North Allegheny School District

Single Audit

June 30, 2018

MaherDuessel

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NORTH ALLEGHENY SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2018

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Independent Auditor's Report

Board of Directors
North Allegheny 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 North Allegheny School District (School District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, business-type activities, each major fund, and the aggregate remaining fund information of the School District as of June 30, 2018, and the respective changes in its financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, other postemployment benefits, and pension information on pages i through ix and 63 through 70, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the 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 December 14, 2018 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
December 14, 2018

NORTH ALLEGHENY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplementary Information

June 30, 2018

Our Management's Discussion and Analysis of North Allegheny School District's (School District) financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2018. Please review in conjunction with the School District's financial statements that begin on page 1.

The Management's Discussion and Analysis is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *"Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments."* The intent of this Management's Discussion and Analysis is to look at the School District's financial performance as a whole.

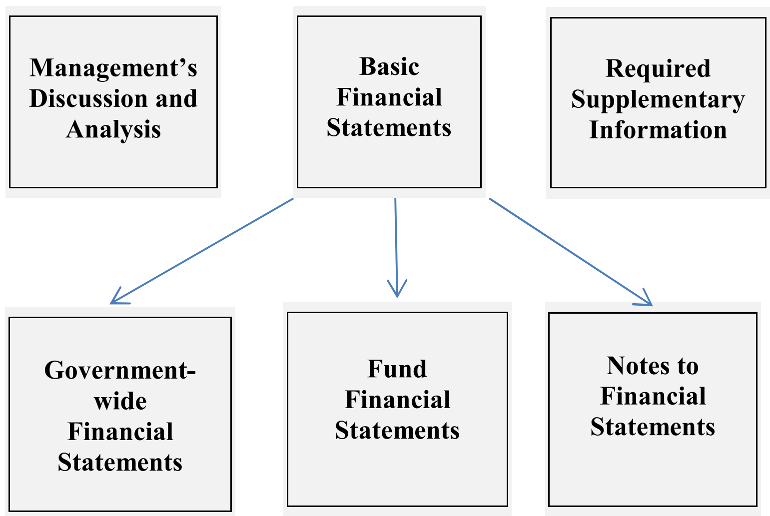
Though the intent of GASB Statement No. 34 is to produce documentation that mirrors for-profit institutions, the fact remains that the School District is not a for-profit institution. The School District is not in business to make a profit. The mission of the School District is to educate children and prepare all students for success in a changing world. The reader should be aware of differences in financial statement reporting between a for-profit company and an institution such as the School District.

USING THE FINANCIAL STATEMENT REPORT

This Financial Statement Report consists of the Management's Discussion and Analysis (this section), the Basic Financial Statements, the Required Supplementary Information, and Supplementary Information. The Basic Financial Statements include the Government-Wide Financial Statements, Fund Financial Statements, and Notes to Financial Statements. The Statement of Net Position and Statement of Activities, on pages 1-2, provide information about the activities of the School District as a whole and present a long-term view of the School District's finances. Fund Financial Statements, which start on page 3, provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term, as well as what remains for future spending. The Fund Financial Statements also look at the School District's most significant funds with all other governmental funds presented in total in one column. For the School District, the General Fund is the most significant major fund. Lastly, the financial statements include notes that explain some of the information in the financial statements and provide more detailed data.

Figure A shows how the required parts of the Financial Section are arranged and relate to one another:

Figure A
Required Components of
North Allegheny School District's
Financial Report



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, deferred outflows of resources, liabilities, deferred inflows of resources and net position. 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 Government-Wide Financial Statements report the School District's net position and how it has changed. Net position, the difference between the School District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, is one way to measure the School District's "book value" position.

Over time, increases or decreases in the School District's net position are an indication of whether its "book value" is increasing or decreasing.

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.

In the Statement of Net Position and the Statement of Activities, the School District is divided into two distinct kinds of activities:

- Governmental Activities – Most of the School District's basic services are included here, such as instructional services, support services, operation of plant and maintenance services, student transportation services, and administration. Property taxes, 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.

REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Fund Financial Statements, which begin on 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 by 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 accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Funds Financial Statements provide a detailed short-term view of the School District's operations and the services it provides. The Governmental Funds 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 reflected in reconciliations on pages 4 and 6.

- Proprietary Fund – This Proprietary Fund is used to account for the School District's 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. The Food Service Fund is the School District's only Proprietary Fund and uses the same basis of accounting as Business-Type Activities; therefore, these statements will essentially match.

FINANCIAL HIGHLIGHTS

Each year the building of the School District's budget in the fall begins a challenging process for the Administration and the Board of Directors. As in previous years, the realization that there would be significant increases in several expenditure groups, as well as decreases in several revenue streams made the balancing of academic needs and fiscal responsibility a difficult process. Measures to utilize every efficiency and economy that would not diminish programs for students was identified and implemented.

Actual results for the fiscal year were more favorable than projected due to a number of factors. As a result of the positive results, the fund balance of the General Fund decreased by approximately $0.1M from the previous year compared to a budgeted decrease of $1.6M. Overall, net revenues and expenditures yielded a negative operating impact in the amount of $0.1M, which was a positive variance to budget by $1.5M. Excluding the impact of Athletics which had net favorable operations of $38k, Local revenue had a total positive variance to budget in the amount of $0.5M. This was primarily due to additional Act 511 tax revenue received compared to the budgeted amount. State and Federal revenue where in line with the budgeted amounts. The expenditure variances, excluding the Athletics fund and capital leases, to budget totaled $0.9M which was driven by lower medical benefit costs of $0.9M versus budget. The School District ended with a fund balance in the General Fund of approximately $22.2M.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

Statements of Net Position

The School District's total net position was approximately negative $212M at June 30, 2018.

