

Shaler Area School District

Financial Statements and
Required Supplementary and
Supplementary Information

Year Ended June 30, 2019 with
Independent Auditor's Reports

MaherDuessel

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SHALER AREA SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2019

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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, 2019, 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, 2019, 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.

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 January 24, 2020 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
January 24, 2020

Shaler Area School District
Management's Discussion and Analysis
June 30, 2019

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, 2019. 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 as the School District budgeted for a loss of \$2.8 million. At year-end, the total General Fund balance decreased \$0.2M from the previous year's \$11.5 million to \$11.3 million.

Several practices had been implemented to aid the School District to operate in a fiscally prudent manner during 2016/2017, and will continue through the future fiscal years, along with additional procedures as needed. 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 2018/2019 financial results are due to a number of items, including a strict enforcement of curtailing expenditures as in the previous three years. As a result of the budget restrictions, there has been savings in equipment, and repairs and rentals. In addition, the results show large savings in benefits. The reduction of benefits included medical coverage as a result of lower rates than budgeted in addition to unemployment, workers compensation and postemployment benefits. Large reductions from budget were also recognized in the areas of transportation costs and property insurance. 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 \$45.5 million, or 52.6% of total General Fund revenue. Current real estate and earned income taxes along with deed transfers were higher than budgeted. Investment income also increased during the year.

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, along with additional applied for specialty grants. 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, were higher than budget by \$320K due to unknown funding potential within the budget timeline.

Overall expenditures for the General Fund were approximately \$0.8M less than the original budget.

Employee benefits accounted for the largest portion of the favorable results. Benefits decreased \$499K, which is mostly attributable to medical and Social Security and other expenditures. The required School District's percentage cost of PSERS increased from 33.43% of payroll to 34.29% for fiscal year 2019.

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.

During June 2019, The School District issued Series 2019 General Obligation Bonds in the amount of \$12,750,000 to be used for various capital improvements and for improvements to various School District facilities and to implement a guaranteed energy savings program pursuant to Act 57 of 1998.

In the fiscal year 2020 budgeting process, the Board of Directors did not adjust the property tax millage, it remains at 23.53 mills.

Using the Financial Statements

The Annual Audit 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.

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-1
Required Components of
Shaler Area School District's
Financial Report

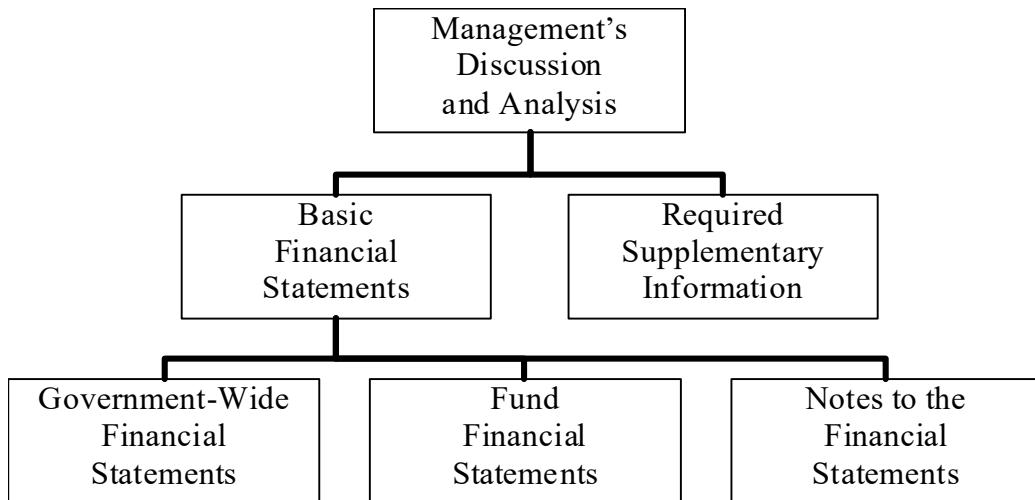


Figure A-2 summarizes the major features of the School District's financial statements, including the portion of the School District they cover and the types of information they contain. The remainder of this overview section of the MD&A explains the structure and contents of each of the statements.

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	Modified accrual accounting and	Accrual accounting and economic resources	Accrual accounting and economic resources

	focus	current financial resources focus	focus	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.

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.

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 \$(132,273,434) at June 30, 2019 and a deficit \$(131,283,746) at June 30, 2018.

Table A-1
Year Ended June 30, 2019
Net Position

	Governmental Activities	Business-Type Activities	Total
Assets			
Current and other assets	\$ 47,271,895	\$ 393,583	\$ 47,665,478
Capital assets (net)	<u>73,842,329</u>	<u>23,087</u>	<u>73,865,416</u>
Total Assets	<u>121,114,224</u>	<u>416,670</u>	<u>121,530,894</u>
Deferred Outflows of Resources			
Deferred charge on refunding	1,142,292	-	1,142,292
Deferred outflows of resources for pension	16,269,826	-	16,269,826
Deferred outflows of resources for OPEBS	2,196,152	-	2,196,152
Deferred outflows of resources for derivative	<u>1,196,328</u>	<u>-</u>	<u>1,196,328</u>
Total Deferred Outflows of Resources	<u>20,804,598</u>	<u>-</u>	<u>20,804,598</u>
Liabilities			
Current and other liabilities	12,054,282	259,898	12,314,180
Long-term liabilities:			
Due within one year	4,733,503	-	4,733,503
Due in more than one year	<u>249,619,057</u>	<u>-</u>	<u>249,619,057</u>
Total Liabilities	<u>266,406,842</u>	<u>259,898</u>	<u>266,666,740</u>
Deferred Inflows of Resources			
Deferred inflows of resources for pension	4,264,000	-	4,264,000
Deferred inflows of resources for OPEBS	<u>3,678,186</u>	<u>-</u>	<u>3,678,186</u>
Total Deferred Inflows of Resources	<u>7,942,186</u>	<u>-</u>	<u>7,942,186</u>
Net Position			
Net investment in capital assets	(25,755,190)	23,087	(25,732,103)
Restricted	809,170	-	809,170
Unrestricted	<u>(107,484,186)</u>	<u>133,685</u>	<u>(107,350,501)</u>
Total Net Position	<u>\$ (132,430,206)</u>	<u>\$ 156,772</u>	<u>\$ (132,273,434)</u>

Year Ended June 30, 2018

Net Position

	Governmental Activities	Business-Type Activities	Total
Assets			
Current and other assets	\$ 36,037,150	\$ 421,362	\$ 36,458,512
Capital assets (net)	<u>73,759,539</u>	<u>80,840</u>	<u>73,840,379</u>
Total Assets	<u>109,796,689</u>	<u>502,202</u>	<u>110,298,891</u>
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 OPEBS	1,870,800	-	1,870,800
Deferred outflows of resources for derivative	<u>1,036,844</u>	<u>-</u>	<u>1,036,844</u>
Total Deferred Outflows of Resources	<u>25,648,085</u>	<u>-</u>	<u>25,648,085</u>
Liabilities			
Current and other liabilities	12,302,315	264,046	12,566,361
Long-term liabilities:			
Due within one year	4,861,311	-	4,861,311
Due in more than one year	<u>243,470,809</u>	<u>-</u>	<u>243,470,809</u>
Total Liabilities	<u>260,634,435</u>	<u>264,046</u>	<u>260,898,481</u>
Deferred Inflows of Resources			
Deferred inflows of resources for pension	4,243,000	-	4,243,000
Deferred inflows of resources for OPEBS	<u>2,089,241</u>	<u>-</u>	<u>2,089,241</u>
Total Deferred Inflows of Resources	<u>6,332,241</u>	<u>-</u>	<u>6,332,241</u>
Net Position			
Net investment in capital assets	(28,763,188)	80,840	(28,682,348)
Restricted	3,327,053	-	3,327,053
Unrestricted	<u>(106,085,767)</u>	<u>157,316</u>	<u>(105,928,451)</u>
Total Net Position	<u>\$ (131,521,902)</u>	<u>\$ 238,156</u>	<u>\$ (131,283,746)</u>

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
Year Ended June 30, 2019
Changes in Net Position

	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 206,259	\$ 934,882	\$ 1,141,141
Operating grants and contributions	15,777,219	966,918	16,744,137
Capital grants and contributions	457,708	-	457,708
General revenues:			
Property taxes	46,489,368	-	46,489,368
Other taxes	6,177,244	-	6,177,244
Grants, subsidies/contributions, unrestricted	13,550,936	-	13,550,936
Investment earnings	1,754,323	4,631	1,758,954
Miscellaneous income	<u>388,138</u>	<u>-</u>	<u>388,138</u>
Total revenues	<u>84,801,195</u>	<u>1,906,431</u>	<u>86,707,626</u>
Expenses:			
Instruction	53,163,311	-	53,163,311
Instructional student support	6,469,651	-	6,469,651
Administrative and financial support services	6,708,726	-	6,708,726
Operation of plant and maintenance services	8,156,244	-	8,156,244
Pupil transportation	4,758,160	-	4,758,160
Student activities	2,129,721	-	2,129,721
Community services	102,841	-	102,841
Unallocated expenses	4,220,845	-	4,220,845
Food services	<u>-</u>	<u>1,987,815</u>	<u>1,987,815</u>
Total expenses	<u>85,709,499</u>	<u>1,987,815</u>	<u>87,697,314</u>
Change in Net Position	\$ (908,304)	\$ (81,384)	\$ (989,688)

