144,489</u>	<u>(119,797,803)</u>
Total Net Position	<u>\$(131,521,902)</u>	<u>\$238,156</u>	<u>\$(131,283,746)</u>	<u>\$(130,202,194)</u>	<u>\$250,595</u>	<u>\$(129,951,599)</u>

Most of the School District's net position is invested in capital assets (buildings, land, and equipment). The remaining unrestricted net position is combined of designated and undesignated amounts. The designated balances are amounts set aside to fund purchases or capital projects as planned by the School District.

The results of this year's operations as a whole are reported in the statement of activities on page 2. All expenses are reported in the first column. Specific charges, grants, revenues, and subsidies that directly relate to specific expense categories are represented to determine the final amount of the School District's activities that are supported by other general revenues. The two largest general revenues are the Basic Education Subsidy provided by the State of Pennsylvania and the local taxes (property and earned income) assessed to community taxpayers.

Table A-2 takes the information from that statement, rearranges it slightly, so you can see our total revenues for the year.

Table A-2
Years Ended June 30, 2018 and 2017
Changes in Net Position

	2018			2017		
	Governmental Activities	Business- Type Activities	Totals	Governmental Activities	Business- Type Activities	Totals
Revenues:						
Program Revenues:						
Charges for Services	\$ 183,720	\$ 949,133	\$ 1,132,853	\$ -	\$ 1,020,369	\$ 1,020,369
Operating Grants	15,334,012	1,042,277	16,376,289	14,992,744	991,944	15,984,688
Capital Grants	685,007	-	685,007	985,177	-	985,177

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2018**

Financial Analysis of the School District as a Whole (Continued)

Table A-2 (Cont'd)
Years Ended June 30, 2018 and 2017
Changes in Net Position

	2018			2017		
	Governmental Activities	Business- Type Activities	Totals	Governmental Activities	Business- Type Activities	Totals
Revenues (Continued):						
General Revenues:						
Property Taxes	\$ 45,700,408	\$ -	\$ 45,700,408	\$ 44,250,078	\$ -	\$ 44,250,078
Other Taxes	5,954,348	-	5,954,348	5,797,919	-	5,797,919
Grants, Subs. and Contribs.						
Unrestricted	13,392,623	-	13,392,623	13,290,081	-	13,290,081
Other	<u>1,183,838</u>	<u>2,828</u>	<u>1,186,666</u>	<u>603,788</u>	<u>818</u>	<u>604,606</u>
Total Revenues	<u>82,433,956</u>	<u>1,994,238</u>	<u>84,428,194</u>	<u>79,919,787</u>	<u>2,013,131</u>	<u>81,932,918</u>
Expenses:						
Instruction	50,350,251	-	50,350,251	50,627,772	-	50,627,772
Instructional Student Support	6,517,005	-	6,517,005	6,394,638	-	6,394,638
Admin. and Financial Support Svcs.	6,852,924	-	6,852,924	6,617,686	-	6,617,686
Operation and Maintenance of						
Plant Services	7,366,717	-	7,366,717	7,881,484	-	7,881,484
Pupil Transportation	4,628,868	-	4,628,868	4,599,269	-	4,599,269
Student Activities	2,120,686	-	2,120,686	2,134,009	-	2,134,009
Community Services	123,581	-	123,581	99,274	-	99,274
Interest on Long-Term Debt	5,793,632	-	5,793,632	4,464,866	-	4,464,866
Food Service	<u>-</u>	<u>2,006,677</u>	<u>2,006,677</u>	<u>-</u>	<u>1,954,640</u>	<u>1,954,640</u>
Total Expenses	<u>83,753,664</u>	<u>2,006,677</u>	<u>85,760,341</u>	<u>82,818,998</u>	<u>1,954,640</u>	<u>84,773,638</u>
Increase (Decrease) in Net Position	(1,319,708)	(12,439)	(1,332,147)	(2,899,211)	58,491	(2,840,720)
Beginning Net Position						
(Restated - See Note 2)	<u>(130,202,194)</u>	<u>250,595</u>	<u>(129,951,599)</u>	<u>(127,302,983)</u>	<u>192,104</u>	<u>(127,110,879)</u>
Ending Net Position	<u>\$(131,521,902)</u>	<u>\$ 238,156</u>	<u>\$(131,283,746)</u>	<u>\$(130,202,194)</u>	<u>\$ 250,595</u>	<u>\$(129,951,599)</u>

The tables below present the expenses of both the governmental activities and the business-type activities of the School District.

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2018**

Financial Analysis of the School District as a Whole (Continued)

Table A-3 shows the School District's largest functions - instructional programs, instructional student support, administrative, operation and maintenance of plant, pupil transportation, student activities, community services, interest on debt, as well as each program's net cost (total cost less revenues generated by the activities). This table also shows the net costs offset by the other unrestricted grants, subsidies, and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

Table A-3
Years Ended June 30, 2018 and 2017
Governmental Activities

Functions/Programs	2018		2017	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$50,350,251	\$ 39,045,979	\$50,627,772	\$ 39,754,715
Instructional Student Support	6,517,005	5,724,557	6,394,638	5,619,826
Administrative and Fin. Support Svcs.	6,852,924	6,192,977	6,617,686	5,972,427
Operation and Maintenance of Plant Svcs.	7,366,717	6,776,680	7,881,484	7,304,579
Pupil Transportation	4,628,868	2,768,583	4,599,269	2,780,386
Student Activities	2,120,686	1,876,279	2,134,009	1,895,041
Community Services	123,581	57,245	99,274	34,414
Interest on Long-Term Debt	<u>5,793,632</u>	<u>5,108,625</u>	<u>4,464,866</u>	<u>3,479,689</u>
Total Governmental Activities	<u>\$83,753,664</u>	67,550,925	<u>\$82,818,998</u>	66,841,077
Less:				
Unrestricted Grants, Subsidies		<u>(13,392,623)</u>		<u>(13,290,081)</u>
Total Needs from Local Taxes and Other Revenues		<u>\$ 54,158,302</u>		<u>\$ 53,550,996</u>

**Shaler Area School District
Management's Discussion and Analysis
June 30, 2018**

Financial Analysis of the School District as a Whole (Continued)

Table A-4 reflects the activities of the food service program, the only business-type activities of the School District.

Table A-4
Years Ended June 30, 2018 and 2017
Business-Type Activities

	2018		2017	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Functions/Programs				
Food Service	<u>\$2,006,677</u>	\$ (15,267)	<u>\$ 1,954,640</u>	\$ 57,673
Add/Less:				
Investment Earnings		<u>\$ 2,828</u>		<u>\$ 818</u>
Total Business-Type Activities		<u>\$ (12,439)</u>		<u>\$ 58,491</u>

The statement of revenues, expenses, and changes in fund net position for this proprietary fund shown on page 8 will further detail the actual results of operations.

Fund Financial Statements

School District Funds

At June 30, 2018, the School District's General Fund reported a fund balance of \$11.5M, which is an increase of approximately \$2.1M over the prior year.

In addition to the General Fund, the School District has active a Construction, Renovation, and Repair Fund, which is part of its governmental activities. The Construction, Renovation, and Repair Fund is used for emergency capital expenditures only. At year-end, this fund had a balance of \$380K.

The School District also has a new construction fund that was funded from the Series of 2016 bonds for various major construction additions and renovation projects. The fund balance as of June 30, 2018 in that fund is \$2.7M.

General Fund Budget

During the fiscal year, the administration recommended that the Board of Directors authorize revisions to the original budget to accommodate actual expenditures. These budget transfers reallocate unencumbered funds designated for one purpose to another part of the budget to be used for a different purpose.

Management's Discussion and Analysis
June 30, 2018

Capital Assets and Debt Administration

Capital Assets

At June 30, 2018, the School District had net capital assets of \$73,759,539 invested in a broad range of capital assets, including land, buildings, construction in progress, furniture, and equipment.

Table A-5
Governmental Activities
Capital Assets - Net of Depreciation

	2018	2017
Land	\$ 1,553,540	\$ 1,553,540
Construction in Progress	23,185,604	10,406,961
Land Improvements	3,075,589	3,239,534
Buildings and Building Improvements	44,843,322	46,813,062
Furniture and Equipment	1,101,484	1,217,679

Debt Administration

As of July 1, 2017, the School District included in its long-term liabilities \$85,211,290 for general obligation bonds. During the year 2017/2018, the School District made principal payments of \$3,860,000 while recording accretion of interest on capital appreciation bonds in the amount of \$2,842,822, resulting in an ending balance of \$84,194,112.

Table A-6
Outstanding Debt

General Obligation Bonds/Notes	As of 06/30/18	As of 06/30/17
Bonds - Series of 1997A	\$16,349,105	\$19,105,643
Bonds - Series 2006	20,150,007	18,295,647
Bonds - Series of 2015	9,965,000	9,970,000
Bonds - Series of 2016B	20,980,000	21,080,000
Bonds - Series of 2016C	14,035,000	14,040,000
Bonds - Series of 2016D	2,715,000	2,720,000

Management’s Discussion and Analysis
June 30, 2018

Capital Assets and Debt Administration (Continued)

Debt Administration (Continued)

Table A-6 (Continued)
Outstanding Debt

General Obligation Bonds/Notes	As of 06/30/18	As of 06/30/17
Notes - PNC 2014	\$ 8,915,000	\$ 9,000,000
Notes - Series of 2016A	3,685,000	4,135,000
Notes - Series of 2016	1,760,407	1,883,067

Other obligations include accrued vacation pay and sick leave for specific employees of the School District and several capital leases for duplicating equipment and instructional equipment. More detailed information about our long-term liabilities is included in the notes to financial statements.

Bond Rating

Standard & Poor’s (S&P) Rating

S&P Global Ratings maintained consistent with the previous fiscal year. The School District maintains an “A+” rating with a stable outlook on the School District’s Pennsylvania general obligation (GO) bonds.

Future Concerns and Next Year’s Budget

There has been much discussion on the projected rate hike in the employer’s contribution of the Public School Employees’ Retirement System (PSERS), especially as it relates to the exponential growth over the past years and going into the future. The 2017/2018 employer contribution rate to PSERS was 32.57%. The employer contribution rate applied to salary and wages for fiscal year 2018/2019 will be 33.43%

Steps must be taken at the state level and the School District level to mitigate and manage the continual increase in rates. If not addressed, this will have a significant impact on the fiscal structure of all school districts and the Commonwealth of Pennsylvania.

The School District is experiencing a decline in enrollment, and studies show this trend to continue in future years. This decline will have a direct impact on staffing needs, building footprint, and other costs associated with the School District.

The School District must be aware of the special education needs of the School District and its impact on future budgets, especially with respect to the personnel costs and placement of students in private centers outside of the School District, as well as extended school year programs.

**Management’s Discussion and Analysis
June 30, 2018**

Future Concerns and Next Year’s Budget (Continued)

The School District will receive \$2,041,241 in the state property tax reduction allocation, which is similar to the previous year’s allocation. This translates into a \$7,227 reduction in assessed valuation, which represents an approximate \$168 credit on each homestead property tax bill. It is important to note this is a revenue neutral program for the School District whereby all proceeds received by the School District are allocated to the qualified homestead properties. There are approximately 12,000 qualified homestead properties in the School District. It is important to note that the gaming revenue is not guaranteed and may be different amounts from year to year.

A portion of Act 1 legislation enacted in 2006 requires school districts to limit tax increases to a level set by an inflation index established by the Pennsylvania Department of Education, unless the tax increase is approved by voters in a referendum or the school district obtains, from the Department of Education or a court of common pleas, certain referendum exceptions. The School District must adhere to this limit. Since this index is established using several economic indices, the index for fiscal year 2019/2020 is expected to be 2.9%, which limits school districts in their ability to raise millage for ongoing budgetary commitments. In addition, the Pennsylvania legislature in 2011 narrowed the list of cost exceptions a school district can request to the Pennsylvania Department of Education to three areas: Pennsylvania school employees’ retirement costs; special education; and debt service. The Board of Directors has voted to not raise taxes beyond the Act 1 index for 2018/2019, as they have done in previous years.

Developing a Fiscally Astute Organization

The administration will continue to focus on cultivating an organization that inspires fiscal responsibility and incorporates operational efficiencies. In addition, close scrutiny to expenditures and discovering new and innovative additional revenue streams will be essential in attaining fiscal health.

The lack of state and federal funding for education for the 2017/2018 school year is a situation that continues.

The comparison of revenue and expenditures categories is as follows:

Table A-7

	Budgeted Revenues 2018/2019	Actual Revenues 2017/2018
Local	65.1%	65.4%
State	34.0%	33.0%
Federal/Other	0.9%	1.6%

**Management's Discussion and Analysis
June 30, 2018**

Future Concerns and Next Year's Budget (Continued)

Table A-7 (Continued)

	Budgeted Expenditures 2018/2019	Actual Expenditures 2017/2018
Instruction	60.8%	58.8%
Support Services	28.7%	29.7%
Noninstructional/Other	1.9%	2.5%
Fund Transfers/Debt	8.6%	9.0%

Contacting the School District Financial Management

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the School District's finances and to show the Board of Directors' accountability for the money it receives. If you have questions about this report or wish to request additional information, please contact Sherri L. Ludwig, Director of Business Affairs at Shaler Area School District, 1800 Mt. Royal Boulevard, Glenshaw, PA, 15116, 412-492-1200, Ext. 2807.