Table 1
Condensed Statements of Net Postion
Fiscal Years Ended June 30,

	2018			2017		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current assets	$ 47,844,535	$ 869,692	$ 48,714,227	$ 54,032,339	$ 872,863	$ 54,905,202
Other assets	3,738,299	28,270	3,766,569	4,404,707	(162,632)	4,242,075
Capital assets	144,776,107	1,082,838	145,858,945	142,374,467	1,014,572	143,389,039
Total Assets	196,358,941	1,980,800	198,339,741	200,811,513	1,724,803	202,536,316
Deferred Outflows of Resources	45,129,387	-	45,129,387	50,500,778	-	50,500,778
Current liabilities	21,726,611	227,760	21,954,371	21,242,504	137,767	21,380,271
Long-term liabilities:						
Due within one year	12,716,171	-	12,716,171	11,145,087	-	11,145,087
Due after one year	419,032,559	-	419,032,559	394,107,029	-	394,107,029
Total Liabilities	453,475,341	227,760	453,703,101	426,494,620	137,767	426,632,387
Deferred Inflows of Resources	2,232,179	-	2,232,179	2,281,740	-	2,281,740
Net investment in capital assets	23,244,172	1,082,838	24,327,010	20,261,471	1,014,572	21,276,043
Unrestricted	(237,463,364)	670,202	(236,793,162)	(197,725,540)	572,464	(197,153,076)
Total Net Position	$ (214,219,192)	$ 1,753,040	$ (212,466,152)	$ (177,464,069)	$ 1,587,036	$ (175,877,033)

The majority of current assets (approximately 68%) as of June 30, 2018 are made up of unrestricted and restricted cash and cash equivalents of approximately $30.9M and $2.4M, respectively.

Approximately $24.3M of the School District's net position is invested in capital assets (buildings, land, and equipment). The School District’s buildings include seven (7) elementary schools; three (3) middle schools; an intermediate school which houses 9th and 10th graders; and the senior high school which houses 11th and 12th graders. In addition, the School District has a center for student and community use and a transportation building which houses the employees of the facilities and transportation departments. In total, the School District has sixteen buildings situated on approximately 328 acres of real estate.

The majority of current liabilities are from accounts payable and other current liabilities, accrued salaries, and benefits.

Non-current liabilities consist of the following basic components: long-term debt associated with renovations of the School District’s buildings, the compensated absence liability, the School District’s portion of the Public School Employees’ Retirement System (PSERS) unfunded liability, and liabilities related to the swap transactions discussed in Note 13 to the financial statements.

Statement of Activities

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.

These financial statements offer a view of the financial condition of the School District on a consolidated basis. For example, investment earnings (Statement of Activities, page 2) not only include interest earnings in the General Fund, but also interest earnings in capital related funds as well.

Table 2 takes the information from the Statement of Activities and rearranges it slightly so an individual can review total revenues for the year. The School District has prepared financial statements with a comparative analysis of government-wide data to fiscal year 2018.

Table 2
Changes in Net Position
Fiscal Years Ended June 30,

	2018			2017		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Revenues						
Program revenues:						
Charges for services	$ 945,063	$ 2,598,009	$ 3,543,072	$ 990,198	$ 2,500,419	$ 3,490,617
Operating grants and contributions	25,325,018	606,448	25,931,466	24,340,926	595,676	24,936,602
General revenues:						
Property taxes	101,961,237	-	101,961,237	99,354,984	-	99,354,984
Other taxes	17,286,013	-	17,286,013	16,657,021	-	16,657,021
Grants, subsidies and contributions, unrestricted	11,654,790	-	11,654,790	11,511,881	-	11,511,881
Investment earnings	41,153	4,769	45,922	34,253	2,305	36,558
Investment gain (loss) on derivatives	2,379,059	-	2,379,059	3,035,482	-	3,035,482
Gain on Sale of assets	-	-	-	349,252	-	349,252
Total Revenues	159,592,333	3,209,226	162,801,559	156,273,997	3,098,400	159,372,397
Expenses						
Instructional services	98,253,492	-	98,253,492	90,271,334	-	90,271,334
Support services	48,710,201	-	48,710,201	49,802,166	-	49,802,166
Non-instructional services	3,219,924	-	3,219,924	4,809,202	-	4,809,202
Facilities	2,272,334	-	2,272,334	1,460,047	-	1,460,047
Unallocated depreciation expense	5,474,030	-	5,474,030	6,006,571	-	6,006,571
Interest on long-term debt	4,730,185	-	4,730,185	5,123,780	-	5,123,780
Food services	-	3,043,222	3,043,222	-	2,996,927	2,996,927
Total Expenses	162,660,166	3,043,222	165,703,388	157,473,100	2,996,927	160,470,027
Change in Net Position	$ (3,067,833)	$ 166,004	$ (2,901,829)	$ (1,199,103)	$ 101,473	$ (1,097,630)

Governmental Activities

Table 3 shows the School District's functions/programs, 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 3
Governmental Activities
Fiscal Years Ended June 30,

	2018		2017	
Functions/Programs	**Total Cost of Services**	**Net Cost of Services**	**Total Cost of Services**	**Net Cost of Services**
Instructional services	$ 98,253,492	$ 82,404,046	$ 90,271,334	$ 74,437,836
Support services	48,710,201	41,566,387	49,802,166	43,832,502
Non-instructional services	3,219,924	1,895,017	4,809,202	3,564,462
Facilities	2,272,334	2,272,334	1,460,047	1,374,040
Unallocated expenses - excluding direct expenses reported as a function above:				
Depreciation expense	5,474,030	5,474,030	6,006,571	6,006,571
Interest on long-term debt	4,730,185	2,778,271	5,123,780	2,926,565
Total Governmental Activities	$ 162,660,166	136,390,085	$ 157,473,100	132,141,976
Less:				
Unrestricted grants, subsidies, and contributions		11,654,790		11,511,881
Total Needs from Local Taxes and Other Revenues		$ 124,735,295		$ 120,630,095

The dependence upon tax revenues for governmental activities is apparent and consistent with School District funding in the Commonwealth of Pennsylvania. The community, as a whole, is the primary support for the School District's students.