Year Ended June 30, 2018
Changes in Net Position

	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 183,720	\$ 949,133	\$ 1,132,853
Operating grants and contributions	15,334,012	1,042,277	16,376,289
Capital grants and contributions	685,007	-	685,007
General revenues:			
Property taxes	45,700,408	-	45,700,408
Other taxes	5,954,348	-	5,954,348
Grants, subsidies/contributions, unrestricted	13,392,623	-	13,392,623
Investment earnings	1,029,851	2,828	1,032,679
Miscellaneous income	<u>153,987</u>	<u>-</u>	<u>153,987</u>
Total revenues	<u>82,433,956</u>	<u>1,994,238</u>	<u>84,428,194</u>
Expenses:			
Instruction	50,350,251	-	50,350,251
Instructional student support	6,517,005	-	6,517,005
Administrative and financial support services	6,852,924	-	6,852,924
Operation of plant and maintenance services	7,366,717	-	7,366,717
Pupil transportation	4,628,868	-	4,628,868
Student activities	2,120,686	-	2,120,686
Community services	123,581	-	123,581
Unallocated expenses	5,793,632	-	5,793,632
Food services	<u>-</u>	<u>2,006,677</u>	<u>2,006,677</u>
Total expenses	<u>83,753,664</u>	<u>2,006,677</u>	<u>85,760,341</u>
Change in Net Position	<u>\$ (1,319,708)</u>	<u>\$ (12,439)</u>	<u>\$ (1,332,147)</u>

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
Year Ended June 30, 2019
Governmental Activities

	Total Cost of Services	Net Cost of Services
Functions/Programs:		
Instruction	\$ 53,163,311	\$ 41,515,078
Instructional student support	6,469,651	5,654,298
Administrative and financial support services	6,708,726	6,029,705
Operation of plant and maintenance services	8,156,244	7,549,153
Pupil transportation	4,758,160	2,844,106
Student activities	2,129,721	1,878,249
Community services	102,841	34,587
Unallocated expenses	4,220,845	3,763,137
Total governmental activities	\$ 85,709,499	69,268,313
Less:		
Grants, subsidies, and contributions not restricted		<u>13,550,936</u>
Total Needs from Local Taxes and Other Revenues		<u>\$ 55,717,377</u>

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

	Total Cost of Services	Net Cost of Services
Functions/Programs:		
Food Services	<u>\$ 1,987,815</u>	<u>\$ 86,015</u>
Total business-type activities	<u>\$ 1,987,815</u>	86,015
Less:		
Grants, subsidies, and contributions not restricted		-
Total Needs from Other Revenues		<u>\$ 86,015</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, 2019, the School District's General Fund reported a fund balance of \$11.3M, which is a decrease of approximately \$0.2M over the prior year.

In addition to the General Fund, the School District has an active 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, 2019 in that fund is \$0.7M.

The School District also has a new construction fund that was funded from the Series of 2019 bonds for various major construction additions and renovation projects. The fund balance as of June 30, 2019 in that fund is \$14.0M.

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.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2019, the School District had net capital assets of \$73,842,329 invested in a broad range of capital assets, including land, buildings, construction in progress, furniture, and equipment. This amount represents a net decrease (including additions, deletions, and depreciation) of \$82,790 or approximately (4%) from last year.

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

	<u>2019</u>	<u>2018</u>
Land	\$ 1,553,540	\$ 1,553,540
Construction in Progress	25,636,431	23,185,604
Land Improvements	2,838,001	3,075,589
Buildings and Building Improvements	42,980,775	44,843,322
Furniture and Equipment	833,582	1,101,484

Debt Administration

As of July 1, 2018, the School District included in its long-term liabilities \$84,194,112 for general obligation bonds. During the year 2018/2019, the School District made principal payments of \$3,865,000 while recording accretion of interest on capital appreciation bonds in the amount of \$1,773,601, and there was insurance of debt of \$12,750,000 resulting in an ending balance of \$94,852,713.

Table A-6
Outstanding Debt

<u>General Obligation Bonds/Notes</u>	<u>As of 06/30/19</u>	<u>As of 06/30/18</u>
Bonds - Series of 1997A	\$13,326,141	\$16,349,105
Bonds - Series 2006	21,201,572	20,150,007
Bonds - Series of 2015	9,960,000	9,965,000
Bonds - Series of 2016B	20,875,000	20,980,000
Bonds - Series of 2016C	14,030,000	14,035,000
Bonds - Series of 2016D	2,710,000	2,715,000
Bonds - Series of 2019	12,750,000	-
Notes - PNC 2014	\$ 8,825,000	\$ 8,915,000
Notes - Series of 2016A	3,220,000	3,685,000
Notes - Series of 2016	1,633,636	1,760,407

Other obligations include net pension and OPEB liabilities, 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 2018/2019 employer contribution rate to PSERS was 33.43%. The employer contribution rate applied to salary and wages for fiscal year 2019/2020 will be 34.29%

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.

The School District will receive \$2,040,755 in the state property tax reduction allocation, which is similar to the previous year's allocation. This translates into a \$7,159 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 3.1%, 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 2019/2020, 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 2018/2019 school year is a situation that continues.

The comparison of revenue and expenditures categories is as follows:

Table A-7

	Budgeted Revenues 2020/2019	Actual Revenues 2018/2019
Local	64.8%	65.64%
State	32.4%	33.10%
Federal/Other	2.8%	1.3%
	Budgeted Expenditures 2019/2020	Actual Expenditures 2018/2019
Instruction	59.6%	60.8%
Support Services	30.1%	28.7%
Noninstructional/Other	1.9%	1.9%
Fund Transfers/Debt	8.4%	8.6%

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, 2019

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 16,220,797	\$ 187,924	\$ 16,408,721
Restricted cash and cash equivalents	15,002,543	-	15,002,543
Taxes receivable, net	8,283,791	-	8,283,791
Intergovernmental receivables	6,089,723	121,005	6,210,728
Other receivables	11,293	39,313	50,606
Inventory	-	45,341	45,341
Derivative investment	30,112	-	30,112
Long term prepayments, net of amortization	1,633,636	-	1,633,636
Capital assets:			
Non-depreciable	27,189,971	-	27,189,971
Depreciable, net of accumulated depreciation	46,652,358	23,087	46,675,445
Total Assets	121,114,224	416,670	121,530,894
Deferred Outflows of Resources			
Deferred charge on refunding	1,142,292	-	1,142,292
Deferred outflows of resources for pension	16,269,826	-	16,269,826
Deferred outflows of resources for OPEB	2,196,152	-	2,196,152
Deferred outflows of resources for derivative	1,196,328	-	1,196,328
Total Deferred Outflows of Resources	20,804,598	-	20,804,598
Liabilities			
Accounts payable and other current liabilities	2,509,006	237,423	2,746,429
Accrued salaries and benefits	8,627,584	-	8,627,584
Internal balances	36,832	(36,832)	-
Accrued interest payable	854,320	-	854,320
Unearned revenue	-	59,307	59,307
Other current liabilities	26,540	-	26,540
Non-current liabilities:			
Due within one year	4,733,503	-	4,733,503
Due in more than one year	249,619,057	-	249,619,057
Total Liabilities	266,406,842	259,898	266,666,740
Deferred Inflows of Resources			
Deferred inflows of resources for pension	4,264,000	-	4,264,000
Deferred inflows of resources for OPEB	3,678,186	-	3,678,186
Total Deferred Inflows of Resources	7,942,186	-	7,942,186
Net Position			
Net investment in capital assets	(25,755,190)	23,087	(25,732,103)
Restricted	809,170	-	809,170
Unrestricted	(107,484,186)	133,685	(107,350,501)
Total Net Position	\$ (132,430,206)	\$ 156,772	\$ (132,273,434)