SHALER AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2018

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 20,525,153	\$ 179,146	\$ 20,704,299
Taxes receivable, net	8,548,956	-	8,548,956
Intergovernmental receivables	5,201,526	101,467	5,302,993
Other receivables	28,417	74,339	102,756
Internal balances	(27,309)	27,309	-
Inventory	-	39,101	39,101
Long term prepayments, net of amortization	1,760,407	-	1,760,407
Capital assets:			
Non-depreciable	24,739,144	-	24,739,144
Depreciable, net of accumulated depreciation	49,020,395	80,840	49,101,235
Total Assets	109,796,689	502,202	110,298,891
Deferred Outflows of Resources			
Deferred charge on refunding	1,514,243	-	1,514,243
Deferred outflows of resources for pension	21,226,198	-	21,226,198
Deferred outflows of resources for OPEB	1,870,800	-	1,870,800
Deferred outflows of resources for derivative	1,036,844	-	1,036,844
Total Deferred Outflows of Resources	25,648,085	-	25,648,085
Liabilities			
Accounts payable and other current liabilities	3,580,402	209,285	3,789,687
Accrued salaries and benefits	7,919,737	-	7,919,737
Accrued interest payable	777,206	-	777,206
Unearned revenue	-	54,761	54,761
Other current liabilities	24,970	-	24,970
Non-current liabilities:			
Due within one year	4,861,311	-	4,861,311
Due in more than one year	243,470,809	-	243,470,809
Total Liabilities	260,634,435	264,046	260,898,481
Deferred Inflows of Resources			
Deferred inflows of resources for pension	4,243,000	-	4,243,000
Deferred inflows of resources for OPEB	2,089,241	-	2,089,241
Total Deferred Inflows of Resources	6,332,241	-	6,332,241
Net Position			
Net investment in capital assets	(28,763,188)	80,840	(28,682,348)
Restricted	3,327,053	-	3,327,053
Unrestricted	(106,085,767)	157,316	(105,928,451)
Total Net Position	\$ (131,521,902)	\$ 238,156	\$ (131,283,746)

The accompanying notes are an integral part of these financial statements.

SHALER AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	\$ 50,350,251	\$ 183,720	\$ 11,120,552	\$ -	\$ (39,045,979)	\$ -	\$ (39,045,979)
Instructional student support	6,517,005	-	792,448	-	(5,724,557)	-	(5,724,557)
Administrative and financial support services	6,852,924	-	659,947	-	(6,192,977)	-	(6,192,977)
Operation of plant and maintenance services	7,366,717	-	590,037	-	(6,776,680)	-	(6,776,680)
Pupil transportation	4,628,868	-	1,860,285	-	(2,768,583)	-	(2,768,583)
Student activities	2,120,686	-	244,407	-	(1,876,279)	-	(1,876,279)
Community services	123,581	-	66,336	-	(57,245)	-	(57,245)
Unallocated expenses - excluding direct expenses reported as a function above:							
Interest on long-term debt	5,793,632	-	-	685,007	(5,108,625)	-	(5,108,625)
Total governmental activities	83,753,664	183,720	15,334,012	685,007	(67,550,925)	-	(67,550,925)
Business-Type Activities:							
Food service	2,006,677	949,133	1,042,277	-	-	(15,267)	(15,267)
Total Primary Government	\$ 85,760,341	\$ 1,132,853	\$ 16,376,289	\$ 685,007	(67,550,925)	(15,267)	(67,566,192)
General revenues:							
Taxes:							
Property taxes, levied for general purposes, net of uncollectibles					45,700,408	-	45,700,408
Earned income taxes					5,346,090	-	5,346,090
Other taxes levied for general purposes					608,258	-	608,258
Grant subsidies and contributions not restricted					13,392,623	-	13,392,623
Investment income					1,029,851	2,828	1,032,679
Miscellaneous income					153,987	-	153,987
Total general revenues					66,231,217	2,828	66,234,045
Change in Net Position					(1,319,708)	(12,439)	(1,332,147)
Net Position:							
Beginning of year, as restated					(130,202,194)	250,595	(129,951,599)
End of year					<u>\$ (131,521,902)</u>	<u>\$ 238,156</u>	<u>\$ (131,283,746)</u>

The accompanying notes are an integral part of these financial statements.

SHALER AREA SCHOOL DISTRICT

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2018

	General Fund	Capital Projects	Other Governmental Funds	Total
Assets				
Cash and cash equivalents	\$ 14,161,162	\$ 5,731,692	\$ 632,299	\$ 20,525,153
Taxes receivable, net	8,548,956	-	-	8,548,956
Due from other governments	5,201,526	-	-	5,201,526
Due from other funds	-	30,729	-	30,729
Other receivables	28,417	-	-	28,417
Total Assets	\$ 27,940,061	\$ 5,762,421	\$ 632,299	\$ 34,334,781
Liabilities, Deferred Inflows of Resources, and Fund Balance				
Liabilities:				
Accounts payable	\$ 889,377	\$ 2,691,025	\$ -	\$ 3,580,402
Accrued salaries and benefits	7,919,737	-	-	7,919,737
Other current liabilities	24,970	-	-	24,970
Due to other funds	58,038	-	-	58,038
Total Liabilities	8,892,122	2,691,025	-	11,583,147
Deferred Inflows of Resources:				
Unavailable revenue - real estate taxes	7,534,831	-	-	7,534,831
Fund Balance:				
Restricted	-	2,694,754	632,299	3,327,053
Committed	-	376,642	-	376,642
Assigned	5,167,988	-	-	5,167,988
Unassigned	6,345,120	-	-	6,345,120
Total Fund Balance	11,513,108	3,071,396	632,299	15,216,803
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 27,940,061	\$ 5,762,421	\$ 632,299	\$ 34,334,781

The accompanying notes are an integral part of these financial statements.

SHALER AREA SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

YEAR ENDED JUNE 30, 2018

Total Fund Balance - Governmental Funds \$ 15,216,803

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. 73,759,539

Property taxes receivable received after 60 days are not considered available soon enough to pay for the current year's expenditures and, therefore, are reported as unavailable in the funds. 7,534,831

The net investment in joint venture is not an available resource and, therefore, is not reported in the funds. 1,760,407

Derivative investments are not available resources and, therefore, are not reported in governmental funds. (783,900)

The actuarially accrued other post-employment benefit (OPEB) obligation, net pension liability, and deferred inflows and outflows of resources for pension for the School District's employees are not recorded on the fund financial statements. (122,976,724)

Long-term liabilities are not due and payable in the current year and, therefore, are not reported as liabilities in the funds. Also, governmental funds report the effect of deferred charge on refunding when debt is first issued, whereas this amount is a deferred outflow and amortized in the statement of activities. Long-term liabilities at year-end consist of:

	Bonds payable	\$ (84,194,112)	
	Notes payable	(14,360,407)	
	Deferred refunding loss	1,514,243	
	Accrued interest payable	(777,206)	
	Capital leases	(429,683)	
	Unamortized discount/premium	(6,813,175)	
	Compensated absences	(972,518)	(106,032,858)

Total Net Position - Governmental Activities \$ (131,521,902)

The accompanying notes are an integral part of these financial statements.

SHALER AREA SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2018

	General Fund	Capital Projects	Other Governmental Funds	Total
Revenues:				
Local sources	\$ 54,482,951	\$ 168,209	\$ 241,538	\$ 54,892,698
State sources	27,488,676	-	-	27,488,676
Federal sources	959,103	-	-	959,103
Total revenues	82,930,730	168,209	241,538	83,340,477
Expenditures:				
Current:				
Instruction	47,755,050	-	-	47,755,050
Support services	24,133,052	-	-	24,133,052
Operation of non-instructional services	1,940,412	-	10,134	1,950,546
Capital outlay	-	12,992,914	-	12,992,914
Debt service:				
Principal and interest	165,141	-	7,201,973	7,367,114
Total expenditures	73,993,655	12,992,914	7,212,107	94,198,676
Excess (Deficiency) of Revenues over Expenditures	8,937,075	(12,824,705)	(6,970,569)	(10,858,199)
Other Financing Sources (Uses):				
Refund of prior year's expenditures	75,673	-	-	75,673
Refund of prior year's revenues	(31,758)	-	-	(31,758)
Proceeds from capital lease	303,023	-	-	303,023
Transfers in	-	-	7,104,699	7,104,699
Transfers out	(7,104,699)	-	-	(7,104,699)
Total other financing sources (uses)	(6,757,761)	-	7,104,699	346,938
Net Change in Fund Balance	2,179,314	(12,824,705)	134,130	(10,511,261)
Fund Balance:				
Beginning of year	9,333,794	15,896,101	498,169	25,728,064
End of year	\$ 11,513,108	\$ 3,071,396	\$ 632,299	\$ 15,216,803

The accompanying notes are an integral part of these financial statements.

SHALER AREA SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

Net Change in Fund Balance - Governmental Funds \$ (10,511,261)

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 cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current year:

	Capital asset additions	\$ 13,313,587	
	Less: depreciation expense	<u>(2,784,824)</u>	10,528,763

Some taxes and state grants will not be collected for several months until after the School District's year-end; they are not considered "available" revenues in the governmental funds. The unavailable revenue changed by this amount during the year.

(1,253,664)

The change in net investment in joint venture is not reported as revenue (expense) in the governmental funds.

303,228

The issuance of long-term obligations (e.g., bonds, leases, loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term obligations and related items.

1,393,119

In the statement of activities, certain operating expenses (compensated absences, other postemployment benefits, and pension benefits) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.

(1,779,893)

Change in Net Position of Governmental Activities \$ (1,319,708)

The accompanying notes are an integral part of these financial statements.

SHALER AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION PROPRIETARY FUND

JUNE 30, 2018

	<u>Enterprise Fund Food Service</u>
Assets	
<hr/>	
Current assets:	
Cash and cash equivalents	\$ 179,146
Due from other funds	27,309
Due from other governments	101,467
Other receivables	74,339
Inventories	39,101
Total current assets	<hr/> 421,362 <hr/>
Non-current assets:	
Furniture and equipment, net	80,840
Total Assets	<hr/> \$ 502,202 <hr/>
Liabilities and Net Position	
<hr/>	
Liabilities:	
Accounts payable	\$ 209,285
Unearned revenue	54,761
Total Liabilities	<hr/> 264,046 <hr/>
Net Position:	
Net investment in capital assets	80,840
Unrestricted	157,316
Total Net Position	<hr/> 238,156 <hr/>
Total Liabilities and Net Position	<hr/> \$ 502,202 <hr/>

The accompanying notes are an integral part of these financial statements.

SHALER AREA SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION PROPRIETARY FUND

YEAR ENDED JUNE 30, 2018

	<u>Enterprise Fund Food Service</u>
Operating Revenues:	
<u>Food service revenue</u>	<u>\$ 949,133</u>
Operating Expenses:	
Other purchased services	1,866,072
Supplies	115,339
Depreciation	<u>25,266</u>
Total operating expenses	<u>2,006,677</u>
Net Operating Loss	<u>(1,057,544)</u>
Non-Operating Revenues:	
Earnings on investments	2,828
Local sources	42,786
State sources	57,837
Federal sources	<u>941,654</u>
Total non-operating revenues	<u>1,045,105</u>
Change in Net Position	(12,439)
Net Position:	
<u>Beginning of year</u>	<u>250,595</u>
End of year	<u><u>\$ 238,156</u></u>

The accompanying notes are an integral part of these financial statements.

SHALER AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS PROPRIETARY FUND

YEAR ENDED JUNE 30, 2018

	<u>Enterprise Fund</u> <u>Food Service</u>
<u>Cash Flows From Operating Activities:</u>	
Receipts from users	\$ 933,127
Payments to suppliers	<u>(1,682,590)</u>
Net cash provided by (used in) operating activities	<u>(749,463)</u>
<u>Cash Flows From Financing Activities:</u>	
State sources	57,991
Federal sources	<u>837,178</u>
Net cash provided by (used in) financing activities	<u>895,169</u>
<u>Cash Flows From Investing Activities:</u>	
Interest income	<u>2,828</u>
Net Increase (Decrease) in Cash and Cash Equivalents	148,534
<u>Cash and Cash Equivalents:</u>	
Beginning of year	<u>30,612</u>
End of year	<u><u>\$ 179,146</u></u>

(Continued)

The accompanying notes are an integral part of these financial statements.

SHALER AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS PROPRIETARY FUND

YEAR ENDED JUNE 30, 2018
(Continued)

Reconciliation of Net Operating Loss to Net Cash

Provided by (Used in) Operating Activities:

Net operating loss	\$ (1,057,544)
Adjustments to reconcile net operating loss to net cash provided by (used in) operating activities:	
Donated commodities expense	106,680
Depreciation	25,266
Change in assets and liabilities:	
Due from other funds	(20,794)
Other receivables	9,877
Inventories	10,365
Accounts payable	181,776
Unearned revenues	<u>(5,089)</u>
Net cash provided by (used in) operating activities	<u><u>\$ (749,463)</u></u>

(Concluded)

Non-Cash Financing Transaction:

The Food Service Fund received donated commodities from the U.S. Department of Agriculture in the amount of \$106,680 during the year.

The accompanying notes are an integral part of these financial statements.

SHALER AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION FIDUCIARY FUNDS

JUNE 30, 2018

	Private Purpose Trust Fund	Agency Fund
<hr/>		
Assets		
<hr/>		
Cash and cash equivalents	\$ 259,424	\$ 470,301
<hr/>		
Liabilities		
<hr/>		
Accounts payable	42,141	-
Other current liabilities	-	470,301
Total Liabilities	42,141	470,301
<hr/>		
Net Position		
<hr/>		
Restricted for scholarships	\$ 217,283	\$ -

The accompanying notes are an integral part of these financial statements.