Business-Type Activity

The only Business-Type Activity of the School District is the food service operations. This program had revenues of $3.20M and $3.10M for the fiscal years 2018 and 2017, respectively. Food service expenses were $3.04M and $3.00M for the fiscal years 2018 and 2017, respectively. The contracted food service vendor guarantees a profit from their services. A profit of approximately $166K and $101K was realized for the fiscal years 2018 and 2017, respectively. Without depreciation, the food service operations would have had a profit of approximately $241K and $176K for fiscal years 2018 and 2017, respectively. The Statement of Revenues, Expenses, and Changes in Fund Net Position on page 8 for this Proprietary Fund will further detail the actual results of operations.

THE SCHOOL DISTRICT'S FUNDS

The General Fund, which accounts for the School District's operations, represents the School District's most significant major fund. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds on page 5 is summarized in **Table 4.**

Table 4
Summary of Governmental Change in Fund Balance
Fiscal Years ended June 30,

	2018			2017		
	General Fund	Other Governmental Funds	Total Governmental Funds	General Fund	Other Governmental Funds	Total Governmental Funds
Beginning Fund Balance	$ 22,339,010	$ 8,231,391	$ 30,570,401	$ 18,102,296	$ 21,388,495	$ 39,490,791
Net Change in Fund Balance	(99,375)	(6,725,951)	(6,825,326)	4,236,714	(13,157,104)	(8,920,390)
Ending Fund Balance	$ 22,239,635	$ 1,505,440	$ 23,745,075	$ 22,339,010	$ 8,231,391	$ 30,570,401

Included in the Other Governmental Funds in the above chart are the 2019 Elementary Fund, BWE/Marshall Construction Fund, Capital Reserve Fund, and Technology Fund.

For fiscal year 2018, overall, there was an decrease in fund balance across all of the School District's funds in the amount of $6.8M. This was mainly due to the construction funds spent in the current year coupled with a slight decrease in the general fund balance of $0.1M.

General Fund Budgeting Highlights

The School District's budget is prepared according to the Commonwealth of Pennsylvania law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. During the fiscal year, the Board of Directors authorized revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the School District. The budgeting systems are designed to tightly control budgets by controllers responsible for their individual areas.

The fund balance of the General Fund decreased $1.5M less than originally budgeted because of positive variances to budget for fiscal year 2018.

In total, the School District received $0.5M more revenue than originally budgeted. The School District's revenues from local sources were $0.5M more than budgeted. This was primarily due to additional Act 511 tax revenue received compared to the budgeted amount. State and Federal revenue where in line with the budgeted amount.

Expenditures for the current fiscal year were budgeted at $157.5M, while actual expenditures were $156.6M, $0.9M under budget excluding athletics and capital leases. Savings were primarily realized due to lower medical benefit costs which were $0.9M under budget.

Overall, the School District's General Fund actual revenues were less than expenditures and other financing sources and uses (net) by $0.1M, as displayed on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds, thus decreasing the fund balance of the School District.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The School District is invested in a broad range of capital assets, including land, site improvements, buildings, equipment, and vehicles. During fiscal year 2018, the School District's capital assets increased by approximately $2.4M, mainly due to capital additions of $12.8M during the year for a broad range of purposes, offset by depreciation expense of approximately $10.2M.

Table 5
Governmental Activities
Fiscal Years Ended June 30,
Capital Assets - Net of Depreciation (If Applicable)

	2018	2017
Land	$ 406,906	$ 406,906
Site improvements	7,660,569	7,904,752
Buildings and improvements	119,628,917	122,207,352
Machinery, equipment, and furniture	6,290,159	3,274,582
Text and library books	3,282,019	3,365,491
Vehicles	3,935,240	4,104,551
Construction in progress	3,572,297	1,110,833
	$ 144,776,107	$ 142,374,467

Debt Administration

As of June 30, 2018, the School District had total outstanding bond principal of $118.3M, an decrease of $7.9M over bonds principal outstanding of $126.2M at June 30, 2017. Other obligations include accrued vacation pay and sick leave for specific employees of the School District, and amounts recorded as liabilities relating to the swap transactions, and the School District's net pension liability. More detailed information about long-term liabilities is included in Notes 5 - 8 to the financial statements.

Table 6
Long-Term Liabilities
Fiscal Years Ended June 30

	2018	2017
General obligation and revenue bonds	$ 116,185,000	$ 124,005,000
Unamortized discounts and premiums, net	2,108,139	2,234,220
Swaption borrowing (2004)	3,589,697	4,237,019
Swaption borrowing (2012)	1,617,333	2,126,975
OPEB liability	39,861,057	38,648,184
Net pension liability	252,424,000	252,442,000
Embedded derivative instrument	4,738,771	7,424,224
General Obligation Note, 2008	3,118,766	3,336,072
Capital lease obligations	5,547,422	3,268,352
Accumulated employee benefits	2,558,545	2,803,170
	$ 431,748,730	$ 440,525,216

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The School District has a double 'A' (AA) bond rating by Standard & Poor's (S&P), a New York municipal rating agency. There are only a small number of School Districts in Pennsylvania that hold this rating. To have a double 'A' (AA) bond rating will enable the School District to realize savings in insurance costs and debt service payments on any up-coming bond issues. The double 'A' (AA) rating reflects the School District's stable outlook, primarily the residential nature of the School District, with easy employment access to the Pittsburgh MSA. S&P cites "….very high wealth levels and a large tax base that has exhibited ongoing healthy growth and no taxpayer concentration."