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

SHALER AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

Functions/Programs	Program Revenues				Net (Expense) Revenue and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	\$ 53,163,311	\$ 206,259	\$ 11,441,974	\$ -	\$ (41,515,078)	\$ -	\$ (41,515,078)
Instructional student support	6,469,651	-	815,353	-	(5,654,298)	-	(5,654,298)
Administrative and financial support services	6,708,726	-	679,021	-	(6,029,705)	-	(6,029,705)
Operation of plant and maintenance services	8,156,244	-	607,091	-	(7,549,153)	-	(7,549,153)
Pupil transportation	4,758,160	-	1,914,054	-	(2,844,106)	-	(2,844,106)
Student activities	2,129,721	-	251,472	-	(1,878,249)	-	(1,878,249)
Community services	102,841	-	68,254	-	(34,587)	-	(34,587)
Unallocated expenses - excluding direct expenses reported as a function above:							
Interest on long-term debt	4,220,845	-	-	457,708	(3,763,137)	-	(3,763,137)
Total governmental activities	85,709,499	206,259	15,777,219	457,708	(69,268,313)	-	(69,268,313)
Business-Type Activities:							
Food service	1,987,815	934,882	966,918	-	-	(86,015)	(86,015)
Total Primary Government	\$ 87,697,314	\$ 1,141,141	\$ 16,744,137	\$ 457,708	(69,268,313)	(86,015)	(69,354,328)
General revenues:							
Taxes:							
Property taxes, levied for general purposes, net of uncollectibles				46,489,368	-	46,489,368	
Earned income taxes				5,532,042	-	5,532,042	
Other taxes levied for general purposes				645,202	-	645,202	
Grant subsidies and contributions not restricted				13,550,936	-	13,550,936	
Investment income				1,754,323	4,631	1,758,954	
Miscellaneous income (expense)				388,138	-	388,138	
Total general revenues				68,360,009	4,631	68,364,640	
Change in Net Position				(908,304)	(81,384)	(989,688)	
Net Position:							
Beginning of year				(131,521,902)	238,156	(131,283,746)	
End of year				\$ (132,430,206)	\$ 156,772	\$ (132,273,434)	

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

SHALER AREA SCHOOL DISTRICT

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2019

	General Fund	Capital Projects	Other Governmental Funds	Total
Assets				
Cash and cash equivalents	\$ 13,504,845	\$ 16,909,325	\$ 809,170	\$ 31,223,340
Taxes receivable, net	8,283,791	-	-	8,283,791
Due from other governments	6,089,723	-	-	6,089,723
Due from other funds	270,673	30,729	-	301,402
Other receivables	11,293	-	-	11,293
Total Assets	\$ 28,160,325	\$ 16,940,054	\$ 809,170	\$ 45,909,549
Liabilities, Deferred Inflows of Resources, and Fund Balance				
Liabilities:				
Accounts payable	\$ 964,855	\$ 1,544,151	\$ -	\$ 2,509,006
Accrued salaries and benefits	8,627,584	-	-	8,627,584
Other current liabilities	26,540	-	-	26,540
Due to other funds	67,561	270,673	-	338,234
Total Liabilities	9,686,540	1,814,824	-	11,501,364
Deferred Inflows of Resources:				
Unavailable revenue - real estate taxes	7,164,508	-	-	7,164,508
Fund Balance:				
Restricted	-	14,741,892	809,170	15,551,062
Committed	-	383,338	-	383,338
Assigned	5,526,235	-	-	5,526,235
Unassigned	5,783,042	-	-	5,783,042
Total Fund Balance	11,309,277	15,125,230	809,170	27,243,677
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 28,160,325	\$ 16,940,054	\$ 809,170	\$ 45,909,549

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, 2019

Total Fund Balance - Governmental Funds	\$ 27,243,677
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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. 73,842,329

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. 7,164,508

The net investment in joint venture is not an available resource and, therefore, is not reported in the funds. 1,633,636

Derivative investments are not available resources and, therefore, are not reported in governmental funds. 30,112

The actuarially accrued other post-employment benefit (OPEB) liability, 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. (124,617,088)

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	\$ (94,852,713)
Notes payable	(13,678,636)
Deferred refunding loss	1,142,292
Accrued interest payable	(854,320)
Capital leases	(238,304)
Unamortized discount/premium	(8,345,686)
Compensated absences	<u>(900,013)</u>
	<u>(117,727,380)</u>

Total Net Position - Governmental Activities	<u>\$ (132,430,206)</u>
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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, 2019

	General Fund	Capital Projects	Other Governmental Funds	Total
Revenues:				
Local sources	\$ 54,858,725	\$ 65,980	\$ 315,614	\$ 55,240,319
State sources	27,825,040	-	-	27,825,040
Federal sources	<u>1,040,225</u>	<u>-</u>	<u>-</u>	<u>1,040,225</u>
Total revenues	<u>83,723,990</u>	<u>65,980</u>	<u>315,614</u>	<u>84,105,584</u>
Expenditures:				
Current:				
Instruction	49,958,864	-	-	49,958,864
Support services	24,930,476	107,285	-	25,037,761
Operation of non-instructional services	1,980,827	-	11,447	1,992,274
Capital outlay	-	3,014,686	-	3,014,686
Debt service:				
Principal and interest	<u>197,942</u>	<u>-</u>	<u>7,238,930</u>	<u>7,436,872</u>
Total expenditures	<u>77,068,109</u>	<u>3,121,971</u>	<u>7,250,377</u>	<u>87,440,457</u>
Excess (Deficiency) of Revenues over Expenditures	<u>6,655,881</u>	<u>(3,055,991)</u>	<u>(6,934,763)</u>	<u>(3,334,873)</u>
Other Financing Sources (Uses):				
Proceeds from bond issue	-	12,750,000	-	12,750,000
Bond premium	-	2,359,825	-	2,359,825
Refund of prior year's expenditures	259,626	-	-	259,626
Refund of prior year's revenues	(7,704)	-	-	(7,704)
Transfers in	-	-	7,111,634	7,111,634
Transfers out	<u>(7,111,634)</u>	<u>-</u>	<u>-</u>	<u>(7,111,634)</u>
Total other financing sources (uses)	<u>(6,859,712)</u>	<u>15,109,825</u>	<u>7,111,634</u>	<u>15,361,747</u>
Net Change in Fund Balance	(203,831)	12,053,834	176,871	12,026,874
Fund Balance:				
Beginning of year	<u>11,513,108</u>	<u>3,071,396</u>	<u>632,299</u>	<u>15,216,803</u>
End of year	<u>\$ 11,309,277</u>	<u>\$ 15,125,230</u>	<u>\$ 809,170</u>	<u>\$ 27,243,677</u>

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, 2019

Net Change in Fund Balance - Governmental Funds	\$ 12,026,874
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 capital outlays exceeded depreciation in the current year:	
Capital asset additions	\$ 2,629,683
Less: depreciation expense	<u>(2,546,893)</u>
	82,790
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.	
	(370,323)
The change in net investment in joint venture is not reported as revenue (expense) in the governmental funds.	
	814,012
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.	
	(11,816,684)
Interest on long-term obligations in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The difference between interest accrued in the statement of activities over the amount due is shown here.	
	(77,114)
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.	
	<u>(1,567,859)</u>
Change in Net Position of Governmental Activities	<u>\$ (908,304)</u>

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

SHALER AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION PROPRIETARY FUND

JUNE 30, 2019

	Enterprise Fund Food Service
Assets	
Current assets:	
Cash and cash equivalents	\$ 187,924
Due from other funds	36,832
Due from other governments	121,005
Other receivables	39,313
Inventories	<u>45,341</u>
Total current assets	<u>430,415</u>
Non-current assets:	
Furniture and equipment, net	<u>23,087</u>
Total Assets	<u>\$ 453,502</u>
Liabilities and Net Position	
Liabilities:	
Accounts payable	\$ 237,423
Unearned revenue	<u>59,307</u>
Total Liabilities	<u>296,730</u>
Net Position:	
Net investment in capital assets	23,087
Unrestricted	<u>133,685</u>
Total Net Position	<u>156,772</u>
Total Liabilities and Net Position	<u>\$ 453,502</u>

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, 2019

	Enterprise Fund Food Service
Operating Revenues:	
Food service revenue	<u>\$ 934,882</u>
Operating Expenses:	
Other purchased services	1,820,577
Supplies	109,485
Depreciation	<u>9,223</u>
Total operating expenses	<u>1,939,285</u>
Net Operating Loss	<u>(1,004,403)</u>
Non-Operating Revenues:	
Earnings on investments	4,631
Local sources	-
State sources	75,612
Federal sources	891,306
Gain (loss) on disposal of capital assets	<u>(48,530)</u>
Total non-operating revenues	<u>923,019</u>
Change in Net Position	<u>(81,384)</u>
Net Position:	
Beginning of year	<u>238,156</u>
End of year	<u>\$ 156,772</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, 2019

	Enterprise Fund Food Service
Cash Flows From Operating Activities:	
Receipts from users	\$ 942,269
Payments to suppliers	<u>(1,806,560)</u>
Net cash provided by (used in) operating activities	<u>(864,291)</u>
Cash Flows From Noncapital Financing Activities:	
Local sources	22,662
State sources	74,353
Federal sources	<u>771,423</u>
Net cash provided by (used in) financing activities	<u>868,438</u>
Cash Flows From Investing Activities:	
Interest income	<u>4,631</u>
Net Increase (Decrease) in Cash and Cash Equivalents	8,778
Cash and Cash Equivalents:	
Beginning of year	<u>179,146</u>
End of year	<u>\$ 187,924</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, 2019
(Continued)

Reconciliation of Net Operating Loss to Net Cash

Provided by (Used in) Operating Activities:

Net operating loss	\$ (1,004,403)
Adjustments to reconcile net operating loss to net cash provided by (used in) operating activities:	
Donated commodities expense	101,604
Depreciation	9,223
Change in assets and liabilities:	
Due from other funds	(9,523)
Other receivables	12,364
Inventories	(6,240)
Accounts payable	28,138
Unearned revenues	4,546
Net cash provided by (used in) operating activities	<u>\$ (864,291)</u>

(Concluded)

Non-Cash Financing Transaction:

The Food Service Fund received donated commodities from the U.S. Department of Agriculture in the amount of \$105,944 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, 2019

	Private Purpose	
	Trust Fund	Agency Fund
Assets		
Cash and cash equivalents	\$ 256,356	\$ 465,450
Liabilities		
Accounts payable	45,215	-
Other current liabilities	-	465,450
Total Liabilities	45,215	465,450
Net Position		
Restricted for scholarships	\$ 211,141	\$ -

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, 2019

	<u>Private Purpose Trust Fund</u>
Additions:	
Gifts and contributions	\$ 37,533
Investment earnings	<u>2,414</u>
Total additions	39,947
Deductions:	
Scholarships awarded	<u>46,089</u>
Change in Net Position	(6,142)
Net Position:	
Beginning of year	<u>217,283</u>
End of year	<u>\$ 211,141</u>

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

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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, 2019

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

YEAR ENDED JUNE 30, 2019

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, 2019

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 nonmajor 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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YEAR ENDED JUNE 30, 2019

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.

SHALER AREA SCHOOL DISTRICT

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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:

Assets	Years
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 OPEBs on the government-wide financial statements. These amounts are determined based on 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, 2019 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, 2019 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 \$1.7 million for future retirement costs, and \$3.9 million for the fiscal year 2020 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.

SHALER AREA SCHOOL DISTRICT

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YEAR ENDED JUNE 30, 2019

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, 2019, 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, 2019

Adoption of Accounting Pronouncements

The following Governmental Accounting Standards Board (GASB) statements were adopted for the year ended June 30, 2019: Statement Nos. 83 (Certain Asset Retirement Obligations) and 88 (Certain Debt Disclosures related to Debt, including Direct Borrowings and Direct Placements). These statements had no significant impact on the School District's financial statements for the year ended June 30, 2019.

Pending Pronouncements

GASB has issued several standards that will become effective in future years, including Statement Nos. 84 (Fiduciary Activities), 87 (Leases), 89 (Accounting for Interest Costs before the End of a Construction Period), 90 (Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61), and 91 (Conduit Debt Obligations). 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 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

SHALER AREA SCHOOL DISTRICT

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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 cost, 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 to oversight by the Commonwealth. The School District can withdraw funds from the external investment pools. However, there are certain limitations placed on the following withdrawals: for PLIGT-Class accounts, there is a one-day holding period; for PLGIT/PLUS-Class accounts, there is a 30-day holding period for each deposit and a penalty for early withdrawals; for PLGIT/I-Class there is a limit of two redemptions or exchanges per month.

SHALER AREA SCHOOL DISTRICT

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YEAR ENDED JUNE 30, 2019

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, 2019 consisted of:

	Fair Value	Book Value
Pooled investment funds:		
PSDLAF	\$ 28,476,296	\$ 27,807,349
PLGIT	3,393,256	3,393,256
Bank of New York Mellon Pooled Funds	809,170	809,170
Other	125,215	123,295
	<hr/> <u>\$ 32,803,937</u>	<hr/> <u>\$ 32,133,070</u>

As of June 30, 2019, 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 these investments 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, 2019 was 23.53 mills. General Fund property taxes receivables have been reported net of an allowance for doubtful accounts of approximately \$2.4 million at June 30, 2019.

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, 2019, the

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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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 2019 for governmental activities is as follows:

	Balance at July 1, 2018	Additions	Deletions/ Transfers	Balance at June 30, 2019
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,553,540	\$ -	\$ -	\$ 1,553,540
Construction in progress	23,185,604	2,450,827	-	25,636,431
Total capital assets, not being depreciated	<u>24,739,144</u>	<u>2,450,827</u>	-	<u>27,189,971</u>
Capital assets, being depreciated:				
Site improvements	11,579,718	5,590	-	11,585,308
Building and improvements	99,341,183	22,660	-	99,363,843
Furniture and equipment	5,612,198	150,606	-	5,762,804
Total capital assets, being depreciated	<u>116,533,099</u>	<u>178,856</u>	-	<u>116,711,955</u>
Less: accumulated depreciation for:				
Site improvements	(8,504,129)	(243,178)	-	(8,747,307)
Building and improvements	(54,497,861)	(1,885,207)	-	(56,383,068)
Furniture and equipment	(4,510,714)	(418,508)	-	(4,929,222)
Total accumulated depreciation	<u>(67,512,704)</u>	<u>(2,546,893)</u>	-	<u>(70,059,597)</u>
Capital assets being depreciated, net	<u>49,020,395</u>	<u>(2,368,037)</u>	-	<u>46,652,358</u>
Governmental activities capital assets, net	<u>\$ 73,759,539</u>	<u>\$ 82,790</u>	<u>\$ -</u>	<u>\$ 73,842,329</u>

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

A summary of changes in capital assets during fiscal year 2019 for business-type activities is as follows:

	Balance at July 1, 2018	Additions	Deletions	Balance at June 30, 2019
Business-Type Activities:				
Capital assets, being depreciated:				
Machinery and equipment	\$ 620,789	\$ -	\$ (305,736)	\$ 315,053
Less: accumulated depreciation for:				
Machinery and equipment	(539,949)	(9,223)	257,206	(291,966)
Business-type activities capital assets, net	<u>\$ 80,840</u>	<u>\$ (9,223)</u>	<u>\$ (48,530)</u>	<u>\$ 23,087</u>

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

Governmental Activities:

Instructional services:

Regular instruction \$ 2,074,635

Support services:

Pupil personnel 84,703

Administration 74,604

Operation of plant and maintenance services 110,554

Non-instructional services:

Student activities 202,397

\$ 2,546,893

Business-type Activities:

Food service \$ 9,223

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

5. Long-Term Obligations

Changes in Long-Term Obligations

Changes in the School District's long-term liabilities for the year ended June 30, 2019 were as follows:

	Balance at July 1, 2018	Additions	Accretion	Deletions	Balance at June 30, 2019	Amounts Due Within One Year
Bonds Payable:						
Series of 1997 A	\$ 16,349,105	\$ -	\$ 722,036	\$ (3,745,000)	\$ 13,326,141	\$ 3,745,000
Series of 2006	20,150,007	-	1,051,565	-	21,201,572	-
Series of 2015	9,965,000	-	-	(5,000)	9,960,000	5,000
Series of 2016B	20,980,000	-	-	(105,000)	20,875,000	100,000
Series of 2016C	14,035,000	-	-	(5,000)	14,030,000	5,000
Series of 2016D	2,715,000	-	-	(5,000)	2,710,000	5,000
Series of 2019	-	12,750,000	-	-	12,750,000	5,000
	<u>84,194,112</u>	<u>12,750,000</u>	<u>1,773,601</u>	<u>(3,865,000)</u>	<u>94,852,713</u>	<u>3,865,000</u>
Unamortized discount	(106,318)	-	-	29,586	(76,732)	-
Unamortized premium	6,919,493	2,359,825	-	(856,900)	8,422,418	-
Net bonds payable	91,007,287	15,109,825	1,773,601	(4,692,314)	103,198,399	3,865,000
GO Notes:						
Beattie Loan 2016	1,760,407	-	-	(126,771)	1,633,636	132,939
Series of 2013 - Direct Borrowing	8,915,000	-	-	(90,000)	8,825,000	95,000
Series of 2016A	3,685,000	-	-	(465,000)	3,220,000	475,000
Total GO Notes	14,360,407	-	-	(681,771)	13,678,636	702,939
Capital Leases	429,683	-	-	(191,379)	238,304	61,771
Derivative Investments	1,820,744	-	-	(624,416)	1,196,328	-
Employee Benefits:						
Net PSERS pension liability	126,484,000	-	-	(3,399,000)	123,085,000	-
Net PSERS OPEB liability	5,218,000	128,000	-	-	5,346,000	-
Net local OPEB liability	8,039,481	-	-	(1,329,601)	6,709,880	-
Compensated absences	972,518	39,650	-	(112,155)	900,013	103,793
Net Employee Benefits	140,713,999	167,650	-	(4,840,756)	136,040,893	103,793
Total Long Term Obligations	\$ 248,332,120	\$ 15,277,475	\$ 1,773,601	\$ (11,030,636)	\$ 254,352,560	\$ 4,733,503

Additions to the General Obligation Bond Series of 1997 A and Series 2006 are the increase in accreted value for fiscal year 2019.

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.

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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 have been paid off. 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, \$14,0040,000, 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 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

SHALER AREA SCHOOL DISTRICT

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YEAR ENDED JUNE 30, 2019

5.0%. These issuances are due through September 1, 2025, 2028, 2036, and 2036, respectively.