SHALER AREA SCHOOL DISTRICT

STATEMENT OF CHANGES IN NET POSITION FIDUCIARY FUNDS

YEAR ENDED JUNE 30, 2018

	<u>Private Purpose Trust Fund</u>
Additions:	
<u>Gifts and contributions</u>	\$ 153,751
Investment earnings	<u>6,955</u>
Total additions	160,706
Deductions:	
<u>Scholarships awarded</u>	<u>67,445</u>
Change in Net Position	93,261
Net Position:	
<u>Beginning of year</u>	<u>124,022</u>
End of year	<u><u>\$ 217,283</u></u>

The accompanying notes are an integral part of these financial statements.

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

1. Summary of Significant Accounting Policies

Shaler Area School District (School District), located in Allegheny County, Pennsylvania, provides public education, kindergarten through twelfth grade, to the residents of the Boroughs of Etna and Millvale and the Townships of Reserve and Shaler.

The financial statements are prepared in accordance with the accounting system and procedures prescribed for school districts by the Commonwealth of Pennsylvania, Department of Education, which conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The School District is a public school system operating under the authority of the Pennsylvania School Code of 1949 and is governed by an elected nine-member Board of Directors (Board). The criteria set forth by the Governmental Accounting Standards Board (GASB) are followed by the School District to determine which governmental organizations should be included or excluded from the reporting entity. Criteria for inclusion of any entity (component unit) into a primary governmental unit's financial statements include but are not limited to legal standing, fiscal dependency, imposition of will, financial benefit or burden, and appointment of a voting majority of the governing Board. The School District presently has no component units that meet the above criteria.

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the School District. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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 demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not considered program-related revenues are reported as general revenues.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

The School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary fund is reported by type. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to pensions, other post-employment benefits, compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

State and federal grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

Deferred inflows of resources reported on the governmental funds balance sheet arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the unavailable revenue is removed as a deferred inflow of resources and the revenue is recognized.

Unearned revenues arise when resources are received by the School District before it has legal claim to them, such as when intergovernmental funds are received prior to the occurrence of qualifying expenditures. During subsequent periods, when the School District has a legal claim to the resources, the unearned revenue is removed as a liability and the revenue is recognized.

Proprietary funds 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 operations. The principal operating revenues of the School District's Food Service Fund are charges to customers for the sale of food. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types" as follows:

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

Governmental Funds:

The School District reports the following major governmental funds:

The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Capital Projects Fund* accounts for the acquisition and construction of the government's major capital facilities or equipment, other than those financed by proprietary funds.

Additionally, the School District reports the following other governmental funds:

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term obligation debt of the governmental funds.

Proprietary Funds:

The School District reports the following major proprietary fund:

The *Food Service Fund* is authorized under Section 504 of the Public School Code of 1949 to account for all revenues and expenses pertaining to cafeteria operations and is presented as a major fund. The Food Service Fund is utilized to account for operations that are financed and operated in a manner similar to private business enterprises where the stated intent is that the costs of providing goods or services to the students on a continuing basis are financed or recovered primarily through user charges and government subsidies.

Fiduciary Funds:

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and are therefore not available to support School District programs. The reporting focus is on net position and changes in net position. The School District's fiduciary funds are presented in the fiduciary fund financial statements by type (pension, private purpose, or agency).

The *Private Purpose Trust Fund* is used to account for resources contributed to the School District for scholarships. The various scholarship funds are considered private purpose trust funds.

SHALER AREA SCHOOL DISTRICT

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The School District's *Agency Fund* is used to account for assets held by the School District in a trustee capacity for student activities. They are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Budgets and Budgetary Accounting

The Board approves, prior to the beginning of each fiscal year, an annual budget on the modified accrual basis for the General Fund, as required by state law.

The School District follows these procedures for establishment of its annual budget:

1. Prior to May of the preceding fiscal year, the School District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. At least 20 days prior to the date set for budget adoption, the budget is made available for public inspection.
3. A meeting of the Board is then called for the purpose of adopting the proposed budget. This meeting may only be held after 10 days of public notification.
4. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board.
5. The budget must be filed with the Commonwealth of Pennsylvania, Department of Education by July 15 of the fiscal year or within 30 days of adoption.

The Public School Code allows the Board to authorize budget transfer amendments between functions and objects during the year. The budget data reflected in the required supplementary information includes the effect of such approved budget transfer amendments and, for comparative purposes, the actual results have also been presented. The level of budgetary control is at the object level within each function and fund. Function is defined as a program area such as instructional services, and object is defined as the nature of the expenditure such as salaries or supplies.

Annual appropriations lapse at year-end. No supplemental appropriations were required during the current fiscal year.

SHALER AREA SCHOOL DISTRICT

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Budgetary control for other governmental funds is maintained through enforcement of the related grant provisions or through provisions of various debt agreements.

Deposits and Investments

For the purposes of the statement of cash flows, the School District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition and pooled funds investments subject to daily withdrawal.

Investments are stated at fair value except that treasury and agency obligations that have a remaining maturity at the time of purchase of one year or less are shown at amortized cost. The School District categorizes its fair value measurements within the fair value hierarchy. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All tax receivables are shown net of an allowance for uncollectible amounts.

Property taxes are levied as of July 1 on property values assessed as of the same date. The billings are considered past due on November 1, and penalties and interest are assessed.

Inventory and Prepaid Items

Textbooks and library books are recorded as instructional expenditures of the General Fund when purchased and recorded as capital assets in the government-wide financial statements.

Inventories of the Food Service Fund, consisting of food and paper supplies, are carried at cost using the first-in, first-out method. Federal donated commodities are valued at their fair market value as determined by the U.S. Department of Agriculture at the date of donation.

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Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial, individual cost of more than \$5,000. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the School District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30 - 50
Building improvements	20
Vehicles	5 - 10
Office equipment	3 - 20
Computer equipment	5 - 10
Food service equipment	6 - 12
Text and library books	5 - 10

Compensated Absences

The School District accrues for certain accumulated employee benefits, such as unpaid vacation, sick pay, and retirement lump sum payments. The amount of the accrual is based on the vacation, sick, and retirement lump-sum payments, which are expected to be paid to employees upon their termination or retirement from the School District. The entire

SHALER AREA SCHOOL DISTRICT

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accumulated employee benefits liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid accumulated employee benefits is the amount of early retirement and severance pay expected to be paid using expendable available resources within the next fiscal year.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the related bonds. Bonds are reported net of the applicable bond premium or discount.

The governmental fund financial statements recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the year incurred.

Postemployment Benefits

In the government-wide financial statements, long-term liabilities related to postemployment benefits, including pensions, health insurance, and life insurance, are calculated based on actuarial valuations as described in Notes 9, 10, and 11.

Refunding Transactions

In accordance with applicable guidance, the excess of the reacquisition price over the net carrying amount of refunded debt is recorded as a deferred outflow of resources on the statements of net position and amortized as a component of interest expense over the shorter of the term of the refunding issue or the refunded bonds.

Deferred Inflows and Outflows of Resources Related to Pensions and Other Post-Employment Benefits (OPEB)

In conjunction with pension and OPEB accounting requirements, differences between expected and actual experience, changes in assumptions, the effect of the change in the

SHALER AREA SCHOOL DISTRICT

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School District's proportion, the net difference between expected and actual investment earnings, and payments made to the plans subsequent to the measurement date are recorded as a deferred inflow or outflow of resources related to pensions or a deferred inflow or outflow of resources related to OPEBs on the government-wide financial statements. These amounts are determined based on the actuarial valuation performed for each plan. Notes 9 through 11 presents additional information about the School District's pension and OPEB plans.

Fund Balance

In the fund financial statements, governmental funds report fund balance in categories based on the level of restriction placed upon the funds. These levels are as follows:

- Nonspendable – This category represents funds that are not in spendable form and includes such items as prepaid expenditures and long-term interfund advances.
- Restricted – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties. Fund balance is restricted at June 30, 2018 for future capital projects and purchases of the School District through bond indentures.
- Committed – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending imposed by the Board. Such commitment is made via a Board resolution and must be made prior to the end of the fiscal year. Removal of this commitment requires a Board resolution. Fund balance was committed at June 30, 2018 within the Capital Reserve Fund for future capital needs of the School District.
- Assigned – This category represents intentions of the Board to use the funds for specific purposes. Such assignment is made by the Director of Finance and Operations, but approval is obtained from the Board for all such assignments. Fund balance is assigned in the amount of \$2.4 million for future retirement costs, and \$2.8 million for the fiscal year 2019 budget.
- Unassigned – This category represents all other funds not otherwise defined.

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

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Net Position

The government-wide and proprietary fund financial statements are required to report three components of net position:

Net investment in capital assets - The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflow of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

Restricted - The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. As of June 30, 2018, net position was restricted for future capital purchases and projects.

Unrestricted - The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Estimates

The preparation of the 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.

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

Adoption of Accounting Pronouncements

GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," was adopted in the current year by the School District. As a result of this implementation, the government-wide net position as of July 1, 2017 was restated with a decrease of \$5,544,000 to record the School District's proportionate share of PSERS' net OPEB liability. This liability is further described in Notes 10 and 11.

The following GASB statements were also adopted for the year ended June 30, 2018: Statement Nos. 81 (Split-Interest Agreements), 82 (Pensions; requirements of paragraph 7), 85 (Omnibus), and 86 (Certain Debt Extinguishment issues). These statements had no significant impact on the School District's financial statements for the year ended June 30, 2018.

Pending Pronouncements

GASB has issued several statements that will become effective in future years, including Statement Nos. 83 (Certain Asset Retirement Obligations), 84 (Fiduciary Activities), 87 (Leases), 88 (Certain Debt Disclosures), 89 (Interest Costs before the End of a Construction Period), and 90 (Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61). Management has not yet determined the impact of these statements on the School District's financial statements.

2. Cash and Cash Equivalents

Under Section 440.1 of the Public School Code of 1949, as amended, the School District is permitted to invest funds consistent with sound business practices in the following types of investments:

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 of Pennsylvania, 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 accounts or time deposits or share accounts of institutions insured by Federal Deposit Insurance Corporation to the extent that such accounts are so

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YEAR ENDED JUNE 30, 2018

insured and, for any amounts above the insured maximum, provided that approved collateral, as provided by law, is pledged by the depository.

In March 2016, Act 10 was passed which expanded the scope of investment options available to school districts including repurchase agreements, commercial paper, negotiable certificates of deposit, and banker's acceptances. The School District elected to maintain its current investment policy due to the additional risk and oversight associated with the expanded investment options under Act 10.

The deposit and investment policy of the School District adheres to state statutes and prudent business practices. Deposits of the governmental funds are either maintained in demand deposits or savings accounts, certificates of deposit, or cash equivalents held by a Trustee of the School District. There were no deposits or investments made during the year which violated either the state statutes or the policy of the School District.

The following is a description of the School District's deposit and investment risks:

Credit Risk. The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The majority of the School District's investments are held in U.S. Government Obligations and are therefore not exposed to this type of risk. These include investments in Pennsylvania School District Liquid Asset Fund (PSDLAF) and the Pennsylvania Local Government Investment Trust (PLGIT) (described below), which have received AAA ratings from Standard & Poor's.

Investments

PSDLAF and PLGIT were established as a common law trust organized under laws of the Commonwealth of Pennsylvania (Commonwealth). Shares of the funds are offered to certain Pennsylvania school districts, intermediate units, area vocational-technical schools, and municipalities. The purpose of these funds is to enable such governmental units to pool available funds for investment in instruments authorized by Section 440.1 of the Pennsylvania Public School Code of 1949, as amended. The School District's deposits in these pooled funds are not subject to direct custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. These investments are reflected as cash and cash equivalents on the balance sheet and the statement of net position. The fair value of the School District's position in the external investment pools is the same as the value of the pool shares, and the funds measure their assets (for financial reporting purposes) at amortized costs, and maintain a stable net asset value of \$1 per share. All investments in an external investment pool that is not SEC-registered are subject

SHALER AREA SCHOOL DISTRICT

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to oversight by the Commonwealth. The School District can withdraw funds from the external investment pool without limitations or fees upon adequate notice. Otherwise, breakage fees may be charged. The PSDLAF funds have weekly liquidity and are fully collateralized by a Federal Home Loan Bank letter of credit.

The School District's pooled investment funds consist mainly of the above-noted PSDLAF and PLGIT accounts. The School District's PSDLAF and PLGIT investments have a maturity of less than 90 days. The School District's investments at June 30, 2018 consisted of:

	<u>Fair Value</u>	<u>Book Value</u>
Pooled investment funds:		
PSDLAF	\$ 17,769,132	\$ 17,335,427
PLGIT	3,325,469	3,341,083
Bank of New York Mellon Pooled Funds	632,299	632,299
Pittsburgh Foundation	125,215	125,215
	<u>\$ 21,852,115</u>	<u>\$ 21,434,024</u>

As of June 30, 2018, all investments had a maturity of less than one year.

As further described in Note 12, the School District also has derivative instruments that are accounted for as investments. Investment risks related to this investment are described in that note.