The revenue and expenditure budget for the 2018-2019 fiscal year is $8.5M more than the budget for 2017-2018. Revenues included increases for local sources in the amount of $6.1M, increases for state sources in the amount of $1.2M, an increase in federal sources of $0.2M, and an increase in other financing sources of $1.0M. Included in state related mandates is retirement expense which has been budgeted at an employer contribution rate of 33.43%. While this cost is shared with the Commonwealth of Pennsylvania, retirement expense accounts for approximately 15.3% of the budget. The School District is required to contribute, by state law, to the employee retirement program. Health insurance costs have historically increased each year for the School District. Based on premiums and claims, the School District anticipates these costs to be relatively stable in 2018-2019 fiscal year due to favorable renewal rates. However, if the historical trend continues after the 2018-2019 fiscal year, we would expect these to impact future budgets. This is a fiscal reality that has affected every business and organization in western Pennsylvania.

The School District has committed itself to financial excellence for many years. The School District ranks the 7th lowest millage in Allegheny County (excluding the City of Pittsburgh). In addition, the School District's system of financial planning, budgeting, and internal financial controls are well regarded as represented in an "unqualified opinion" from the School District's auditors in the past several years. The School District plans to continue its sound fiscal management to meet the challenges of the future.

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 financial information, contact Michael T. Hopkins, Treasurer, at North Allegheny School District, 200 Hillvue Lane, Pittsburgh, PA 15237.

NORTH ALLEGHENY SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2018

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	$ 30,122,098	$ 797,591	$ 30,919,689
Restricted cash, cash equivalents, and investments for capital additions	2,438,892	-	2,438,892
Property taxes receivable, net of allowance for uncollectibles	1,387,645	-	1,387,645
Earned income taxes receivable	3,045,777	-	3,045,777
Intergovernmental receivable	9,545,646	72,101	9,617,747
Other receivables	1,258,076	-	1,258,076
Prepaid expense	46,401	-	46,401
Inventory	539,710	28,270	567,980
Net investment in joint venture	3,118,766	-	3,118,766
Derivative investment - basis swap	79,823	-	79,823
Capital assets, net of accumulated depreciation:			
Non-depreciable	3,979,203	-	3,979,203
Depreciable	140,796,904	1,082,838	141,879,742
Total Assets	196,358,941	1,980,800	198,339,741
Deferred Outflows of Resources			
Pension	42,180,013	-	42,180,013
OPEB	2,949,374	-	2,949,374
Total Deferred Outflows of Resources	45,129,387	-	45,129,387
Liabilities			
Accounts payable and other current liabilities	3,518,234	139,493	3,657,727
Tax refunds payable	600,000	-	600,000
Accrued salaries and benefits	17,297,565	-	17,297,565
Accrued interest payable	275,087	-	275,087
Unearned revenue	35,725	88,267	123,992
Non-current liabilities:			
Due within one year	12,716,171	-	12,716,171
Due in more than one year	419,032,559	-	419,032,559
Total Liabilities	453,475,341	227,760	453,703,101
Deferred Inflows of Resources			
Deferred charge on refunding	130,266	-	130,266
Pension	1,543,000	-	1,543,000
OPEB	485,000	-	485,000
Accumulated decrease in fair value of hedging derivatives	73,913	-	73,913
Total Deferred Inflows of Resources	2,232,179	-	2,232,179
Net Position			
Net investment in capital assets	23,244,172	1,082,838	24,327,010
Unrestricted	(237,463,364)	670,202	(236,793,162)
Total Net Position	$ (214,219,192)	$ 1,753,040	$ (212,466,152)

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

NORTH ALLEGHENY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

		Program Revenues			Net (Expense) Revenue and Change in Net Position		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instructional services	$ 98,253,492	$ -	$ 15,849,446	$ -	$ (82,404,046)	$ -	$ (82,404,046)
Support services	48,710,201	37,370	7,106,444	-	(41,566,387)	-	(41,566,387)
Non-instructional service	3,219,924	907,693	417,214	-	(1,895,017)	-	(1,895,017)
Facilities	2,272,334	-	-	-	(2,272,334)	-	(2,272,334)
Unallocated expenses - excluding direct expenses reported as a function above:							
Depreciation expense	5,474,030	-	-	-	(5,474,030)	-	(5,474,030)
Interest on long-term debt	4,730,185	-	1,951,914	-	(2,778,271)	-	(2,778,271)
Total governmental activities	162,660,166	945,063	25,325,018	-	(136,390,085)	-	(136,390,085)
Business-Type Activities:							
Food services	3,043,222	2,598,009	606,448	-	-	161,235	161,235
Total Primary Government	$ 165,703,388	$ 3,543,072	$ 25,931,466	$ -	(136,390,085)	161,235	(136,228,850)
General revenues:							
Taxes:							
Property taxes, levied for general purposes, net of uncollectibles					101,961,237	-	101,961,237
Earned income taxes					15,436,485	-	15,436,485
Other taxes levied for general purposes					1,849,528	-	1,849,528
Grants, subsidies, and contributions not restricted to specific programs					11,654,790	-	11,654,790
Investment income					41,153	4,769	45,922
Investment gain (loss) on derivative instruments, net					2,379,059	-	2,379,059
Total general revenues and investment loss on derivative instruments					133,322,252	4,769	133,327,021
Change in Net Position					(3,067,833)	166,004	(2,901,829)
Net Position:							
Beginning of year, as restated					(211,151,359)	1,587,036	(209,564,323)
End of year					$ (214,219,192)	$ 1,753,040	$ (212,466,152)