The School District issued Series 2019 General Obligation Bonds (2019 Bonds) in the amount of \$12,750,000 to be used for various capital improvements and for improvements to various School District facilities and to implement a guaranteed energy savings program pursuant to Act 57 of 1998. The 2019 Bonds bear interest at rates ranging from 3.0% to 5.0% and are due through September 1, 2038.

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, 2019:

Fiscal Year Ending June 30,	General Obligation Bonds		General Obligation Notes		Total
	Principal	Interest	Principal	Interest	
2020	\$ 1,233,800	\$ 5,241,262	\$ 702,939	\$ 350,450	\$ 7,528,451
2021	1,162,271	5,499,322	719,791	329,439	7,710,823
2022	1,105,796	5,553,338	746,644	307,665	7,713,443
2023	1,052,355	5,604,311	774,181	282,562	7,713,409
2024	540,000	2,779,796	4,296,719	261,537	7,878,052
2025-2029	25,434,224	13,544,904	5,633,362	291,519	44,904,009
2030-2034	15,665,187	30,008,039	805,000	92,475	46,570,701
2035-2039	29,418,914	8,591,154	-	-	38,010,068
Totals	75,612,547	76,822,126	13,678,636	1,915,647	168,028,956
Accretion to date	19,240,166	(19,240,166)	-	-	-
	<u>\$ 94,852,713</u>	<u>\$ 57,581,960</u>	<u>\$ 13,678,636</u>	<u>\$ 1,915,647</u>	<u>\$ 168,028,956</u>

6. Leases and Commitments

Operating Lease

During July 2019, the School District entered into a new five-year operating lease for copiers. This lease is considered, for accounting purposes, to be an operating lease. Payments of \$4,110 are due monthly through June 2024.

SHALER AREA SCHOOL DISTRICT

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Future minimum payments for this lease are as follows:

Fiscal Year	Amount
2020	\$ 49,320
2021	49,320
2022	49,320
2023	49,320
2024	49,320
	<hr/>
	<u>\$ 246,600</u>

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, 2019 was approximately \$1,493,000 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, 2019, the School District's liability for this note was \$1,633,636, 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

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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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, 2019, 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, 2018 is \$1,840,598. Complete financial statements for the Center can be obtained from the administrative offices at 9600 Babcock Boulevard, Allison Park, PA, 15101.

8. Health Consortium

The School District is one of sixty 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, 2019, the Consortium's net position available for benefits approximated \$62.1 million. The School District's share of this amount is approximately \$2.0 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

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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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.psers.pa.gov.

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

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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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 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

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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per month or their eligible out-of-pocket monthly health insurance premium. As of June 30, 2018, 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%
- 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%.

Effective with Act 5, which was enacted 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.

Employer Contributions

The School District's contractually required PSERS contribution rate for fiscal year ended June 30, 2019 was 33.43% 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

SHALER AREA SCHOOL DISTRICT

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accrued liability. This rate is composed of a 32.60% rate for the Pension Plan and a 0.83% rate for the Premium Assistance.

The combined rate for the fiscal year ended June 30, 2019 was an increase from the fiscal year ended June 30, 2018 combined rate of 32.57%. The combined contribution rate will increase to 34.29% in fiscal year 2020 and is projected to grow to 36.30% by fiscal year 2024.

The School District remits contributions to PSERS on a quarterly basis. Approximately \$4.5 million was owed to PSERS as of June 30, 2019, 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, 2019 were as follows:

Pension Plan	\$ 11,922,826
Premium Assistance	<u>303,557</u>
Total	<u>\$ 12,226,383</u>

In accordance with Act 29, the Commonwealth reimburses school districts for approximately one-half of contributions made to PSERS. The School District recorded reimbursements from the Commonwealth approximating \$6.3 million during the current year. Because the 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, 2018 (measurement date), the School District's proportion was 0.2564%, which was an increase of 0.0003% from its proportion measured as of June 30, 2017.

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

At June 30, 2019, the School District reported a liability of \$123,085,000 for its proportionate share of PSERS' net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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was determined by rolling forward PSERS' total pension liability as of June 30, 2017 to June 30, 2018.

For the year ended June 30, 2019, the School District recognized pension expense of \$13,501,198.

At June 30, 2019, 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	\$ 991,000	\$ 1,905,000
Changes in assumptions	2,293,000	-
Net difference between projected and actual earnings on pension plan investments	603,000	-
Changes in proportion	460,000	2,359,000
School District contributions subsequent to the measurement date	<u>11,922,826</u>	-
Total	<u>\$ 16,269,826</u>	<u>\$ 4,264,000</u>

\$11,922,826 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:

2020	\$ 1,769,000
2021	225,000
2022	(1,440,000)
2023	<u>(471,000)</u>
Total	<u>\$ 83,000</u>

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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Actuarial Assumptions

The following methods and assumptions were used in the actuarial valuation for the June 30, 2018 measurement date:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.25%, includes inflation at 2.75%
- Salary growth – 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.
- Experience study – July 1, 2010 through June 30, 2015

Changes in Assumptions

There were no changes in assumptions for the June 30, 2018 valuation.

Changes in Benefit Terms

There were no changes in benefit terms for the June 30, 2018 valuation.

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.

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public entity	20.0%	5.2%
Fixed income	36.0%	2.2%
Commodities	8.0%	3.2%
Absolute return	10.0%	3.5%
Risk parity	10.0%	3.9%
Infrastructure/MLPs	8.0%	5.2%
Real estate	10.0%	4.2%
Alternative investments	15.0%	6.7%
Cash	3.0%	0.4%
Financing (LIBOR)	-20.0%	0.9%
	<u>100.0%</u>	

For PSERS' year ended June 30, 2018, the annual money-weighted rate of return on the pension plan investments, net of pension plan investment expenses, was 9.30%.

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

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YEAR ENDED JUNE 30, 2019

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:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
School District's proportionate share of PSERS' net pension liability	\$ 152,573,000	\$ 123,085,000	\$ 98,152,000

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 (retiree plan) described below. At June 30, 2019, the School District reported a net OPEB liability composed of the following:

School District's proportionate share of PSERS' net OPEB liability	\$ 5,346,000
School District's total OPEB liability for its retiree plan	<u>6,709,880</u>
Net OPEB liability	<u>\$ 12,055,880</u>

PSERS' net OPEB liability was measured as of June 30, 2018 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, 2017 to June 30, 2018. The School District's retiree plan's total OPEB liability was measured as of June 30, 2018 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, 2018 to June 30, 2019.

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For the year ended June 30, 2019, the School District recognized OPEB expense as follows:

OPEB expense related to PSERS		
Premium Assistance	\$ 250,884	
OPEB expense related to School		
District's retiree plan	<u>520,440</u>	
Total OPEB expense	<u>\$ 771,324</u>	

At June 30, 2019, 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	\$ 33,000	\$ 515,077	\$ 548,077
Changes in assumptions	85,000	839,743	924,743
Net difference between projected and actual earnings on OPEB plan investments	9,000	-	9,000
Changes in proportion	5,000	-	5,000
School District contributions subsequent to the measurement date	<u>303,557</u>	<u>405,775</u>	<u>709,332</u>
Total	<u>\$ 435,557</u>	<u>\$ 1,760,595</u>	<u>\$ 2,196,152</u>

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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	\$ -	\$ 1,540,684	\$ 1,540,684
Changes in assumptions	203,000	1,914,502	2,117,502
Net difference between projected and actual earnings on OPEB plan investments	-	-	-
Changes in proportion	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Total	<u><u>\$ 223,000</u></u>	<u><u>\$ 3,455,186</u></u>	<u><u>\$ 3,678,186</u></u>

\$709,332 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, 2020. 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
2020	\$ (21,000)	\$ (166,060)	\$ (187,060)
2021	(21,000)	(166,060)	(187,060)
2022	(21,000)	(166,060)	(187,060)
2023	(23,000)	(166,060)	(189,060)
2024	(24,000)	(166,060)	(190,060)
2025 and beyond	<u>19,000</u>	<u>(1,270,066)</u>	<u>(1,251,066)</u>
Total	<u><u>\$ (91,000)</u></u>	<u><u>\$ (2,100,366)</u></u>	<u><u>\$ (2,191,366)</u></u>

Additional Required Disclosures for PSERS Premium Assistance

Actuarial Assumptions

The following methods and assumptions were used in the actuarial valuation for the June 30, 2018 measurement date:

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 2.98% - 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
- Experience study – July 1, 2010 through June 30, 2015
- 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 discount rate decreased from 3.13% to 2.98% for the June 30, 2018 valuation.

Changes in Benefit Terms

There were no changes in benefit terms for the June 30, 2018 valuation.

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 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:

SHALER AREA SCHOOL DISTRICT

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Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	5.9%	0.03%
US Core Fixed Income	92.8%	1.2%
Non-US Developed Fixed	1.3%	0.04%
<hr/>		<hr/>
100.0%		

For PSERS' year ended June 30, 2018, the annual money-weighted rate of return on the Premium Assistance plan investments, net of plan investment expenses, was 1.63%.