3. Real Estate Taxes

Real estate taxes are levied each July 1 on the assessed value listed as of the prior January 1 for all real estate located in the School District. These taxes are billed and collected by each municipality served by the School District. Taxes paid through August 31st are given a 2% discount. Amounts paid after October 31st are assessed a 10% penalty. An outside service collects delinquent real estate taxes and handles the property liens. The lien filing date for the levy is July 1 of the following year.

The tax rate assessed for the year ended June 30, 2018 was 23.28 mills. General Fund property taxes receivables have been reported net of an allowance for doubtful accounts of approximately \$2.7 million at June 30, 2018.

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NOTES TO FINANCIAL STATEMENTS

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There is an appeal process through which a taxpayer may contest the assessed value of their property. This process could result in the reduction of future assessed values and consequently a loss of tax revenues. There are outstanding appeals at June 30, 2018, the results of which have yet to be determined. The revenue recorded in the financial statements reflects the estimated amount of net real estate tax revenue for the year.

4. Capital Assets

A summary of changes in capital assets during fiscal year 2018 for governmental activities is as follows:

	Balance at July 1, 2017	Additions	Deletions/ Transfers	Balance at June 30, 2018
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,553,540	\$ -	\$ -	\$ 1,553,540
Construction in progress	10,406,961	12,778,643	-	23,185,604
Total capital assets, not being depreciated	<u>11,960,501</u>	<u>12,778,643</u>	<u>-</u>	<u>24,739,144</u>
Capital assets, being depreciated:				
Site improvements	11,454,913	124,805	-	11,579,718
Building and improvements	99,312,957	28,226	-	99,341,183
Furniture and equipment	5,230,285	381,913	-	5,612,198
Total capital assets, being depreciated	<u>115,998,155</u>	<u>534,944</u>	<u>-</u>	<u>116,533,099</u>
Less: accumulated depreciation for:				
Site improvements	(8,215,379)	(288,750)	-	(8,504,129)
Building and improvements	(52,499,895)	(1,997,966)	-	(54,497,861)
Furniture and equipment	(4,012,606)	(498,108)	-	(4,510,714)
Total accumulated depreciation	<u>(64,727,880)</u>	<u>(2,784,824)</u>	<u>-</u>	<u>(67,512,704)</u>
Capital assets being depreciated, net	<u>51,270,275</u>	<u>(2,249,880)</u>	<u>-</u>	<u>49,020,395</u>
Governmental activities capital assets, net	<u>\$ 63,230,776</u>	<u>\$ 10,528,763</u>	<u>\$ -</u>	<u>\$ 73,759,539</u>

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

A summary of changes in capital assets during fiscal year 2018 for business-type activities is as follows:

	Balance at July 1, 2017	Additions	Deletions	Balance at June 30, 2018
Business-Type Activities:				
Capital assets, being depreciated:				
Machinery and equipment	\$ 620,789	\$ -	\$ -	\$ 620,789
Less: accumulated depreciation for:				
Machinery and equipment	(514,683)	(25,266)	-	(539,949)
Business-type activities capital assets, net	\$ 106,106	\$ (25,266)	\$ -	\$ 80,840

Depreciation expense was charged to functions/programs of the School District as follows:

Governmental Activities:

Instructional services:	
Regular instruction	\$ 2,268,448
Support services:	
Pupil personnel	92,616
Administration	81,573
Operation of plant and maintenance services	120,882
Non-instructional services:	
Student activities	221,305
	\$ 2,784,824

Business-type Activities:

Food service	\$ 25,266
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SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

5. Long-Term Obligations

Changes in Long-Term Obligations

Changes in the School District's long-term liabilities for the year ended June 30, 2018 were as follows:

	Balance at July 1, 2017	Additions	Accretion	Deletions	Balance at June 30, 2018	Amounts Due Within One Year
Bonds Payable:						
Series of 1997 A	\$ 19,105,643	\$ -	\$ 988,462	\$ (3,745,000)	\$ 16,349,105	\$ 3,745,000
Series of 2006	18,295,647	-	1,854,360	-	20,150,007	-
Series of 2015	9,970,000	-	-	(5,000)	9,965,000	5,000
Series of 2016B	21,080,000	-	-	(100,000)	20,980,000	105,000
Series of 2016C	14,040,000	-	-	(5,000)	14,035,000	5,000
Series of 2016D	2,720,000	-	-	(5,000)	2,715,000	5,000
	<u>85,211,290</u>	<u>-</u>	<u>2,842,822</u>	<u>(3,860,000)</u>	<u>84,194,112</u>	<u>3,865,000</u>
Unamortized discount	(135,904)	-	-	29,586	(106,318)	-
Unamortized premium	7,199,779	-	-	(280,286)	6,919,493	-
Net bonds payable	<u>92,275,165</u>	<u>-</u>	<u>2,842,822</u>	<u>(4,110,700)</u>	<u>91,007,287</u>	<u>3,865,000</u>
GO Notes:						
Beattie Loan 2016	1,883,067	-	-	(122,660)	1,760,407	126,771
PNC 2014 Note	9,000,000	-	-	(85,000)	8,915,000	90,000
Series of 2016A	4,135,000	-	-	(450,000)	3,685,000	465,000
Total GO Notes	<u>15,018,067</u>	<u>-</u>	<u>-</u>	<u>(657,660)</u>	<u>14,360,407</u>	<u>681,771</u>
Capital Leases	269,215	303,023	-	(142,555)	429,683	191,379
Derivative Investments	2,609,596	-	-	(788,852)	1,820,744	-
Employee Benefits:						
Net PSERS pension liability	127,559,000	-	-	(1,075,000)	126,484,000	-
Net PSERS OPEB obligation	5,544,000	-	-	(326,000)	5,218,000	-
Net local OPEB obligation	8,308,214	-	-	(268,733)	8,039,481	-
Compensated absences	956,958	136,750	-	(121,190)	972,518	123,161
Net Employee Benefits	<u>142,368,172</u>	<u>136,750</u>	<u>-</u>	<u>(1,790,923)</u>	<u>140,713,999</u>	<u>123,161</u>
Total Long Term Obligations	<u>\$ 252,540,215</u>	<u>\$ 439,773</u>	<u>\$ 2,842,822</u>	<u>\$ (7,490,690)</u>	<u>\$ 248,332,120</u>	<u>\$ 4,861,311</u>

Additions to the General Obligation Bond Series of 1997 B and Series 2006 are the increase in accreted value for fiscal year 2018.

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

General obligation bonds and notes are described below; other long-term obligations noted above are detailed further in Notes 7, 9, 10, 11, and 12.

The Series A of 1997 General Obligation Bonds (1997 Bonds) were issued at a par value of \$27,560,000 for the purpose of financing various capital projects of the School District. The 1997 Bonds were composed of the capital appreciation bonds. The yield on the 1997 Bonds ranges from 4.00% to 5.65% and are due through November 15, 2022.

The School District issued Series 2006 General Obligation Bonds (2006 Bonds) in the amount of \$36,415,169, to finance various capital projects of the School District. The 2006 Bonds were composed of Current Interest Bonds and Capital Appreciation Bonds. The Current Interest Bonds bear interest at rates ranging from 3.875% to 5.25% and are due through September 1, 2028. The Capital Appreciation Bonds yield ranges from 5.04% to 5.19% and are due through September 1, 2034.

The School District issued Series 2013 General Obligation Variable Rate Notes (2013 Notes) in the amount of \$9,700,000 as discussed in the swap agreement discussed in Note 12. Interest on the variable rate notes is paid at the lesser of the maximum rate or the percentage of the "11-Bond Municipal Bond Index" most recently published by the bond buyer and is reset weekly. The 2013 Notes are due through September 1, 2025.

The School District issued Series 2015 General Obligation Bonds (2015 Bonds) in the amount of \$10,000,000 to be used for various capital improvements to the School District. The 2015 Bonds bear interest at rates ranging from 0.6% to 3.25% and are due through September 1, 2032.

As described in Note 7, the School District issued the Series of 2016 General Obligation Note (2016 Note) in the amount of \$2,023,543 to refund the prior bond issue related to funding capital improvements to the A.W. Beattie Career Center. The 2016 Note bears interest at rates ranging from 0.5% to 5.0% and is due in full on October 15, 2028.

In June 2016, the School District issued the Refunding Series 2016 General Obligation Notes (2016A Notes) in the amount of \$4,135,000, and also issued the Refunding Series B (2016B Bonds), C (2016C Bonds), and D (2016D Bonds) of 2016 General Obligation Bonds in the amounts of \$21,090,000, \$14,004,000, and \$2,720,000, respectively. The 2016A Notes were issued to advance refund a portion of the Series A of 1997 of General Obligation Bonds. The 2016B Bonds were issued to currently refund a portion of the Series of 2006 General Obligation Bonds. The 2016C Bonds were issued to finance costs of the Rogers Elementary School renovation project. The 2016D Bonds were pay costs of the Titan

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Stadium Project. The 2016A Note bears interest at rates of 2.0% to 3.0%. The 2016B Bonds bear interest at rates ranging from 2.0% to 5.0%. The 2016C Bonds bear interest at rates ranging from 2.0% to 5.0%. The 2016D Bonds bear interest at rates ranging from 2.0% to 5.0%. These issuances are due through September 1, 2025, 2028, 2036, and 2036, respectively.

Annual debt service requirements to maturity are as follows. The General Fund pays the below debt service through a transfer to the Debt Service Fund. Interest rates on the variable rate 2013 Notes were based on rates in effect at June 30, 2018:

Fiscal Year Ending June 30,	General Obligation Bonds		General Obligation Notes		Total
	Principal	Interest	Principal	Interest	
2019	\$ 1,297,053	\$ 4,733,584	\$ 681,771	\$ 370,762	\$ 7,083,170
2020	1,228,800	4,794,510	702,939	348,694	7,074,943
2021	1,157,271	4,863,747	719,791	327,725	7,068,534
2022	1,100,796	4,917,913	746,644	305,995	7,071,348
2023	1,047,355	4,969,036	774,181	280,938	7,071,510
2024-2028	20,750,000	9,293,280	9,732,324	527,232	40,302,836
2029-2033	17,948,908	24,607,825	677,757	114,012	43,348,502
2034-2038	19,629,417	11,588,738	325,000	4,875	31,548,030
Totals	64,159,600	69,768,633	14,360,407	2,280,233	150,568,873
Accretion to date	20,034,512	(20,034,512)	-	-	-
	<u>\$ 84,194,112</u>	<u>\$ 49,734,121</u>	<u>\$ 14,360,407</u>	<u>\$ 2,280,233</u>	<u>\$ 150,568,873</u>

6. Leases and Commitments

Operating Lease

The School District is committed under various leases for photocopiers. These leases are considered, for accounting purposes, to be operating leases. The future minimum payments required under these operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2018 were not significant.

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

7. Joint Venture

The School District is a participant with eight other member school districts in a joint venture for the operation of the A.W. Beattie Career Center (Center). The Center was created for the operation of certain vocational and alternative educational programs for the benefit of the member school districts. On dissolution of the Center, its net position will be distributed to the member school districts based upon the total payments made by each member school district since July 1, 1990, divided by the total payments of all member school districts since that time. The Center is governed by an eighteen-member Joint Committee composed of two appointees from each member school district. No member of the Jointure exercises specific control over the fiscal policies or operations of the Center.

The School District is obligated to remit its proportionate share of the Center's operating budget based on its percentage of proportional enrollment for the operational, alternative high school, and substitute service budgets and proportional assessed value for the administrative budget. The School District's combined proportionate share of funding for the year ended June 30, 2018 was approximately \$1,283,000 for ongoing operations.

The School District is also responsible for its proportionate share of general obligation bonds that paid for renovations of the Center in 2008 that were refinanced in 2016. The repayment of the principal and interest on these bonds was funded proportionately by the member school districts, with the scheduled payments to be made to the Center based upon general obligation notes issued by each member school district establishing yearly amounts to be paid to the Center. At June 30, 2018, the School District's liability for this note was \$1,760,407, and approximately \$190,000 was paid for debt service during the year, as further described in Note 5. The School District's share of the capital improvements to the Center is reported as long-term prepayment, net of amortization, on the government-wide financial statements of the School District.

Other than for the capital project described above, the School District's proportionate share of capital assets of the Center has not been determined, and excess operating results are retained by the Center for future periods. The School District has no equity interest in the Center as of June 30, 2018, and it is considered a non-equity joint venture of the School District. Accordingly, the School District's net investment and share of operating results are not included in the School District's financial statements.

The most recent available Center unassigned governmental fund type fund balance at June 30, 2017 is \$1,582,571. Complete financial statements for the Center can be obtained from the administrative offices at 9600 Babcock Boulevard, Allison Park, PA, 15101.

SHALER AREA SCHOOL DISTRICT

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8. Health Consortium

The School District is one of fifty-two members of the Allegheny County Schools Health Insurance Consortium (Consortium). The Consortium is a public entity risk pool which affords health care coverage for members' employees on a pooled basis. The School District pays premiums to the Consortium based upon rates established by the trustees of the Consortium. The Consortium establishes rates with the objective of satisfying current costs and claims of covered health care services, as well as maintaining working capital requirements and a Premium Stabilization Fund for periods when actual costs of coverage exceed premiums collected from members. At the end of each fiscal year, actual claims experience is compared with premiums paid. The difference results in either a retroactive refund or charge. Included in the retroactive refund/charge is a calculation for the reserve needed to cover expenses incurred but not yet reported by health providers. Any retroactive charge may be paid from the Premium Stabilization Fund, up to ten percent of total premiums paid. The remainder may be charged to the schools. At June 30, 2018, the Consortium's net position available for benefits approximated \$64.0 million. The School District's share of this amount is approximately \$2.3 million. The Consortium also maintains a portion of the Premium Stabilization Fund to cover potential future catastrophic losses. Independent insurance coverage for catastrophic losses is not maintained by the Consortium or the School District.