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

NORTH ALLEGHENY SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2018

	General Fund	Other Governmental Funds	Total
Assets			
Cash and cash equivalents	$ 29,856,077	$ 2,704,913	$ 32,560,990
Property taxes receivable, net of allowance for uncollectibles	1,387,645	-	1,387,645
Earned income taxes receivable	3,045,777	-	3,045,777
Intergovernmental receivable	7,745,646	-	7,745,646
Other receivables	1,258,076	-	1,258,076
Due from other funds	-	341,837	341,837
Prepaid expense	46,401	-	46,401
Inventory	539,710	-	539,710
Total Assets	$ 43,879,332	$ 3,046,750	$ 46,926,082
Liabilities, Deferred Inflows of Resources, and Fund Balance			
Liabilities:			
Accounts payable and other current liabilities	$ 2,318,761	$ 1,199,473	$ 3,518,234
Tax refunds payable	600,000	-	600,000
Accrued salaries and benefits	17,297,565	-	17,297,565
Due to other funds	-	341,837	341,837
Unearned revenues	35,725	-	35,725
Total Liabilities	20,252,051	1,541,310	21,793,361
Deferred Inflows of Resources:			
Unavailable revenue - taxes	1,387,646	-	1,387,646
Fund Balance:			
Nonspendable:			
Inventory and prepaids	586,111	-	586,111
Restricted for:			
Capital projects	-	2,541,097	2,541,097
Committed for:			
Future debt issuance and swaption costs	4,872,071	-	4,872,071
Assigned:			
Appropriation of fund balance - PSERS	1,784,774	-	1,784,774
Unassigned	14,996,679	(1,035,657)	13,961,022
Total Fund Balance	22,239,635	1,505,440	23,745,075
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	$ 43,879,332	$ 3,046,750	$ 46,926,082

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

NORTH ALLEGHENY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2018

Total Fund Balance - Governmental Funds			$	23,745,075
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.				144,776,107
Property taxes receivable will be collected next year, but are not considered available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred inflows in the funds.				1,387,646
Governmental funds report the effect of refunding gains and losses when debt is first issued, whereas these amounts are deferred and amortized in the statement of net position.				(130,266)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the funds.				(275,087)
State subsidy related to debt payments is accrued in the statement of net position, as the related debt has already been incurred and is not reported as a receivable in the funds.				1,800,000
The net investment in joint venture does not represent a financial asset that would be recorded as an asset in the governmental funds.				3,118,766
The investment in derivative instruments and deferred outflow do not represent a financial asset that would be recorded within the governmental funds.				5,910
The actuarially accrued other post-employment benefit (OPEB) asset, 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.				(249,183,670)
Long-term liabilities, as denoted below, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:				
Bonds payable, net	$	(118,293,139)		
Derivative instrument		(4,738,771)		
Note payable		(3,118,766)		
Swap loan		(5,207,030)		
Capital leases		(5,547,422)		
Compensated absences		(2,558,545)		
				(139,463,673)
Total Net Position - Governmental Activities			$	(214,219,192)

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

NORTH ALLEGHENY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2018

	General Fund	Other Governmental Funds	Total
Revenues:			
Local sources	$ 121,418,385	$ 227,965	$ 121,646,350
State sources	34,534,085	-	34,534,085
Federal sources	1,002,905	-	1,002,905
Total revenues	156,955,375	227,965	157,183,340
Expenditures:			
Current:			
Instruction	96,260,657	706,342	96,966,999
Support services	45,618,309	841,974	46,460,283
Operation of non-instructional services	4,022,373	-	4,022,373
Facilities acquisition, construction, and improvement services	103,835	5,594,600	5,698,435
Debt service:			
Principal	10,865,294	-	10,865,294
Interest	5,232,254	-	5,232,254
Total expenditures	162,102,722	7,142,916	169,245,638
Excess (Deficiency) of Revenues Over Expenditures	(5,147,347)	(6,914,951)	(12,062,298)
Other Financing Sources (Uses):			
Transfer in	-	189,000	189,000
Transfer out	(189,000)	-	(189,000)
Proceeds from capital lease	5,324,362	-	5,324,362
Proceeds from sale of assets	1,851	-	1,851
Refund of prior year (receipts)/expenditures	(89,241)	-	(89,241)
Total other financing sources (uses)	5,047,972	189,000	5,236,972
Net Change in Fund Balance	(99,375)	(6,725,951)	(6,825,326)
Fund Balance:			
Beginning of year	22,339,010	8,231,391	30,570,401
End of year	$ 22,239,635	$ 1,505,440	$ 23,745,075