Discount Rate

The discount rate used to measure the total OPEB liability was 2.98%. 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 2.98%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2018, was applied to all projected benefit payments to measure the total OPEB liability.

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

SHALER AREA SCHOOL DISTRICT

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	1% Decrease (1.98%)	Current Discount Rate (2.98%)	1% Increase (3.98%)
School District's proportionate share of PSERS' net OPEB liability	\$ 6,080,000	\$ 5,346,000	\$ 4,737,000

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, 2018, 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	\$ 5,345,000	\$ 5,346,000	\$ 5,347,000

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.

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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 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.

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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, 2019: \$558 for EPO individual coverage, and \$597 for the PPO individual coverage; current employee contribution rates are \$72 for EPO individual coverage, and \$102 for the PPO individual coverage; 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. \$1,515 for EPO family coverage, and \$1,622 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 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.

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

Below shows the required contributions for active employees during the 2018/2019 fiscal year:

	<u>Single</u>		<u>Other</u>
Administrative	\$ 72	\$	140
Secretaries/Paraprofessionals	72		100
SAEA Professional (EPO)	72		140
SAEA Professional (PPO)	102		190
Custodial and Maintenance	1.75% of base wage		3.0% 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.

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.

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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

OPEB Liability

At June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefit payments	24
Active employees	<u>497</u>
	<u><u>521</u></u>

Actuarial Assumptions

The total OPEB liability was determined by an actuarial evaluation performed as of July 1, 2018 and rolled forward to the measurement date of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal
- Discount rate – 3.87% – 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 – 6.75%; Long-term trend rate of 4.75%; Terminal trend year of 2028
- Mortality rates – RPH-2014 Total Dataset Mortality Table projected using Scale MP-2018

Changes in Assumptions

The discount rate changed from 3.58% in the prior year to 3.87% in the current year valuation. Updated the medical trend rates. Mortality improvement scale was updated to MP-2018. Assume a retirement incentive would be offered every 5 years.

Changes in Benefit Terms

No changes noted.

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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, 2019 were as follows:

Total OPEB liability, July 1, 2018	\$ 8,039,481
Changes for the year:	
Service cost	398,687
Interest on the total OPEB liability	287,813
Changes of benefit terms	-
Differences between expected and actual experience	554,698
Changes in assumptions	(1,908,605)
Benefit payments	<u>(662,194)</u>
 Total OPEB liability, June 30, 2019	 <u>\$ 6,709,880</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 2.87%	Current Discount 3.87%	1% Increase 4.87%
School District's total OPEB liability	\$ 7,040,420	\$ 6,709,880	\$ 6,375,666

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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:

	1% Decrease	Current Trend	1% Increase
School District's total OPEB liability	\$ 6,211,020	\$ 6,709,880	\$ 7,291,341

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, 2019. 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, 2019

Interest Rate Swaps – Floating Rate to Floating Rate

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

	1997 Swap	2006 Swap	2006A Swap
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, 2019

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

Instrument	Effective Hedge	June 30, 2018 Fair Value	Current year value change	June 30, 2019 Fair Value
1997B Swap	No	\$ 61,000	\$ (25,206)	\$ 35,794
2006 Swap	No	(727,700)	597,594	(130,106)
2006A Swap	No	(117,200)	241,624	124,424
		<u>\$ (783,900)</u>	<u>\$ 814,012</u>	<u>\$ 30,112</u>
Fixed / Variable Swap	Yes	<u>\$ 1,036,844</u>	<u>\$ 159,484</u>	<u>\$ 1,196,328</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, 2019, the Fixed/Variable, 2006 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 and Fixed/Variable 2006A Swap were not subject to credit risk, as both 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.

SHALER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

- 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.
- 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, 2019

13. Interfund Receivables, Payables, and Transfers

Interfund receivables and payables and transfers at June 30, 2019 are summarized below:

Fund	Due From Other Funds	Due to Other Funds
General Fund	\$ 270,673	\$ 67,561
Capital Projects	30,729	270,673
Other governmental funds	-	-
Proprietary Fund	36,832	-
Total	<u>\$ 338,234</u>	<u>\$ 338,234</u>

Fund	Transfers in	Transfers out
General Fund	\$ -	\$ 7,111,634
Capital Projects	-	-
Other governmental funds	7,111,634	-
Proprietary Fund	-	-
Total	<u>\$ 7,111,634</u>	<u>\$ 7,111,634</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, 2019

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.

At June 30, 2019, the School District has construction commitments relating to the school renovations for approximately \$3.9 million.

15. Subsequent Event

During July 2019, the School District entered into a capital lease for Apple iPads for \$260,362. Payments of principal and interest totaling \$65,090 are due annually commencing August 15, 2019 through August 15, 2022. Interest on the lease is 1.99%.

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, 2019

	Budget			Variance with Final Budget
	Original	Final	Actual	
Revenues and Other Financing Sources:				
Revenues:				
Local sources:				
Current real estate taxes	\$ 44,570,777	\$ 44,570,777	\$ 45,488,141	\$ 917,364
Public utility realty taxes	54,000	54,000	51,694	(2,306)
Local services taxes	22,500	22,500	23,032	532
Earned income taxes	5,273,400	5,273,400	5,532,042	258,642
Real estate transfer taxes	516,608	516,608	570,476	53,868
Delinquencies on taxes	1,514,145	1,514,145	1,371,550	(142,595)
Earnings on investments	90,405	90,405	558,717	468,312
Revenue from student activities	56,500	56,500	53,663	(2,837)
Federal revenue from IUs	986,000	986,000	890,635	(95,365)
Rentals	30,000	30,000	90,000	60,000
Contributions and donations from private sources	5,000	5,000	29,963	24,963
Tuition	-	-	13,908	13,908
Revenue from community activities	50,000	50,000	48,688	(1,312)
Miscellaneous revenue	318,000	318,000	136,216	(181,784)
Total local sources	<u>53,487,335</u>	<u>53,487,335</u>	<u>54,858,725</u>	<u>1,371,390</u>
State sources:				
Basic instructional subsidy	11,535,415	11,535,415	11,509,695	(25,720)
Tuition	52,500	52,500	23,681	(28,819)
Subsidies for special education programs	3,501,775	3,501,775	3,429,810	(71,965)
Transportation	1,806,700	1,806,700	1,682,911	(123,789)
Rentals and sinking fund payments	300,000	300,000	457,708	157,708
Health services	85,000	85,000	78,298	(6,702)
State property tax reduction	2,041,241	2,041,241	2,041,241	-
Social Security payments	1,480,367	1,480,367	1,476,567	(3,800)
State retirement revenue	6,469,109	6,469,109	6,331,080	(138,029)
Ready to learn grant	706,471	706,471	739,029	32,558
Total state sources	<u>27,978,578</u>	<u>27,978,578</u>	<u>27,825,040</u>	<u>(153,538)</u>
Federal sources:				
Title I	330,000	330,000	610,972	280,972
Title II	140,000	140,000	123,629	(16,371)
Title III	-	-	1,284	1,284
Title IV	-	-	41,525	41,525
Medical Assistance - Title XIX	-	-	10,029	10,029
Medical Assistance - Access	250,000	250,000	252,786	2,786
Total federal sources	<u>720,000</u>	<u>720,000</u>	<u>1,040,225</u>	<u>320,225</u>
Other financing sources:				
Refund of prior year's expenditures	-	-	259,626	259,626
Proceeds from capital lease	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>259,626</u>	<u>259,626</u>
Total revenues and other financing sources	<u>82,185,913</u>	<u>82,185,913</u>	<u>83,983,616</u>	<u>1,797,703</u>

(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, 2019

(Continued)

Expenditures and Other Financing Uses:	Budget		Variance with Final Budget
	Original	Final	
Instruction:			
Regular programs:			
Salaries	20,082,473	20,082,473	19,352,306
Employee benefits	13,699,524	13,699,524	12,143,588
Purchased professional and technical services	50,000	50,000	8,648
Purchased property services	76,642	76,642	34,331
Other purchased services	1,358,025	1,358,025	1,629,071
Supplies	1,066,741	1,066,741	1,009,912
Property	312,364	312,364	318,912
Other	-	-	(6,548)
Total regular programs	36,645,769	36,645,769	34,496,972
Special programs:			
Salaries	5,497,609	5,497,609	5,883,632
Employee benefits	3,787,149	3,787,149	4,158,677
Purchased professional and technical services	674,500	699,500	877,195
Other purchased services	1,913,700	1,888,700	1,549,871
Supplies	101,500	105,900	50,247
Property	22,000	32,000	24,916
Total special programs	11,999,458	12,015,158	12,548,787
Vocational education:			
Salaries	59,522	59,522	59,522
Employee benefits	28,203	28,203	25,130
Other purchased services	1,500,000	1,500,000	1,492,432
Total vocational education	1,587,725	1,587,725	1,577,084
Other instructional programs:			
Salaries	799,201	799,201	737,578
Employee benefits	492,734	492,734	449,967
Other purchased services	140,000	140,000	136,647
Supplies	12,500	12,500	1,064
Total other instructional programs	1,444,435	1,444,435	1,325,256
Non-public school:			
Purchased professional and technical services	-	-	10,765
Total instruction	51,677,387	51,693,087	49,958,864
			1,734,223