The School District paid premiums during the year of approximately \$8.7 million. The Consortium's agreement permits participants to withdraw from the Consortium under specified terms. In such an event, the withdrawing member is entitled to or responsible for a proportionate share of the Consortium fund balance or deficit as determined on the date of withdrawal.

9. Public School Employees' Retirement System (PSERS)

Plan Description

PSERS administers a governmental cost-sharing, multi-employer defined benefit pension plan (Pension Plan) and a governmental cost-sharing, multi-employer defined benefit Health Insurance Premium Assistance Program (Premium Assistance), an OPEB plan, to public school employees of the Commonwealth. PSERS issues a publicly available financial report that can be obtained at www.pfers.pa.gov.

SHALER AREA SCHOOL DISTRICT

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Employees eligible for PSERS benefits include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania.

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

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

Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions or OPEBs, pension expense, and OPEB expense, information about the fiduciary net position of PSERS and additions to/deductions from PSERS' 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. Investments are reported at fair value. The net pension liability and the net OPEB liability are recorded as governmental activities expected to be paid from the General Fund.

Benefits Provided – Pension Plan

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

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may be elected. For Class T-E and 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.

Benefits Provided – Premium Assistance

Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible annuitants are entitled to receive Premium Assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. As of June 30, 2017, there were no assumed future benefit increases to participating eligible retirees.

Member Contributions

The following illustrates the member's contribution as a percent of the member's qualifying compensation:

- Active members who joined PSERS prior to July 22, 1983:
 - Membership Class T-C 5.25%
 - Membership Class T-D 6.50%

- Members who joined PSERS on or after July 22, 1983, and who were active or inactive as of July 1, 2001:
 - Membership Class T-C 6.25%
 - Membership Class T-D 7.50%

SHALER AREA SCHOOL DISTRICT

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- Members who joined PSERS after June 30, 2001, and before July 1, 2011:
 - Membership Class T-D 7.50%

- Members who joined PSERS after June 30, 2011:
 - Membership Class T-E* 7.50%
 - Membership Class T-F** 10.30%

* Shared risk program could cause future contribution rates to fluctuate between 7.50% and 9.50%.

** Shared risk program could cause future contribution rates to fluctuate between 10.30% and 12.30%.

Employer Contributions

The School District's contractually required PSERS contribution rate for fiscal year ended June 30, 2018 was 32.57% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. This rate is composed of a 31.74% rate for the Pension Plan and a 0.83% rate for the Premium Assistance.

The combined rate for the fiscal year ended June 30, 2018 was an increase from the fiscal year ended June 30, 2017 combined rate of 30.03%. The combined contribution rate will increase to 33.43% in fiscal year 2019 and is projected to grow to 36.32% by fiscal year 2023.

The School District remits contributions to PSERS on a quarterly basis. Approximately \$2.8 million was owed to PSERS as of June 30, 2018, which represents the School District's required contribution for the end-of-year payroll. The School District's contributions which were recognized by PSERS for the year ended June 30, 2018 were as follows:

Pension Plan	\$ 11,200,198
Premium Assistance	<u>292,884</u>
Total	<u><u>\$ 11,493,082</u></u>

In accordance with Act 29, the Commonwealth reimburses school districts for at least one-half of contributions made to PSERS. The School District recorded reimbursements from the Commonwealth approximating \$6.1 million during the current year. Because the

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Commonwealth payments are received as a reimbursement, and are not made directly to PSERS, they do not qualify as a special funding situation.

Proportionate Share

The School District's proportion of PSERS' net pension liability and PSERS' net OPEB liability were calculated utilizing the School District's one-year reported covered payroll as it relates to PSERS' total one-year reported covered payroll. At June 30, 2017 (measurement date), the School District's proportion was 0.2561%, which was a decrease of 0.0013% from its proportion measured as of June 30, 2016.

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

At June 30, 2018, the School District reported a liability of \$126,484,000 for its proportionate share of PSERS' net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward PSERS' total pension liability as of June 30, 2016 to June 30, 2017.

For the year ended June 30, 2018, the School District recognized pension expense of \$14,394,490. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,320,000	\$ 764,000
Changes in assumptions	3,436,000	-
Net difference between projected and actual earnings on pension plan investments	2,931,000	-
Changes in proportion	2,339,000	3,479,000
School District contributions subsequent to the measurement date	<u>11,200,198</u>	<u>-</u>
Total	<u>\$ 21,226,198</u>	<u>\$ 4,243,000</u>

SHALER AREA SCHOOL DISTRICT

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\$11,200,198 reported as deferred outflows of resources resulting from the School District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	
2019	\$ 2,495,000
2020	2,678,000
2021	1,135,000
2022	<u>(525,000)</u>
Total	<u>\$ 5,783,000</u>

Actuarial Assumptions

The total pension liability as of June 30, 2017 was determined by rolling forward PSERS' total pension liability as of the June 30, 2016 actuarial valuation to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.25%, includes inflation at 2.75%
- Salary increases – Effective average of 5.00%, comprised of 2.75% for inflation and 2.25% for real wage growth and merit or seniority increases
- Mortality rates were based on the RP-2014 Mortality Tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Changes in Assumptions

The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the PSERS Board at its June 10, 2016 Board meeting and were effective beginning with the June 30, 2016 actuarial valuation. These changes included:

- The investment rate of return was adjusted from 7.50% to 7.25%. The inflation assumption was decreased from 3.00% to 2.75%.
-

SHALER AREA SCHOOL DISTRICT

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- Salary growth changed from an effective average of 5.50%, which was comprised of 3.00% for inflation and 2.50% for real wage growth and for merit or seniority increases, to an effective average of 5.00%, comprised of 2.75% for inflation and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Changes in Benefit Terms

With the passage of Act 5 on June 12, 2017, vested Class T-E and Class T-F members can now withdraw their accumulated contributions and interest from the Members' Savings Account upon their retirement. In addition, members hired on or after July 1, 2019 will be required to select one of three new plan design options: either one of two side-by-side hybrid defined benefit/defined contribution plans or a stand-alone defined contribution plan. No changes will be made to retirement benefits for current employees, but they would have the option to choose one of the new plan designs.

Pension Plan Investments

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

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS 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.

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The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	20.0%	5.1%
Fixed income	36.0%	2.6%
Commodities	8.0%	3.0%
Absolute return	10.0%	3.4%
Risk parity	10.0%	3.8%
Infrastructure/MLPs	8.0%	4.8%
Real estate	10.0%	3.6%
Alternative investments	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	-20.0%	1.1%
	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that the contributions from plan members will be made at the current contribution rate and that the 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 School District's Proportionate Share of PSERS' Net Pension Liability to Changes in the Discount Rate

The following presents the School District's proportionate share of PSERS' net pension liability calculated using the discount rates described above, as well as what the School District's proportionate share of PSERS' net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

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	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
School District's proportionate share of PSERS' net pension liability	\$ 155,690,000	\$ 126,484,000	\$ 101,825,000

Pension Plan Fiduciary Net Position

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

11. Net OPEB Liability, OPEB Expense, and Deferred Outflows and Inflows of Resources Related to OPEB

The School District maintains two separate OPEB plans – the Premium Assistance previously described in Note 9 and the School District's retiree plan described below. At June 30, 2018, the School District reported a net OPEB liability composed of the following:

School District's proportionate share of PSERS' net OPEB liability	\$ 5,218,000
School District's total OPEB liability for its retiree plan	8,039,481
Net OPEB liability	\$ 13,257,481

PSERS' net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate PSERS' net OPEB liability was determined by rolling forward PSERS' total OPEB liability as of June 30, 2016 to June 30, 2017. The School District's retiree plan's total OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the retiree plan's total OPEB liability was determined by rolling forward the retiree plan's total OPEB liability as of June 30, 2016 to June 30, 2017.

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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For the year ended June 30, 2018, the School District recognized OPEB expense as follows:

OPEB expense related to PSERS		
Premium Assistance	\$	(65,000)
OPEB expense related to School District's retiree plan		560,179
Total OPEB expense	\$	495,179

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Deferred Outflows of Resources:	PSERS Premium Assistance	School District's Retiree Plan	Total Deferred Outflows of Resources
Differences between expected and actual experience	\$ -	\$ -	\$ -
Changes in assumptions	-	909,722	909,722
Net difference between projected and actual earnings on pension plan investments	6,000	-	6,000
Changes in proportion	-	-	-
School District contributions subsequent to the measurement date	292,884	662,194	955,078
Total	\$ 298,884	\$ 1,571,916	\$ 1,870,800

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Deferred Inflows of Resources:	PSERS Premium Assistance	School District's Retiree Plan	Total Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,669,074	\$ 1,669,074
Changes in assumptions	243,000	153,167	396,167
Net difference between projected and actual earnings on pension plan investments	-	-	-
Changes in proportion	24,000	-	24,000
Total	\$ 267,000	\$ 1,822,241	\$ 2,089,241

\$955,078 reported as deferred outflows of resources resulting from the School District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	PSERS Plan	Local Plan	Total
2019	\$ (43,000)	\$ (69,352)	\$ (112,352)
2020	(43,000)	(69,352)	(112,352)
2021	(43,000)	(69,352)	(112,352)
2022	(43,000)	(69,352)	(112,352)
2023	(44,000)	(69,352)	(113,352)
2024 and beyond	(45,000)	(565,759)	(610,759)
Total	\$ (261,000)	\$ (912,519)	\$ (1,173,519)

Additional Required Disclosures for PSERS Premium Assistance

Actuarial Assumptions

The total OPEB liability as of June 30, 2017 was determined by rolling forward PSERS' total OPEB liability as of the June 30, 2016 actuarial valuation to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

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- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 3.13% - S&P 20-year Municipal Bond Rate
- Salary increases – Effective average of 5.00%, comprised of 2.75% for inflation and 2.25% for real wage growth and merit or seniority increases
- Premium Assistance reimbursement is capped at \$1,200 per year
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in Premium Assistance per year
- Mortality rates were based on the RP-2014 Mortality Tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale
- Participation rate –
 - Eligible retirees will elect to participate pre-age 65 at 50%
 - Eligible retirees will elect to participate post-age 65 at 70%.

Changes in Assumptions

The actuarial assumptions used in the June 30, 2015 valuation determined the contribution rate for fiscal year 2017. These assumptions included:

- Actuarial cost method – Amount necessary to assure solvency of the Premium Assistance through the third fiscal year after the valuation date
- Asset valuation method – market value
- Participation rate – 63% of eligible retirees were assumed to elect the Premium Assistance
- Mortality rates for healthy annuitants and dependent beneficiaries were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both males and females. For disabled annuitants, rates were based on the RP-2000 Combined Disabled Table with age set back 7 years for males and 3 years for females.

Changes in Benefit Terms

There were no changes in benefit terms for the Premium Assistance.

OPEB Plan Investments

Investments consist primarily of short-term assets designed to protect the principal of the plan assets. The expected rate of return on OPEB plan investments was determined using

SHALER AREA SCHOOL DISTRICT

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the OPEB asset allocation policy and best estimates of geometric real rates of return for each asset class.

The OPEB plan's policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Employer contribution rates are established to provide reserves in the Health Insurance Account that are sufficient for the payment of the Premium Assistance for each succeeding year. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	76.4%	0.6%
Fixed income	23.6%	1.5%
	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total OPEB liability was 3.13%. Under the Premium Assistance plan's funding policy, contributions are structured for short-term funding of the Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of the Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of the Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments; therefore, the plan is considered a "pay-as-you-go" plan. A discount rate of 3.13%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2017, was applied to all projected benefit payments to measure the total OPEB liability. This previous discount rate used as of June 30, 2016 was 2.71%.

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

The following presents the School District's proportionate share of PSERS' net OPEB liability calculated using the discount rates described above, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using

SHALER AREA SCHOOL DISTRICT

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a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	1% Decrease (2.13%)	Current Discount Rate (3.13%)	1% Increase (4.13%)
School District's proportionate share of PSERS' net OPEB liability	\$ 5,931,000	\$ 5,218,000	\$ 4,625,000

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

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

The following presents the School District's proportionate share of PSERS' net OPEB liability calculated using current healthcare cost trend rates as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	1% Decrease	Current Trend	1% Increase
School District's proportionate share of PSERS' net OPEB liability	\$ 5,216,000	\$ 5,218,000	\$ 5,219,000

OPEB Plan Fiduciary Net Position

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

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Additional Required Disclosures for the School District's Retiree Plan

Plan Description

The School District administers a single-employer defined benefit healthcare plan to provide additional postemployment benefits to eligible retirees (the Supplemental Health Plan). The School District has not accumulated assets for the retiree plan in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75; benefits are paid on a pay-as-you-go basis.

The plan provides medical, and in some cases, dental and vision, for three groups of employees: teachers; administrators; and support staff. Support staff can be further divided into clerical, maintenance and secretarial categories. Provided they meet the eligibility criteria, full-time employees of all three groups are eligible for post-retirement medical, dental and vision coverage. All part-time employees are not eligible for post-retirement medical, dental, or vision coverage. Also, bus drivers and food service workers are contracted out and, therefore, are not eligible. The plan does not issue a publicly available financial report.