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

NORTH ALLEGHENY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2018

Net Change in Fund Balance - Governmental Funds		$ (6,825,326)
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 some of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount is the net effect of these items in the current period:		
Capital asset additions	$ 13,190,219	
Less: depreciation expense	(10,165,815)	3,024,404
Capital assets used in governmental activities are not current financial resources and therefore, are not reported as assets in governmental funds. The net effect of the gain on sale and loss on the disposal of the assets is shown here.		(197,317)
The actuarially accrued other postemployment benefits (OPEB) obligation, and net pension liability for the School District's employees and retirees are not recorded on the fund financial statements. The value of this obligation changed by this amount during the year.		(7,430,006)
Some taxes and state grants will not be collected for several months after the School District's year-end; they are not considered "available" revenues in the governmental funds. Unearned revenues changed by this amount during the year.		119,175
The issuance of long-term obligations (e.g., bonds, leases, notes) 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 refunding gains and losses 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.		5,256,038
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 additional interest accrued in the statement of activities over the amount due is shown here.		24,149
Investment income and loss related to derivative instruments is recognized as revenue within the statement of activities. This amount represents the change in the investment in derivative instruments during the year.		2,716,425
In the statement of activities, certain operating expenses, specifically accumulated employee benefits (vacations, sick days, and early retirement) 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.		244,625
Change in Net Position of Governmental Activities		$ (3,067,833)

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

NORTH ALLEGHENY SCHOOL DISTRICT

STATEMENT OF NET POSITION
PROPRIETARY FUND

JUNE 30, 2018

	Enterprise Fund Food Service
Assets	
Current assets:	
Cash and cash equivalents	$ 797,591
Intergovernmental receivable	72,101
Inventory	28,270
Total current assets	897,962
Non-current assets:	
Machinery and equipment	3,036,458
Less accumulated depreciation	(1,953,620)
Total non-current assets	1,082,838
Total Assets	$ 1,980,800
Liabilities and Net Position	
Liabilities:	
Accounts payable	$ 139,493
Unearned revenue	88,267
Total Liabilities	227,760
Net Position:	
Net investment in capital assets	1,082,838
Unrestricted	670,202
Total Net Position	1,753,040
Total Liabilities and Net Position	$ 1,980,800

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

NORTH ALLEGHENY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2018

	Enterprise Fund Food Service
Operating Revenue:	
Sale of food	$ 2,598,009
Operating Expenses:	
Supplies	219,731
Depreciation	74,623
Other purchased services	2,748,868
Total operating expenses	3,043,222
Net Operating Loss	(445,213)
Non-operating Revenues:	
State subsidies	63,201
Federal revenues:	
Subsidies	374,013
Donated commodities	169,234
Earnings on investments	4,769
Total non-operating revenues	611,217
Change in Net Position	166,004
Net Position:	
Beginning of year	1,587,036
End of year	$ 1,753,040

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

NORTH ALLEGHENY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

YEAR ENDED JUNE 30, 2018

	Food Service Fund
Cash Flows From Operating Activities:	
Receipts from users	$ 2,564,187
Payments to suppliers for goods and services	(2,866,452)
Net cash provided by (used in) operating activities	(302,265)
Cash Flows From Non-Capital Financing Activities:	
Grants and subsidies received:	
State	62,571
Federal	366,718
Net cash provided by (used in) non-capital financing activities	429,289
Cash Flows From Capital and Related Financing Activities:	
Purchase of fixed assets	(142,889)
Cash Flows From Investing Activities:	
Earnings on investments	4,769
Net Increase (Decrease) in Cash and Cash Equivalents	(11,096)
Cash and Cash Equivalents:	
Beginning of year	808,687
End of year	$ 797,591
Reconciliation of Net Operating Loss to Net Cash Provided by (Used in) Operating Activities:	
Net operating loss	$ (445,213)
Adjustments to reconcile net operating loss to net cash provided by (used in) operating activities:	
Depreciation expense	74,623
Donated commodities	169,234
Inventory	821
Unearned revenue	(33,822)
Accounts payable and due to other fund	(67,908)
Total adjustments	142,948
Net cash provided by (used in) operating activities	$ (302,265)

Non-Cash Financing Transaction:

The School District received donated commodities of $169,234 from the U.S. Department of Agriculture.

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

NORTH ALLEGHENY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2018

	Agency Fund
Assets	
Cash and cash equivalents	$ 677,483
Liabilities	
Other current liabilities	$ 677,483

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

1. Summary of Significant Accounting Policies

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 conforms 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

North Allegheny School District (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 about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. 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 presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function self-finances or draws from the general revenues of the School District.

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.

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:

Governmental Funds:

The School District presents the following major governmental fund:

General Fund

The General Fund is the general operating fund of the School District which is utilized to account for all revenues and expenditures except those accounted for in another fund. For financial reporting purposes, the Athletic Fund, a separate accounting fund, is presented as part of the General Fund.

Additionally, the School District reports the following other governmental funds as capital project funds:

Capital Reserve Fund

The Capital Reserve Fund is utilized to account for financial resources to be used for the acquisition, construction, or repair of major capital facilities and equipment.

2019 Elementary Fund

The 2019 Elementary Fund is utilized to account for the expenditures and financial resources to be used for the expansion of Franklin Elementary School and the renovation of McKnight Elementary School. The expenditures in this fund will be financed by a bond issuance in fiscal year 2019 by the District.

BWE/Marshall Construction Fund

The BWE/Marshall Construction Fund is utilized to account for the expenditures and financial resources to be used for the renovations of Bradford Woods and Marshall Elementary and Middle Schools.

Technology Fund

Capital Projects Funds are utilized to account for financial resources to be used for the acquisition, construction, or repair of major capital facilities and equipment.

Proprietary Fund:

Enterprise Fund (Food Service 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 Fund:

Agency Fund

The Student Activities Fund is used to account for assets held by the School District in a trustee capacity or as agent for individuals or private organizations.