(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, 2019

(Continued)

Expenditures and Other Financing Uses:	Budget		Variance with Final Budget
	Original	Final	
Support services:			
Pupil personnel:			
Salaries	1,591,310	1,591,310	2,094,890 (503,580)
Employee benefits	1,071,366	1,071,366	1,329,408 (258,042)
Purchased professional and technical services	60,000	60,000	61,382 (1,382)
Purchased property services	4,200	4,200	- 4,200
Other purchased services	18,500	18,500	15,164 3,336
Supplies	43,500	27,800	18,922 8,878
Other	4,000	4,000	2,182 1,818
Total pupil personnel	2,792,876	2,777,176	3,521,948 (744,772)
Instructional staff:			
Salaries	586,568	586,568	893,978 (307,410)
Employee benefits	292,204	292,204	538,211 (246,007)
Purchased professional and technical services	13,800	13,800	206,254 (192,454)
Purchased property services	4,000	4,000	- 4,000
Other purchased services	6,410	6,410	7,680 (1,270)
Supplies	148,900	148,900	144,229 4,671
Property	8,800	8,800	7,631 1,169
Total instructional staff	1,060,682	1,060,682	1,797,983 (737,301)
Administration:			
Salaries	2,064,165	2,064,165	2,141,276 (77,111)
Employee benefits	1,312,660	1,314,060	1,350,254 (36,194)
Purchased professional and technical services	376,000	376,000	246,857 129,143
Purchased property services	42,730	42,730	41,488 1,242
Other purchased services	121,920	121,920	73,849 48,071
Supplies	25,500	25,500	16,709 8,791
Property	5,000	5,000	- 5,000
Other	34,300	32,900	13,720 19,180
Total administration	3,982,275	3,982,275	3,884,153 98,122
Pupil health:			
Salaries	570,487	570,487	559,729 10,758
Employee benefits	356,910	356,910	357,411 (501)
Purchased professional and technical services	294,500	294,500	137,288 157,212
Purchased property services	1,500	1,500	587 913
Other purchased services	-	-	36 (36)
Supplies	12,330	12,330	9,966 2,364
Property	1,500	1,500	- 1,500
Total pupil health	1,237,227	1,237,227	1,065,017 172,210

(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, 2019

(Continued)

	Budget		Actual	Variance with Final Budget
	Original	Final		
Expenditures and Other Financing Uses:				
Business:				
Salaries	416,180	416,180	405,643	10,537
Employee benefits	277,279	277,279	271,784	5,495
Purchased professional and technical services	35,000	35,000	37,910	(2,910)
Purchased property services	110,618	110,618	65,639	44,979
Other purchased services	7,450	7,450	5,719	1,731
Supplies	17,500	17,500	39,837	(22,337)
Other	1,000	1,000	1,245	(245)
Total business	865,027	865,027	827,777	37,250
Operation and maintenance of plant services:				
Salaries	3,033,071	3,033,070	2,954,559	78,511
Employee benefits	1,907,773	1,907,773	1,899,934	7,839
Purchased professional and technical services	137,450	124,171	177,493	(53,322)
Purchased property services	1,557,406	638,272	620,648	17,624
Other purchased services	248,465	248,465	259,993	(11,528)
Supplies	678,305	1,602,474	1,516,252	86,222
Property	150,049	157,019	108,471	48,548
Other	1,599	2,874	3,004	(130)
Total operation and maintenance of plant services	7,714,118	7,714,118	7,540,354	173,764
Student transportation services:				
Salaries	37,974	37,974	26,906	11,068
Employee benefits	21,707	21,707	17,987	3,720
Purchased professional and technical services	56,000	56,000	63,688	(7,688)
Other purchased services	4,756,500	4,756,500	4,619,921	136,579
Supplies	25,000	25,000	28,535	(3,535)
Total student transportation services	4,897,181	4,897,181	4,757,037	140,144
Central:				
Salaries	848,524	848,524	668,081	180,443
Employee benefits	557,212	561,212	430,999	130,213
Purchased professional and technical services	32,100	32,100	48,498	(16,398)
Other purchased services	15,400	15,400	13,121	2,279
Supplies	263,184	263,184	307,887	(44,703)
Property	10,000	10,000	4,236	5,764
Other	2,070	2,070	369	1,701
Total central	1,728,490	1,732,490	1,473,191	259,299
Other support services:				
Other purchased services	65,000	65,000	63,016	1,984
Total support services	24,342,876	24,331,176	24,930,476	(599,300)

(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, 2019

(Continued)

	Budget		Actual	Variance with Final Budget
	Original	Final		
Expenditures and Other Financing Uses:				
Noninstructional services:				
Student activities:				
Salaries	1,033,468	1,033,468	986,294	47,174
Employee benefits	114,427	110,427	433,370	(322,943)
Purchased professional and technical services	41,700	41,700	49,244	(7,544)
Purchased property services	27,250	27,250	13,624	13,626
Other purchased services	254,175	254,175	234,910	19,265
Supplies	93,775	93,775	99,328	(5,553)
Property	13,675	13,675	12,384	1,291
Other	21,750	21,750	50,229	(28,479)
Total student activities	1,600,220	1,596,220	1,879,383	(283,163)
Community services:				
Salaries	5,550	5,550	60,134	(54,584)
Employee benefits	-	-	15,385	(15,385)
Other purchased services	2,200	2,200	524	1,676
Supplies	10,000	10,000	12,758	(2,758)
Other	15,000	15,000	11,460	3,540
Total community services	34,750	34,750	101,444	(66,694)
Total noninstructional services	1,634,970	1,630,970	1,980,827	(349,857)
Facilities Acquisition, Construction, and Improvement Services:				
Purchased professional and technical services	10,000	10,000	-	10,000
Purchased property services	10,000	10,000	-	10,000
Total facilities acquisition, construction, and improvement services	20,000	20,000	-	20,000
Debt service:				
Interest	-	4,184	4,546	(362)
Redemption of principal	208,158	208,158	193,396	14,762
Total debt service	208,158	212,342	197,942	14,400
Total expenditures	77,883,391	77,887,575	77,068,109	819,466
Other financing uses:				
Refund of prior year revenues	44,184	35,000	7,704	27,296
Debt Service prior year refunds	-	5,000	-	-
Fund transfers	7,040,100	7,040,100	7,111,634	(71,534)
Total other financing uses	7,084,284	7,080,100	7,119,338	(44,238)
Total expenditures and other financing uses	84,967,675	84,967,675	84,187,447	775,228
Net Change in Fund Balance	\$ (2,781,762)	\$ (2,781,762)	\$ (203,831)	\$ 2,572,931

(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 Years ¹				
	2019	2018	2017	2016	2015
School District's proportion of PSERS' net pension liability	0.2564%	0.2561%	0.2574%	0.2689%	0.2681%
School District's proportionate share of PSERS' net pension liability	\$ 123,085,000	\$ 126,484,000	\$ 127,559,000	\$ 116,475,000	\$ 106,116,000
School District's covered payroll	\$ 34,529,290	\$ 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	356.4655%	370.9235%	378.9804%	340.6344%	310.1356%
PSERS' plan fiduciary net position as a percentage of PSERS' total pension liability	54.00%	51.84%	50.14%	54.36%	57.24%

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 PENSION PLAN

	Last 10 Fiscal Years ²				
	2019	2018	2017	2016	2015
Contractually required employer contribution	\$ 11,922,826	\$ 11,200,198	\$ 9,890,554	\$ 8,309,361	\$ 6,977,855
Contributions recognized by PSERS	<u>\$ 11,922,826</u>	<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	\$ -	\$ -	\$ -	\$ -	\$ -
School District's covered payroll	\$ 36,410,597	\$ 35,027,423	\$ 34,099,755	\$ 33,658,468	\$ 34,193,549
Contributions as a percentage of covered payroll	32.75%	31.98%	29.00%	24.69%	20.41%

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 required supplementary schedules.

SHALER AREA SCHOOL DISTRICT

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

Last 10 Fiscal Years¹

	2019	2018
School District's proportion of PSERS' net OPEB liability	0.2567%	0.2561%
School District's proportionate share of PSERS' net OPEB liability	\$ 5,346,000	\$ 5,218,000
School District's covered payroll	\$ 34,529,290	\$ 34,098,592
School District's proportionate share of PSERS' net OPEB liability as a percentage of its covered payroll	15.4825%	15.3027%
PSERS' plan fiduciary net position as a percentage of PSERS' total OPEB liability	5.5600%	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

	2019	2018
Contractually required employer contribution	\$ 303,557	\$ 292,884
Contributions recognized by PSERS	<u>303,557</u>	<u>292,884</u>
Difference between contractually required employer contribution and contributions recognized by PSERS	<u>\$ -</u>	<u>\$ -</u>
School District's covered payroll	\$ 36,410,597	\$ 35,027,423
Contributions as a percentage of covered payroll	0.8337%	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 required supplementary schedules.