Funding Policy

The eligibility and the benefits for each group is as follows:

Medical Benefits

Medical benefits are provided through the ACSHIC and are administered by Highmark. There are two plans: A Preferred Provider Organization (PPO) and an Exclusive Provider Organization (EPO). The PPO program is referred to as Community Blue Flex PPO and the EPO is referred to as Community Blue Flex EPO. There is no retirement incentive currently in place. However, the District has established a pattern of periodically offering incentives. A summary of past incentives is as follows.

Employees who retired in the 2006 and 2008 fiscal year

- Retirees with individual coverage - the School District shall pay the monthly premium cost for post-retirement medical coverage in the EPO plan less any premium assistance (i.e., \$100/month) available through PSERS. For those employees electing to enroll in the PPO plan, the retiree must pay any applicable

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

premium assistance through PSERS plus the difference between the cost of the EPO and the PPO plans.

- Retirees with other coverages- the School District shall provide \$900 per month for post-retirement medical coverage in the EPO or PPO plan. The retiree is responsible for paying the difference between the applicable premium and the \$900.
- Post-retirement medical coverage is provided to age 65 or a nine-year period, whichever occurs first.

Employees who retired in the 2011 fiscal year

- Retirees with individual coverage - retirees must contribute an amount equal to the sum of the \$100 PSERS allowance plus the amount that active employees are required to contribute which differs by classification (i.e. teacher, administrator, custodian, clerical, etc.).
- The required contributions for individual and parent/child in the teachers' tier are as follows for the year ended June 30, 2018: \$547 for EPO individual coverage, and \$586 for the PPO individual coverage; current employee contribution rates are \$65 under both tiers; and PSERS premium assistance is \$100 under both tiers.
- Retirees with all other coverages - the School District shall provide \$900 per month for post-retirement medical coverage. The retiree is responsible for paying the difference between the applicable premium and the \$900.
- The required contributions for a retiree with husband/wife coverage is as follows. \$1,487 for EPO family coverage, and \$1,591 for the PPO family coverage; the retirement incentive is \$900.
- Post-retirement medical coverage is provided to age 65 or a nine-year period, whichever occurs first. For support personnel who retired during the 2011 fiscal year, post-retirement medical coverage is provided to age 65 or a five-year period, whichever occurs first.

Employees who Terminated School Service by June 30, 2015 and Retired under PSERS by December 1, 2015

- Retirees with individual coverage must contribute the same amount as current employees plus the \$100 PSERS allowance. See the table below for the contribution amounts for the various retiree classifications.
- Retirees with all other coverage tiers - the School District shall provide \$900 per month for post-retirement medical coverage in the PPO or EPO plans. The retiree is

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

responsible for paying the difference between the applicable premium and the \$900.

- For employees who retired during this window, post-retirement medical coverage is provided to age 65 or a nine-year period, whichever occurs first.

Below shows the required contributions for active employees during the 2017/2018 fiscal year:

	<u>Single</u>	<u>Other</u>
Administrative	\$ 65	\$ 120
Secretaries/Paraprofessionals	55	85
SAEA Professional (EPO)	65	120
SAEA Professional (PPO)	95	170
Custodial and Maintenance	1.25% of base wage	2.5% of base wage

Therefore, any retiree with individual coverage who retired under this incentive would have to contribute the applicable amount shown above plus the \$100 PSERS allowance.

Any retiree with a tier other than single would have to contribute the difference between the applicable premium rate and the \$900 monthly allowance.

Dental/Vision

Retirees are also eligible for dental and/or vision benefits. However, retirees are required to contribute 100% of the costs. Support retirees are offered COBRA. Provided they make the required contributions, dental and vision benefits are provided for the lifetime of the retiree.

Life Insurance

Teachers who retired prior to August 15, 2007 are provided with a \$1,000 life insurance payable upon death. Teachers who retire on or after August 15, 2007 are not provided with post-retirement life insurance.

Administrators who retired prior to July 1, 2008 are provided with a \$5,000 life insurance benefit payable upon death. To be eligible for this benefit, administrators must have been employed by the School District for at least 10 years.

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

Secretaries who were hired prior to July 1, 2008 are provided with \$5,000 of life insurance payable upon death. Secretaries who were hired on or after July 1, 2008 are not eligible for post-retirement life insurance coverage.

Custodians are provided with \$5,000 life insurance payable upon death provided they retire under normal retirement.

OPEB Liability

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefit payments	54
Inactive employees entitled to but not yet receiving benefit payments	16
Active employees	<u>501</u>
	<u><u>571</u></u>

Actuarial Assumptions

The total OPEB liability was determined by an actuarial evaluation performed as of July 1, 2016 and rolled forward to the measurement date of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal
- Discount rate – 3.58% – Based on the Bond Buyers 20-year Bond Index
- Salary and inflation increases – 2.50% salary increase, and 3.0% inflation rate
- Assumed healthcare cost trends – 7.0%; Long term trend rate of 4.50%; Terminal trend year of 2025
- Mortality rates – RPH-2014 Total Dataset Mortality Table projected using Scale MP-2016

Changes in Assumptions

The discount rate changed from 2.85% in the prior year to 3.58% in the current year valuation.

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

Changes in Benefit Terms

No changes noted.

Changes in the Total OPEB Liability

The changes in the total OPEB liability for the School District's retiree plan for the year ended June 30, 2018 were as follows:

Total OPEB liability, July 1, 2017	\$	8,308,214
Changes for the year:		
Service cost		392,747
Interest on the total OPEB liability		236,784
Changes of benefit terms		-
Differences between expected and actual experience		-
Changes in assumptions		(164,108)
Benefit payments		<u>(734,156)</u>
Total OPEB liability, June 30, 2018	\$	<u><u>8,039,481</u></u>

Sensitivity of the School District's Total OPEB Liability to Changes in the Discount Rate

The following presents the School District's total OPEB liability calculated using the discount rate described above, as well as what the School District's total OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	1% Decrease <u>2.58%</u>	Current Discount <u>3.58%</u>	1% Increase <u>4.58%</u>
School District's total OPEB liability	<u>\$ 8,267,089</u>	<u>\$ 8,039,481</u>	<u>\$ 7,794,389</u>

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

Sensitivity of the School District's Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the School District's total OPEB liability calculated using current healthcare cost trend rates as well as what the School District's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Trend</u>	<u>1% Increase</u>
School District's total OPEB liability	\$ 7,508,629	\$ 8,039,481	\$ 8,659,392

12. Derivative Instruments

Fixed/Variable Swap

During fiscal year 2004, the School District entered into a swaption contract. The swaption gave the counterparty the option to make the School District enter into a "pay-fixed, receive-variable" interest rate swap. When the option was exercised by the counterparty, the School District refunded the existing Series A of 2001 Bonds and issued the Series 2004 Variable Rate Bonds, which were later refunded by the Series of 2013 Variable Rate Notes (2013 Notes). The intention of the Fixed/Variable Swap was to effectively change the School District's variable interest rate on the Series 2004 Bonds to a synthetic fixed rate. The School District receives 68% of 1-month LIBOR plus .25%. The School District then pays a fixed rate of 3.955%. The interest payments are calculated based on a notional amount that approximates the principal outstanding on the 2013 Notes, which was \$8,915,000 at June 30, 2018. The swap expires on September 1, 2025, consistent with the last principal payment on the 2013 Notes.

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

Interest Rate Swaps – Floating Rate to Floating Rate

The School District has entered into three interest rate swap contracts as described below:

	<u>1997 Swap</u>	<u>2006 Swap</u>	<u>2006A Swap</u>
Transaction Date	September 1, 2005	June 11, 2009	June 11, 2009
Effective Date	September 23, 2005	July 1, 2009	July 1, 2009
Maturity Date	November 15, 2022	September 1, 2034	September 1, 2028
Initial Notional Amount	\$ 16,178,811	\$ 15,018,216	\$ 25,295,000
Terms	School District pays SIFMA and receives 61.55% of three-month LIBOR plus 0.3%	School District pays SIFMA and receives 61.45% of three-month LIBOR plus 0.3%	School District pays SIFMA and receives 61.60% of three-month LIBOR plus 0.3%
Bank Counterparty Rating	A-	BBB+	BBB+

Fair Value of Derivative Instruments

The mark to market value is calculated using a combination of the present value of the potential net cash flows between the two parties, calculated using relevant mid-market data inputs and based on the assumption of no unusual market conditions or forced liquidation, and an option pricing model.

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The floating rate swaps are valued using significant other observable inputs (Level 2 inputs). This fixed/variable swap is valued using significant unobservable inputs (Level 3 inputs).

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

Below are the changes in fair value of the swaps during the year:

Instrument	Effective Hedge	June 30, 2017 Fair Value	Current year value change	June 30, 2018 Fair Value
1997B Swap	No	\$ 30,503	\$ 30,497	\$ 61,000
2006 Swap	No	(885,406)	157,706	(727,700)
2006A Swap	No	(232,225)	115,025	(117,200)
		<u>\$ (1,087,128)</u>	<u>\$ 303,228</u>	<u>\$ (783,900)</u>
Fixed / Variable Swap	Yes	<u>\$ (1,522,468)</u>	<u>\$ 485,624</u>	<u>\$ (1,036,844)</u>

The 1997B, 2006, and 2006A Basis Swaps are considered ineffective hedging derivatives, whereby the change in fair market value will be considered a derivative investment gain or loss recognized in the statement of activities each year.

As the Fixed/Variable Swap is considered an effective hedge, the aggregate change in fair market value during the year is offset by a change to deferred outflows on the statement of net position, with no impact to the current year statement of activities.

Risks

Through the use of derivative instruments such as swaps and interest rate swaps, the School District is exposed to a variety of risks, including credit risk, interest rate risk, termination risk, market-access risk, basis risk, and liquidity/remarketing risk.

- Credit risk is the risk that the counterparty will not fulfill its obligations. As of June 30, 2018, the Fixed/Variable, 2006, and 2006A Swaps had a negative fair market values to the School District and, as such, the School District had no credit risk exposure related to these transactions; however, the 1997B interest rate swap was subject to credit risk, as it had a positive fair market value. In the event that the counterparty's rating is downgraded to a certain level (and based on the fair value of the swap at the time of the downgrade) the counterparty would be required to post collateral to support its obligations under the swap.
- Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the School District's financial instruments or the School District's cash flows. All of the swaps are highly sensitive to changes in interest rates; changes in the variable rate will have a material effect on the swaps' fair market value.

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

- Basis risk is the risk that arises when variable interest rates on a derivative and an associated bond or other interest-paying financial instrument are based on different indexes. The School District is subject to basis risk because the interest index on the variable rate arm of the swap is based on a different index than the swap. Although expected to correlate, the relationships between different indexes vary and that variance could adversely affect the School District's calculated payments, and, as a result, cost savings or synthetic interest rates may not be realized.
- Termination risk is the risk that a derivative's unscheduled end will affect the School District's asset/liability strategy or will present the School District with potentially significant unscheduled termination payments to the counterparty. The counterparty to the transaction does not have the ability to voluntarily terminate the swap; however, the School District is exposed to termination risk in the event that the counterparty defaults.
- Liquidity/Remarketing risk is the risk that if the remarketing of the variable rate debt failed, the liquidity provider would step in and own those bonds that had been tendered but failed to be remarketed. At that point, the bonds would be considered "bank bonds" and the School District would have to pay the bank rate on such bonds and pay off the bonds in a much shorter period of time. This bank rate is sometimes much higher than the prime rate. Additionally, there is risk that the liquidity provider is unable to perform this service and the bonds would then need to be repurchased by the School District.

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

13. Interfunds Receivables, Payables, and Transfers

Interfund receivables and payables and transfers at June 30, 2018 are summarized below:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ -	\$ 58,038
Capital Projects	30,729	-
Other governmental funds	-	-
Proprietary Fund	27,309	-
Total	<u>\$ 58,038</u>	<u>\$ 58,038</u>

<u>Fund</u>	<u>Transfers in</u>	<u>Transfers out</u>
General Fund	\$ -	\$ 7,104,699
Capital Projects	-	-
Other governmental funds	7,104,699	-
Proprietary Fund	-	-
Total	<u>\$ 7,104,699</u>	<u>\$ 7,104,699</u>

Transactions between funds which are not expected to be repaid are accounted for as transfers. In those cases when repayment is expected within the next fiscal year, the transactions are accounted for through the various due from and due to accounts. When repayment is not expected to be made with the next fiscal year, the transactions are accounted for through advances receivable and advances payable. The transfer from the General Fund to the Debt Service Fund is to fund debt service expenditures occurring during the fiscal year.