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 the related cash flows. Real estate 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 District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for earned income taxes, for which the period is within 90 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Real estate taxes, earned income taxes, rents, fees, and state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual as revenue of the current fiscal period. Real estate tax revenue for interim assessments is recognized when collected. All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net position. Fund equity (i.e., net total position) is segregated into unrestricted net position and net investment in capital assets.

The operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

Operating revenues and expenses of the proprietary fund consists of those revenues and expenses that result from the ongoing principal operations of the School District. Operating revenues consist primarily of user charges. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities.

The proprietary fund follows the accrual basis of accounting, in which revenues are recorded when earned and expenses as incurred.

Deferred inflows are reported on the governmental funds statements when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the School District before it has a legal claim to them, as when intergovernmental funds are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the School District has a legal claim to the resources, the liability for unearned revenue is removed and the revenue is recognized.

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 their 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.

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

Cash and Investments

For 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 to be cash equivalents.

Investments are stated at fair value, which approximates market.

Receivables and Payables

Activities 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 governmental activities and business-type activities are reported in the government-wide financial statement as "internal balances."

Property 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.

Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost and donated fixed assets are recorded at their fair market values at the time of donation. The School District maintains a capitalization threshold of $5,000. 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. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

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

Site improvments	15 years
Buldings and improvements	20-50 years
Machinery, equipment, and furniture	3-15 years
Vehicles	15 years
Text and library books	5-20 years

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 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, 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 bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium and discount.

The excess of the reacquisition price over the net carrying amount of refunded debt is recorded as a deferred charge on refunding in the governmental activities. The deferred charge on refunding is reported as a component of deferred outflows, and is amortized using the straight-line method, which approximates the effective interest method over the shorter of the term of the refunding or refunded bonds.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

In both the fund and government-wide financial statements, issue costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures and expenses, respectively.

Deferred Inflows and Outflows of Resources Related to Pensions and OPEBs

In conjunction with pension and OPEB accounting requirements, differences between expected and actual experience, changes in assumptions, the effect of the change in the School District's proportion, the net difference between expected and actual investment earnings, and payments made to the plans subsequent to the measurement date are recorded as a deferred inflow or outflow of resources related to pensions or a deferred inflow or outflow of resources related to OPEBs on the government-wide financial statements. These amounts are determined based on the actuarial valuation performed for each plan. Notes 6 through 8 present additional information about the School District's pension and OPEB plans.

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 6 through 8.

Inventory

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

Transportation inventory is accounted for under the consumption method. Inventories of repair parts and supplies are carried and expended within the General Fund at average cost.

Inventories of the Food Service Fund are also carried and expended at average cost.

Adoption of Accounting Pronouncements

The requirements of the following Governmental Accounting Standards Board (GASB) Statements were adopted for the School District's 2018 financial statements:

GASB Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,"* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. As a result of this implementation, the government-wide net position as of July 1, 2017 was restated with a decrease of $37,062,374 to record the School District's proportionate share of PSERS' net OPEB liability and to record the School District's total OPEB liability as it relates to their post-employment benefits plan. Both OPEB liabilities are further described in Notes 6 and 8.

GASB Statement No. 82, "*Pension Issues – An Amendment of GASB Statements No 67, No. 68, and No. 73)*," addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee contribution requirements. The provisions of this statement have been adopted and incorporated into these financial statements.

GASB Statement No. 85, "*Omnibus 2017,"* addresses practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurements and application, and postemployment benefits (pensions and other postemployment benefits (OPEB). The provisions of this statement have been adopted and incorporated into these financial statements.

Pending Accounting Pronouncements

GASB has issued statements that will become effective in future years, including Statement Nos. 83 (Certain Asset Retirement Obligations), 84 (Fiduciary Activities), 87 (Leases), 88 (Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements), 89 (Accounting for Interest Cost Incurred before the End of a Construction Period), and 90 (Majority Equity Interests – an amendment of GASB Statements No. 13 and No. 61). Management has not yet determined the impact of these statements on the financial statements.

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 consists of inventory.

- 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. This category includes funds that are restricted for capital expenditures under a bond indenture.

- 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.

- Assigned – This category represents intentions of the Board to use the funds for specific purposes. The Board has delegated the authority to assign amounts to be used for specific purposes to the Director of Finance of the School District.

- Unassigned – This category includes the residual classification for the School District's General Fund and includes all spendable amounts not contained in other classifications.

The School District's policy is to use funds in the order of the most restrictive to the least restrictive. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Net Position

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

Net Investment in Capital Assets - This component of net position consists of capital assets net of accumulated depreciation and is reduced by the outstanding balances of any 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 - This component of net position consists of constraints placed on net position use through external restrictions.

Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

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

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.

2. Cash and Cash Equivalents

Under Section 440.1 of the Public School Code for 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, 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, time deposits, or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral, as provided by law, is pledged by the depository.

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 bankers' acceptances. The School District elected to maintain its current investment policy due to the additional risk and oversight associated with the expanded investment options under Act 10.

The deposit and investment policy of the School District adheres to state statutes and prudent business practices. Deposits of the governmental funds are either maintained in demand deposits or savings accounts, certificates of deposit, or cash equivalents. There were no deposit or investment transactions during the year that were in violation of 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 is held in U.S. Government Obligations and is therefore not exposed to this type of risk. Investments in PLGIT, PSDLAF, and Federated Investors (described below) have received a AAA rating from Standard & Poor's.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a formal deposit policy for custodial credit risk. As of June 30, 2018, $33,257,796 of the School District's bank balance of $33,807,733 was exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. These deposits have carrying amounts of $32,137,186 as of June 30, 2018.