SHALER AREA SCHOOL DISTRICT

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

Last 10 Fiscal Years¹

	2019	2018
Total OPEB Liability:		
Service cost	\$ 398,687	\$ 392,747
Interest	287,813	236,784
Changes of benefit terms	-	-
Differences between actual and expected experience	554,698	-
Changes of assumptions	(1,908,605)	(164,108)
Benefit payments	(662,194)	(734,156)
Net Changes in Total OPEB Liability	(1,329,601)	(268,733)
Total OPEB Liability - Beginning	8,039,481	8,308,214
Total OPEB Liability - Ending	\$ 6,709,880	\$ 8,039,481

¹The 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 required supplementary schedules.

SHALER AREA SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

YEAR ENDED JUNE 30, 2019

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.

The School District expenditures may not legally exceed the revised budget amounts by amounts in total for the fund unless funds are received in excess of the budgeted State allocation levels. Accordingly, the legal level of budgetary control is at the object level within each function and fund. During fiscal year 2019, expenditures were budgeted at \$77.9 million, while actual expenditures were \$77 million.

SHALER AREA SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

YEAR ENDED JUNE 30, 2019

2. Factors and Trends in Actuarial Assumptions Used Under GASB Statement No. 68 for the PSERS Pension Plan

Actuarial Date/ Measurement Date	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013
School District Fiscal Year	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Discount Rate	7.25%	7.25%	7.25%	7.50%	7.50%	N/A
Salary Increases	5.00%	5.00%	5.00%	5.50%	5.50%	N/A
Mortality	RP-2014, Scale MP-2015	RP-2014, Scale MP-2015	RP-2014, Scale MP-2015	RP-2000	RP-2000	N/A
Changes in Benefits	None	Vested Class T-E and T-F members can withdraw their accumulated contributions and interest	None	None	None	N/A
Actuarially Calculated Contribution Rate from Actuarial Date Shown Above	33.36%	32.60%	31.74%	29.20%	25.00%	20.50%
Fiscal Year in Which Actuarially Calculated Contribution Rate Is Applied	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015

N/A – Years pre-date required implementation date of GASB Statement No. 68; thus, actuarial valuation assumptions for these years are not presented.

SHALER AREA SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

YEAR ENDED JUNE 30, 2019

3. Factors and Trends in Actuarial Assumptions Used Under GASB Statement No. 75 for the PSERS Premium Assistance (OPEBs)

Actuarial Date/ Measurement Date	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013
School District Fiscal Year	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Discount Rate	2.98%	3.13%	N/A	N/A	N/A	N/A
Salary Increases	5.00%	5.00%	N/A	N/A	N/A	N/A
Mortality	RP-2014, Scale MP-2015	RP-2014, Scale MP-2015	N/A	N/A	N/A	N/A
Changes in Benefits	None	Vested Class T-E and T-F members can withdraw their accumulated contributions and interest	N/A	N/A	N/A	N/A
Actuarially Calculated Contribution Rate from Actuarial Date Shown Above	0.84%	0.83%	0.83%	N/A	N/A	N/A
Fiscal Year in Which Actuarially Calculated Contribution Rate Is Applied	6/30/2020	6/30/2019	6/30/2018	N/A	N/A	N/A

N/A – Years pre-date required implementation date of GASB Statement No. 75; thus, actuarial valuation assumptions for these years are not presented.

SHALER AREA SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

YEAR ENDED JUNE 30, 2019

4. Factors and Trends in Actuarial Assumptions Used Under GASB Statement No. 75 for the Retiree OPEB Plan

The retiree plan is not administered through a trust and assets are not accumulated in a trust to pay related benefits.

Actuarial Date	6/30/2018	6/30/2016				
Measurement Date	6/30/2019	6/30/2018				
School District Fiscal Year	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Discount Rate	3.87%	3.58%	N/A	N/A	N/A	N/A
Salary Increases	2.50%	2.50%	N/A	N/A	N/A	N/A
Mortality	MP-2018	MP-2016	N/A	N/A	N/A	N/A
Assumed Healthcare Trend Rates	6.75%	7.00%	N/A	N/A	N/A	N/A

N/A – Years pre-date required implementation date of GASB Statement No. 75; thus, actuarial valuation assumptions for these years are not presented.

SUPPLEMENTARY INFORMATION

SHALER AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2019

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, 2018	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at June 30, 2019	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	40,216	160,865	-	-	120,649	-
Title I Grants to Local Educational Agencies	84.010	013-190379	8/21/18-9/30/19	570,299	285,170	-	570,299	570,299	285,129	-
Total Title I Grants to Local Educational Agencies					366,059	160,865	570,299	570,299	405,778	-
Supporting Effective Instruction State Grants	84.367	020-180379	8/15/17-9/30/18	133,242	-	56,741	-	-	56,741	-
Supporting Effective Instruction State Grants	84.367	020-190379	8/21/18-9/30/19	123,629	86,922	-	123,629	123,629	36,707	-
Total Supporting Effective Instruction State Grants					86,922	56,741	123,629	123,629	93,448	-
Student Support and Academic Enrichment Program	84.424	144-180379	8/15/17-9/30/18	13,013	-	8,365	-	-	8,365	-
Student Support and Academic Enrichment Program	84.424	144-190379	8/21/18-9/30/19	41,525	41,525	-	41,525	41,525	-	-
Total Student Support and Academic Enrichment Program					41,525	8,365	41,525	41,525	8,365	-
Passed Through the Allegheny County Intermediate Unit:										
Special Education Cluster:										
Special Education Grants to States	84.027	RA-062-18-0-003	7/1/17-6/30/18	948,700	948,700	948,700	-	-	-	-
Special Education Preschool Grants	84.173	131-19-0-003	7/1/18-9/30/19	5,928	5,928	-	5,928	5,928	-	-
Special Education Grants to States	84.027	RA-062-19-0-003	7/1/18-9/30/19	884,706	-	-	884,706	884,706	884,706	-
Total Special Education Cluster					954,628	948,700	890,634	890,634	884,706	-
English Language Acquisition Grants	84.365	n/a	7/1/18-6/30/19	1,284	1,284	-	1,284	1,284	-	-
Total U.S. Department of Education					1,450,418	1,174,671	1,627,371	1,627,371	1,392,297	-
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	10,029	-	10,029	10,029	-	-
Total U.S. Department of Health and Human Services					10,029	-	10,029	10,029	-	-
U.S. Department of Agriculture										
Passed Through Pennsylvania Department of Education:										
Child Nutrition Cluster:										
School Breakfast Program	10.553	N/A	7/1/17-6/30/18	N/A	17,633	17,633	-	-	-	-
School Breakfast Program	10.553	N/A	7/1/18-9/30/19	N/A	116,733	-	139,283	139,283	22,550	-
Total 10.553					134,366	17,633	139,283	139,283	22,550	-
National School Lunch Program	10.555	N/A	7/1/17-6/30/18	N/A	76,986	76,986	-	-	-	-
National School Lunch Program	10.555	N/A	7/1/18-9/30/19	N/A	560,071	-	650,419	650,419	90,348	-
Total 10.555					637,057	76,986	650,419	650,419	90,348	-
Passed through the Pennsylvania Department of Agriculture:										
National School Lunch Program	10.555	N/A	7/1/18-9/30/19	138,564	105,944	(11,669)	101,604	101,604	(16,009)	-
Total CFDA 10.555					743,001	65,317	752,023	752,023	74,339	-
Total Child Nutrition Cluster					877,367	82,950	891,306	891,306	96,889	-
Total U.S. Department of Agriculture					877,367	82,950	891,306	891,306	96,889	-
Total Expenditures of Federal Awards					\$ 2,337,814	\$ 1,257,621	\$ 2,528,706	\$ 2,528,706	\$ 1,489,186	\$ -

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, 2019

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, 2019. 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, 2019

**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, 2019, 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 January 24, 2020.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control 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 Internal Control over Financial
Reporting and on Compliance and Other Matters

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*.

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
January 24, 2020

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

**Board of Directors
Shaler Area School District**

Report on Compliance for Each 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 programs for the year ended June 30, 2019. The School District's major federal programs are 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 each of the School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* 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 each major federal program. However, our audit does not provide a legal determination of the School District's compliance.

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

Opinion on Each 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 each of its major federal programs for the year ended June 30, 2019.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on 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 Each
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.

Maher Duessel

Pittsburgh, Pennsylvania
January 24, 2020

SHALER AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2019

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.

No matters were reported.

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, 2019

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 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.

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).

Status: No similar conditions in the current year. Adjusting entries were posted by Management prior to the start of the audit or information was provided during the audit for material adjustments.