14. Contingencies and Commitments

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the state. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; error and omission; and natural disasters for which the School District carries commercial insurance. Management believes the insurance coverage is sufficient to cover the School District against potential losses. There have been no significant changes in insurance coverage since the prior fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

SHALER AREA SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

YEAR ENDED JUNE 30, 2018

	Budget		Actual	Variance with Final Budget
	Original	Final		
Revenues and Other Financing Sources:				
Revenues:				
Local sources:				
Current real estate taxes	\$ 43,944,526	\$ 43,944,526	\$ 44,634,073	\$ 689,547
Public utility realty taxes	54,000	54,000	49,843	(4,157)
Local services taxes	20,180	20,180	26,496	6,316
Earned income taxes	5,100,000	5,100,000	5,346,090	246,090
Real estate transfer taxes	403,600	403,600	531,919	128,319
Delinquencies on taxes	1,509,500	1,509,500	2,276,084	766,584
Earnings on investments	60,270	60,270	316,876	256,606
Revenue from student activities	52,500	52,500	54,650	2,150
Federal revenue from IUs	850,000	850,000	954,844	104,844
Rentals	30,000	30,000	59,266	29,266
Contributions and donations from private sources	29,089	29,089	9,019	(20,070)
Tuition	-	-	20,455	20,455
Revenue from community activities	57,513	57,513	49,349	(8,164)
Miscellaneous revenue	3,806,397	3,806,397	153,987	(3,652,410)
	55,917,575	55,917,575	54,482,951	(1,434,624)
Total local sources				
State sources:				
Basic instructional subsidy	11,228,110	11,228,110	11,352,110	124,000
Tuition	70,000	70,000	25,797	(44,203)
Subsidies for special education programs	3,399,197	3,399,197	3,453,810	54,613
Transportation	1,780,000	1,780,000	1,697,894	(82,106)
Rentals and sinking fund payments	300,000	300,000	685,007	385,007
Health services	85,000	85,000	76,190	(8,810)
State property tax reduction	2,040,513	2,040,513	2,040,513	-
Social Security payments	1,360,892	1,360,892	1,323,169	(37,723)
State retirement revenue	6,008,978	6,008,978	6,127,716	118,738
Ready to learn grant	706,470	706,470	706,470	-
	26,979,160	26,979,160	27,488,676	509,516
Total state sources				
Federal sources:				
Title I	600,000	600,000	534,577	(65,423)
Title II	140,000	140,000	133,242	(6,758)
Title III	-	-	1,072	1,072
Title V	-	-	13,013	13,013
Title XIX	-	-	4,747	4,747
Medical Assistance - Access	200,000	200,000	272,452	72,452
	940,000	940,000	959,103	19,103
Total federal sources				
Other financing sources:				
Refund of prior year's expenditures	-	-	75,673	75,673
Proceeds from capital lease	-	-	303,023	303,023
	-	-	378,696	378,696
Total other financing sources				
	83,836,735	83,836,735	83,309,426	(527,309)
Total revenues and other financing sources				

(Continued)

See accompanying notes to required supplementary schedules.

SHALER AREA SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

YEAR ENDED JUNE 30, 2018
(Continued)

<u>Expenditures and Other Financing Uses:</u>	Budget		<u>Actual</u>	<u>Variance with Final Budget</u>
	Original	Final		
Instruction:				
Regular programs:				
Salaries	19,689,539	19,689,539	18,718,368	971,171
Employee benefits	13,230,605	13,230,605	11,653,822	1,576,783
Purchased professional and technical services	55,650	55,650	7,069	48,581
Purchased property services	44,600	47,450	32,349	15,101
Other purchased services	1,358,025	1,358,025	1,321,244	36,781
Supplies	1,046,495	1,047,895	669,065	378,830
Property	174,885	229,385	338,280	(108,895)
Other	-	-	668	(668)
	<u>35,599,799</u>	<u>35,658,549</u>	<u>32,740,865</u>	<u>2,917,684</u>
Total regular programs				
Special programs:				
Salaries	5,323,986	5,323,986	5,949,927	(625,941)
Employee benefits	3,665,523	3,665,523	4,179,473	(513,950)
Purchased professional and technical services	966,014	966,014	636,418	329,596
Purchased property services	2,009,155	1,954,863	1,672,972	281,891
Other purchased services	33,915	46,207	35,666	10,541
Supplies	15,750	57,750	18,755	38,995
Property	-	-	2,943	(2,943)
	<u>12,014,343</u>	<u>12,014,343</u>	<u>12,496,154</u>	<u>(481,811)</u>
Total special programs				
Vocational education:				
Salaries	53,702	53,702	54,972	(1,270)
Employee benefits	22,325	22,325	22,745	(420)
Purchased property services	4,000	4,000	-	4,000
Other purchased services	1,332,000	1,332,000	1,472,739	(140,739)
	<u>1,412,027</u>	<u>1,412,027</u>	<u>1,550,456</u>	<u>(138,429)</u>
Total vocational education				
Other instructional programs:				
Salaries	759,533	759,533	489,418	270,115
Employee benefits	460,574	460,574	294,283	166,291
Purchased professional and technical services	15,000	15,000	-	15,000
Other purchased services	220,500	220,500	158,890	61,610
Supplies	13,088	13,088	559	12,529
Other	-	-	125	(125)
	<u>1,468,695</u>	<u>1,468,695</u>	<u>943,275</u>	<u>525,420</u>
Total other instructional programs				
Non-public school:				
Purchased professional and technical services	-	-	24,300	(24,300)
	<u>50,494,864</u>	<u>50,553,614</u>	<u>47,755,050</u>	<u>2,798,564</u>
Total instruction				

(Continued)

See accompanying notes to required supplementary schedules.

SHALER AREA SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

YEAR ENDED JUNE 30, 2018
(Continued)

Expenditures and Other Financing Uses:	Budget		Actual	Variance with Final Budget
	Original	Final		
Support services:				
Pupil personnel:				
Salaries	1,546,874	1,546,874	1,916,071	(369,197)
Employee benefits	1,009,483	1,009,483	1,220,494	(211,011)
Purchased professional and technical services	45,570	45,570	87,499	(41,929)
Purchased property services	1,313	1,313	610	703
Other purchased services	7,141	7,141	8,923	(1,782)
Supplies	48,828	49,078	16,574	32,504
Other	1,260	1,260	724	536
Total pupil personnel	2,660,469	2,660,719	3,250,895	(590,176)
Instructional staff:				
Salaries	596,574	596,574	766,742	(170,168)
Employee benefits	287,852	287,852	472,430	(184,578)
Purchased professional and technical services	59,300	59,300	115,194	(55,894)
Purchased property services	4,376	4,376	594	3,782
Other purchased services	6,410	6,410	10,534	(4,124)
Supplies	150,475	150,475	147,998	2,477
Property	8,800	8,800	8,507	293
Other	-	-	116	(116)
Total instructional staff	1,113,787	1,113,787	1,522,115	(408,328)
Administration:				
Salaries	2,036,356	2,036,356	2,191,757	(155,401)
Employee benefits	1,291,958	1,291,958	1,357,615	(65,657)
Purchased professional and technical services	416,000	416,000	276,268	139,732
Purchased property services	32,450	32,450	27,107	5,343
Other purchased services	163,920	164,120	63,782	100,338
Supplies	25,900	25,700	19,865	5,835
Property	5,000	5,000	3,506	1,494
Other	54,320	54,320	25,924	28,396
Total administration	4,025,904	4,025,904	3,965,824	60,080
Pupil health:				
Salaries	520,809	520,809	537,194	(16,385)
Employee benefits	353,317	353,317	342,693	10,624
Purchased professional and technical services	334,675	334,675	239,330	95,345
Purchased property services	893	893	1,594	(701)
Other purchased services	336	336	98	238
Supplies	12,337	12,337	9,992	2,345
Property	851	851	1,063	(212)
Total pupil health	1,223,218	1,223,218	1,131,964	91,254

(Continued)

See accompanying notes to required supplementary schedules.

SHALER AREA SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

YEAR ENDED JUNE 30, 2018
(Continued)

<u>Expenditures and Other Financing Uses:</u>	Budget		<u>Actual</u>	<u>Variance with Final Budget</u>
	Original	Final		
Business:				
Salaries	413,542	413,542	407,268	6,274
Employee benefits	253,842	253,842	264,531	(10,689)
Purchased professional and technical services	35,000	35,000	42,236	(7,236)
Purchased property services	67,550	67,550	87,876	(20,326)
Other purchased services	13,350	13,350	2,462	10,888
Supplies	7,500	7,500	23,095	(15,595)
Other	1,100	1,100	705	395
Total business	791,884	791,884	828,173	(36,289)
Operation and maintenance of plant services:				
Salaries	2,965,290	2,966,246	2,864,780	101,466
Employee benefits	1,915,157	1,915,157	1,883,147	32,010
Purchased professional and technical services	128,200	98,398	159,504	(61,106)
Purchased property services	1,462,775	1,443,870	1,435,337	8,533
Other purchased services	320,000	319,000	222,042	96,958
Supplies	643,490	665,810	662,272	3,538
Property	142,280	109,660	111,728	(2,068)
Other	1,657	1,664	2,140	(476)
Total operation and maintenance of plant services	7,578,849	7,519,805	7,340,950	178,855
Student transportation services:				
Salaries	36,008	36,008	18,026	17,982
Employee benefits	13,836	13,836	16,115	(2,279)
Purchased professional and technical services	100,000	100,000	87,169	12,831
Other purchased services	5,056,500	5,056,500	4,493,714	562,786
Supplies	26,500	26,500	12,434	14,066
Total student transportation services	5,232,844	5,232,844	4,627,458	605,386
Central:				
Salaries	772,593	772,593	647,271	125,322
Employee benefits	480,872	480,872	433,151	47,721
Purchased professional and technical services	31,100	31,100	18,949	12,151
Other purchased services	15,650	15,650	8,680	6,970
Supplies	163,600	163,600	160,434	3,166
Property	152,000	152,000	132,807	19,193
Other	2,070	2,070	3,011	(941)
Total central	1,617,885	1,617,885	1,404,303	213,582
Other support services:				
Other purchased services	61,425	61,425	61,370	55
Total support services	24,306,265	24,247,471	24,133,052	114,419

(Continued)

See accompanying notes to required supplementary schedules.

SHALER AREA SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

YEAR ENDED JUNE 30, 2018
(Continued)

	Budget		Actual	Variance with Final Budget
	Original	Final		
Expenditures and Other Financing Uses:				
Noninstructional services:				
Student activities:				
Salaries	967,247	967,247	956,247	11,000
Employee benefits	105,428	105,428	422,100	(316,672)
Purchased professional and technical services	43,700	48,591	49,783	(1,192)
Purchased property services	25,250	27,029	21,487	5,542
Other purchased services	202,605	189,234	231,531	(42,297)
Supplies	91,225	94,164	97,366	(3,202)
Property	20,325	16,987	15,032	1,955
Other	13,600	20,744	26,611	(5,867)
Total student activities	<u>1,469,380</u>	<u>1,469,424</u>	<u>1,820,157</u>	<u>(350,733)</u>
Community services:				
Salaries	40,000	40,000	60,922	(20,922)
Employee benefits	-	-	17,638	(17,638)
Purchased professional and technical services	5,000	5,000	1,169	3,831
Other purchased services	700	700	1,200	(500)
Supplies	10,000	10,000	16,606	(6,606)
Other	-	-	22,720	(22,720)
Total community services	<u>55,700</u>	<u>55,700</u>	<u>120,255</u>	<u>(64,555)</u>
Total noninstructional services	<u>1,525,080</u>	<u>1,525,124</u>	<u>1,940,412</u>	<u>(415,288)</u>
Debt service:				
Interest	82,086	82,086	4,647	77,439
Redemption of principal	268,798	268,798	160,494	108,304
Total debt service	<u>350,884</u>	<u>350,884</u>	<u>165,141</u>	<u>185,743</u>
Total expenditures	<u>76,677,093</u>	<u>76,677,093</u>	<u>73,993,655</u>	<u>2,683,438</u>
Other financing uses:				
Refund of prior year revenues	125,000	125,000	31,758	93,242
Fund transfers	7,034,642	7,034,642	7,104,699	(70,057)
Total financing uses	<u>7,159,642</u>	<u>7,159,642</u>	<u>7,136,457</u>	<u>23,185</u>
Total expenditures and other financing uses	<u>-</u>	<u>83,836,735</u>	<u>81,130,112</u>	<u>2,706,623</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,179,314</u>	<u>\$ 2,179,314</u>

(Concluded)

See accompanying notes to required supplementary schedules.

SHALER AREA SCHOOL DISTRICT

SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF PSERS' NET PENSION LIABILITY

Last 10 Fiscal Years¹

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
School District's proportion of PSERS' net pension liability	0.2561%	0.2574%	0.2689%	0.2681%
School District's proportionate share of PSERS' net pension liability	\$ 126,484,000	\$ 127,559,000	\$ 116,475,000	\$ 106,116,000
School District's covered payroll	\$ 34,099,755	\$ 33,658,468	\$ 34,193,549	\$ 34,216,000
School District's proportionate share of PSERS' net pension liability as a percentage of its covered payroll	370.9235%	378.9804%	340.6344%	310.1356%
PSERS' plan fiduciary net position as a percentage of PSERS' total pension liability	51.84%	50.14%	54.36%	57.24%

¹The amounts presented for each fiscal year were determined as of the measurement date, which is June 30 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the School District is presenting information for those years only for which information is available.

SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS TO THE PSERS PENSION PLAN

Last 10 Fiscal Years²

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required employer contribution	\$ 11,200,198	\$ 9,890,554	\$ 8,309,361	\$ 6,977,855
Contributions recognized by PSERS	<u>11,200,198</u>	<u>9,890,554</u>	<u>8,309,361</u>	<u>6,977,855</u>
Difference between contractually required employer contribution and contributions recognized by PSERS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered payroll	\$ 35,027,423	\$ 34,099,755	\$ 33,658,468	\$ 34,193,549
Contributions as a percentage of covered payroll	31.98%	29.00%	24.69%	20.41%

²The amounts presented for each fiscal year were determined as of the fiscal year-end date. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the School District is presenting information for those years only for which information is available.

See accompanying notes to schedules of required supplementary information.

SHALER AREA SCHOOL DISTRICT

SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF PSERS' NET OPEB LIABILITY

Last 10 Fiscal Years¹

	2018
School District's proportion of PSERS' net OPEB liability	0.2561%
School District's proportionate share of PSERS' net OPEB liability	\$ 5,218,000
School District's covered payroll	\$ 34,098,592
School District's proportionate share of PSERS' net OPEB liability as a percentage of its covered payroll	15.3027%
PSERS' plan fiduciary net position as a percentage of PSERS' total OPEB liability	5.7300%

¹ The amounts presented for each fiscal year were determined as of the measurement date, which is June 30 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the School District is presenting information for those years only for which information is available.

SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS TO THE PSERS PREMIUM ASSISTANCE

Last 10 Fiscal Years²

	2018
Contractually required employer contribution	\$ 292,884
Contributions recognized by PSERS	292,884
Difference between contractually required employer contribution and contributions recognized by PSERS	\$ -
School District's covered payroll	\$ 35,027,423
Contributions as a percentage of covered payroll	0.8362%

² The amounts presented for each fiscal year were determined as of the fiscal year-end date. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the School District is presenting information for those years only for which information is available.

See accompanying notes to schedules of required supplementary information.

SHALER AREA SCHOOL DISTRICT

SCHEDULE OF THE SCHOOL DISTRICT'S TOTAL OPEB LIABILITY FOR ITS RETIREE PLAN

Last 10 Fiscal Years¹

	2018
Total OPEB Liability:	
Service cost	\$ 392,747
Interest	236,784
Changes of benefit terms	-
Differences between actual and expected experience	-
Changes of assumptions	(164,108)
Benefit payments	(734,156)
	(268,733)
Net Changes in Total OPEB Liability	(268,733)
Total OPEB Liability - Beginning	8,308,214
Total OPEB Liability - Ending	\$ 8,039,481
Covered Payroll	\$ 31,866,940
Total OPEB Liability as a Percentage of Covered Payroll	25.23%

¹ The amounts presented for each fiscal year were determined as of the fiscal year-end date. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the School District is presenting information for those years only for which information is available.

See accompanying notes to schedules of required supplementary information.

SHALER AREA SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

YEAR ENDED JUNE 30, 2018

1. Budgetary Information

The Shaler Area School District (School District) is required by state law to adopt an annual budget for the General Fund. The budget is presented on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to May of the preceding fiscal year, the School District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board of Directors (Board) is then called for the purpose of adopting the proposed budget after 30 days' public notice of the meeting has been given.
3. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board.
4. The budget must be filed with the Pennsylvania Department of Education by July 31 of the fiscal year.

The Public School Code allows the School Board to authorize budget transfer amendments during the year, but only during the last nine months of the fiscal year. The School Board approved various budget transfers throughout the school year. There were no supplemental budgetary appropriations made

2. Factors and Trends Used in the Actuarial Valuation for PSERS Pension Benefits

Changes in Benefit Terms

With the passage of Act 5, Class T-E and T-F members are now permitted to elect a lump sum payment of member contributions upon retirement.

SHALER AREA SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

YEAR ENDED JUNE 30, 2018

Changes in Assumptions Used in the Measurement of PSERS' Total Pension Liability Beginning June 30, 2017

None.

Changes in Assumptions Used in the Measurement of PSERS' Total Pension Liability Beginning June 30, 2016

The investment rate of return was adjusted from 7.50% to 7.25%. The inflation assumption was decreased from 3.00% to 2.75%.

Salary growth changed from an effective average of 5.50% (including inflation at 3.00%) to an effective average of 5.00% (including inflation at 2.75%).

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Actuarial Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contributions are calculated as of the June 30 preceding the fiscal year in which contributions are made. That is, the contributions calculated as of the June 30, 2016 actuarial valuation were made during the fiscal year ended June 30, 2018. The following actuarial methods and assumptions were used to determine contribution rates reported in the pension required supplementary schedules:

- Investment return – 7.25%, includes inflation at 2.75%
- Salary increases – Effective average of 5.00%, comprised of 2.75% for inflation and 2.25% for real wage growth and merit or seniority increases
- Benefit payments – no postretirement benefit increases assumed in the future
- Mortality rates were based on the RP-2014 Mortality Tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

SHALER AREA SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

YEAR ENDED JUNE 30, 2018

3. Factors and Trends Used in the Actuarial Valuation for the PSERS Postemployment Benefits Other Than Pension Benefits (OPEBs)

Changes in Benefit Terms

None.

Changes in Assumptions Used in the Measurement of PSERS' Total OPEB Liability Beginning June 30, 2017

The discount rate increased from 2.71% to 3.13%.

Changes in Assumptions Used in the Measurement of PSERS' Total OPEB Liability Beginning June 30, 2016

Salary growth changed from an effective average of 5.50% (including inflation at 3.00%) to an effective average of 5.00% (including inflation at 2.75%).

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Actuarial Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contributions are calculated as of the June 30 preceding the fiscal year in which contributions are made. That is, the contributions calculated as of the June 30, 2016 actuarial valuation were made during the fiscal year ended June 30, 2018. The following actuarial methods and assumptions were used to determine contribution rates reported in the OPEB required supplementary schedules:

- Investment return – 3.13% - 20-year S&P Municipal Bond Rate
- Salary increases – Effective average of 5.00%, comprised of 2.75% for inflation and 2.25% for real wage growth and merit or seniority increases
- Benefit payments – no postretirement benefit increases assumed in the future
- Mortality rates were based on the RP-2014 Mortality Tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale

SHALER AREA SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

YEAR ENDED JUNE 30, 2018

- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in Premium Assistance per year.

4. Factors and Trends Used in the Actuarial Valuation for the Retiree OPEB Plan

Changes in Benefit Terms

None.

Changes in Assumptions

Changes were made for the June 30, 2017 valuation to the aging factors, to update the mortality table and cost method.

Changes in Discount Rate

June 30, 2018 – 3.58%

June 30, 2017 – 2.85%

June 30, 2016 – 4.00%

SUPPLEMENTARY INFORMATION

SHALER AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2018

Federal Grantor / Pass-Through Grantor / Project Title	Federal CFDA Number	Pass-Through Grantor's Number/ Grant Number	Grant Period Beginning/ Ending Dates	Program or Award Amount	Total Received for the Year	(Accrued) Deferred Revenue at July 1, 2017	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at June 30, 2018	Amounts Passed Through to Subrecipients
U.S. Department of Education										
Passed Through the Pennsylvania Department of Education:										
Title I Grants to Local Educational Agencies	84.010	013-170379	7/26/16-9/30/17	\$ 628,032	\$ 40,673	\$ (40,673)	\$ -	\$ -	\$ -	\$ -
Title I Grants to Local Educational Agencies	84.010	013-180379	8/15/17-9/30/18	575,251	414,386	(40,674)	534,577	534,577	160,865	-
Total Title I Grants to Local Educational Agencies					455,059	(81,347)	534,577	534,577	160,865	-
Supporting Effective Instruction State Grants	84.367	020-160379	7/2/15-9/30/16	142,751	(368)	368	-	-	-	-
Supporting Effective Instruction State Grants	84.367	020-180379	8/15/17-9/30/18	133,242	76,501	-	133,242	133,242	56,741	-
Total Supporting Effective Instruction State Grants					76,133	368	133,242	133,242	56,741	-
Student Support and Academic Enrichment Program	84.424	144-180379	8/15/17-9/30/18	13,013	4,648	-	13,013	13,013	8,365	-
Passed Through the Allegheny County Intermediate Unit:										
English Language Acquisition State Grants	84.365	FA-010-18-0603	7/1/17-9/30/18	1,072	1,072	-	1,072	1,072	-	-
Special Education Cluster:										
Special Education - Preschool Grants	84.173	131-17-0-003	7/1/17-6/30/18	6,144	6,144	-	6,144	6,144	-	-
Special Education - Grants to States	84.027	RA-062-17-0-003	7/1/16-9/30/17	968,024	968,024	(968,024)	-	-	-	-
Special Education - Grants to States	84.027	RA-062-18-0-003	7/1/17-6/30/18	948,700	-	-	948,700	948,700	948,700	-
Total Special Education Cluster					974,168	(968,024)	954,844	954,844	948,700	-
Total U.S. Department of Education					1,511,080	(1,049,003)	1,636,748	1,636,748	1,174,671	-
U.S. Department of Health and Human Services										
Passed Through Pennsylvania Department of Human Services:										
Medicaid Cluster - Medical Assistance Program	93.778	N/A	N/A	N/A	11,352	(8,136)	3,216	3,216	-	-
Total U.S. Department of Health and Human Services					11,352	(8,136)	3,216	3,216	-	-
U.S. Department of Agriculture										
Passed Through Pennsylvania Department of Education:										
Child Nutrition Cluster:										
School Breakfast Program	10.553	N/A	N/A	N/A	132,240	(16,473)	133,400	133,400	17,633	-
National School Lunch Program	10.555	N/A	N/A	N/A	685,443	(78,820)	683,609	683,609	76,986	-
Summer Food Service Program for Children	10.559	N/A	N/A	N/A	9,007	-	9,007	9,007	-	-
Total Passed Through Pennsylvania Department of Education					826,690	(95,293)	826,016	826,016	94,619	-
Passed through the Pennsylvania Department of Agriculture:										
National School Lunch Program	10.555	N/A	N/A	N/A	106,680	18,661	113,672	113,672	(11,669)	-
Total Child Nutrition Cluster					933,370	(76,632)	939,688	939,688	82,950	-
Total U.S. Department of Agriculture					933,370	(76,632)	939,688	939,688	82,950	-
Total Expenditures of Federal Awards					\$ 2,455,802	\$ (1,133,771)	\$ 2,579,652	\$ 2,579,652	\$ 1,257,621	\$ -

See accompanying notes to schedule of expenditures of federal awards.

SHALER AREA SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2018

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of the Shaler Area School District (School District) under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* 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 the School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School District.

2. Summary of Significant Accounting Policies

The accompanying Schedule is presented using the modified accrual basis of accounting. Expenditures are recognized following the cost principles contained in the Uniform Guidance. The School District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Shaler Area School District

Independent Auditor's Reports
Required by the Uniform Guidance

Year Ended June 30, 2018

Independent Auditor’s 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*

**Board of Directors
Shaler Area School District**

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 Shaler Area School District (School District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District’s basic financial statements, and have issued our report thereon dated February 6, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 School District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the School District’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness (Finding 2018-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

School District's Response to Findings

The School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The 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.

Maher Duessel

Pittsburgh, Pennsylvania
February 6, 2019

Independent Auditor's Report on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Board of Directors
Shaler Area School District

Report on Compliance for the Major Federal Program

We have audited Shaler Area School District's (School District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the School District's major federal program for the year ended June 30, 2018. The School District's major federal program is identified in the summary of auditor's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the School District's major federal program 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* 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 the 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 the major federal program. However, our audit does not provide a legal determination of the School District's compliance.

Opinion on the Major Federal Program

In our opinion, the 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 its major federal program for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the 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 the School District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on the 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 the 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.

Board of Directors
Shaler Area School District
Independent Auditor's Report on Compliance for the
Major Program and on Internal Control over Compliance

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.

Mahe Duessel

Pittsburgh, Pennsylvania
February 6, 2019

SHALER AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2018

I. Summary of Audit Results

1. Type of auditor's report issued: Unmodified, prepared in accordance with Generally Accepted Accounting Principles

2. Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered to be material weakness(es)?
 yes none reported

3. Noncompliance material to financial statements noted? yes no

4. Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered to be material weakness(es)?
 yes none reported

5. Type of auditor's report issued on compliance for major programs: Unmodified

6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? yes no

7. Major Programs:

CFDA Number(s)

84.027, 84.173

84.367

Name of Federal Program or Cluster

Special Education Cluster (IDEA)

Supporting Effective Instruction State Grants

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

9. Auditee qualified as low-risk auditee? yes no

II. Findings related to the financial statements which are required to be reported in accordance with GAGAS.

FINDING: 2018-001 Financial Reporting System

Statement of Condition: During the audit process, several material adjustments were made to the Shaler Area School District's (School District) records related to year-end closing. Adjustments were

SHALER AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2018

required to: 1.) adjust local, state, and federal receivables and revenues; 2.) adjust capital funds accounts payable; and 3.) record Debt Service Fund activity in the accounting records.

Management does review and accept the financial statements prior to their final issuance and approves the adjustments to the financial statements.

Criteria: An entity should have procedures in place to identify any significant adjustments necessary to their external financial statements, including the posting of all adjustments necessary to present financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Effect: Audit adjustments were required to be recorded to ensure that the financial statements were prepared in accordance with GAAP.

Cause: The School District has continued its efforts for improvements to the financial reporting process for year-end closing adjustments; however, the current staffing of the business office does not easily allow for both the time and expertise necessary in order to facilitate this process at year-end.

Recommendation: We recommend that the School District consider the most efficient and effective method to address the above issues. Governmental accounting standards and the financial reporting process continue to become more complex each year. At the same time, the School District is subject to significant financial constraints. The School District should undertake an evaluation as to what measures can be taken by management to reduce the number of year-end closing adjustments made as part of the audit process. This decision should be made in conjunction with the evaluation of potential internal control improvements (both over day-to-day processes, and the year-end financial reporting process) within the business office. The School District should use this information to weigh the cost/benefits of the different options and attempt to arrive at a balance between key controls/processes as compared to costs.

Views of responsible officials and planned corrective action: Management agrees with the finding. See attached corrective action plan.

III. Findings and questioned costs for federal awards

No matters were reported.

SHALER AREA SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2018

NONE