Investments

PLGIT and PSDLAF were established as common law trusts organized under laws of the Commonwealth of Pennsylvania. 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 their available funds for investment in instruments authorized by Section 440.1 of the Pennsylvania Public School Code of 1949, as amended. US Bank and Federated Investors Money Market Fund are pooled investment funds, which invest in U.S. Government Agency Obligations with an average maturity of 90 days or less. Investments in these funds cannot be classified because they are not evidenced by securities that exist in physical or book entry form. The fair value of the School District's position in the external investment pools is the same as the value of the pool shares. All investments in an external investment pool that is not SEC-registered are subject to oversight by the Commonwealth of Pennsylvania. Pooled investments are short-term in nature and are included in cash and cash equivalents on the statement of net position and balance sheet. The School District can withdraw funds from most of its external investment pools without restriction. However, certain limitations can be placed on withdrawals from a few of its pooled accounts, including a provision that only permits withdrawals on a certain day of the week and restrictions related to the redemption of certificates of deposit.

The School District's investments included bank balances at June 30, 2018 of:

		Fair Value
Pooled investment funds:		
PLGIT	$	1,073,253
PSDLAF		83,140
Federated Investors - Money Market Fund		115,587
	$	1,271,980

As of June 30, 2018, the carrying amount of the School District's investments included on the statement of net position and balance sheet was $1,183,600, and all investments have a maturity of less than one year.

As further described in Note 13, the School District also has a derivative instrument that is accounted for as an investment. Investment risks related to this investment are described in Note 13.

Fiduciary Fund

The School District maintains bank accounts for the various student activities funds. The balance of these accounts is reflected in the statement of fiduciary net position. Additions and deletions for student activities were $1,594,349 and $1,663,821, respectively, for the year ended June 30, 2018. The carrying amount of deposits for the student activities funds was $603,644 and the bank balance was $639,200. Of the bank balance, $0 was covered by federal depository insurance. The remaining balance of $639,200 was collateralized in accordance with Act 72 of the Pennsylvania state legislature. Furthermore, the School District held investments in PLGIT for the student activities funds. The total bank and book balance of these investments at year-end was $73,839. These investments are included as cash and cash equivalents on the statement of fiduciary net position.

3. Property Taxes Receivable

Based upon assessed valuations provided by Allegheny County, the School District bills and collects its property taxes through tax collectors for each constituent municipality. The schedule for property taxes levied for the fiscal year ended June 30, 2018 is as follows:

July 1, 2017 -	tax date
July 1, 2017 -	August 31, 2017 – 2% discount period
September 1, 2017 -	October 31, 2017 – face payment period
November 1, 2017 -	Collection – 10% penalty period

Property taxes were levied at the rate of 18.0011 mills in fiscal year 2017-2018 based on assessed values provided by Allegheny County. The assessed valuation was approximately \$5.6 billion for the 2017-2018 levy. The property taxes receivable amount is net of an uncollectible allowance of approximately \$1.3 million.

4. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance at June 30, 2017	Increases	Decreases	Ending Balance at June 30, 2018
Governmental Activities:				
Capital assets, not being depreciated:				
Land	$ 406,906	$ -	$ -	$ 406,906
Construction in progress	1,110,833	6,766,988	(4,305,524)	3,572,297
Total capital assets, not being depreciated	1,517,739	6,766,988	(4,305,524)	3,979,203
Capital assets, being depreciated:				
Site improvements	13,897,994	618,995	-	14,516,989
Building and improvements	229,672,275	3,235,226	-	232,907,501
Machinery, equipment, and furniture	14,346,381	5,260,828	-	19,607,209
Text and library books	11,729,875	795,721	(172,261)	12,353,335
Vehicles	9,655,327	392,538	(324,049)	9,723,816
Total capital assets, being depreciated	279,301,852	10,303,308	(496,310)	289,108,850
Less: accumulated depreciation for:				
Site improvements	(5,993,242)	(863,178)	-	(6,856,420)
Building and improvements	(107,464,923)	(5,813,661)	-	(113,278,584)
Machinery, equipment, and furniture	(11,071,799)	(2,245,251)	-	(13,317,050)
Text and library books	(8,364,384)	(706,932)	-	(9,071,316)
Vehicles	(5,550,776)	(536,793)	298,993	(5,788,576)
Total accumulated depreciation	(138,445,124)	(10,165,815)	298,993	(148,311,946)
Capital assets being depreciated, net	140,856,728	137,493	(197,317)	140,796,904
Governmental activities capital assets, net	$ 142,374,467	$ 6,904,481	$ (4,502,841)	$ 144,776,107

Included above in the statement of net position is equipment of approximately $13,997,000 that was capitalized under leasing arrangements.

	Beginning Balance at June 30, 2017	Increases	Decreases	Ending Balance at June 30, 2018
Business-Type Activities:				
Capital assets:				
Machinery and equipment	$ 2,893,569	$ 142,889	$ -	$ 3,036,458
Less: accumulated depreciation for:				
Machinery and equipment	(1,878,997)	(74,623)	-	(1,953,620)
Business-type activities capital assets, net	$ 1,014,572	$ 68,266	$ -	$ 1,082,838

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

Governmental Activities:		
Instructional services:		
Regular instruction	$	2,311,366
Special instruction		917
Vocational instruction		15,943
Support services		520
Administration:		
Operation of plant and maintenance services		1,034,472
Student transportation services		1,129
Central		7,919
Non-instructional services:		
Student activities		15,282
Facilities acquisition, construction, and improvement services		1,304,237
Unallocated building depreciation		5,474,030
	$	10,165,815
Business-type Activities:		
Food service	$	74,623

5. Long-Term Obligations

Changes in Long-Term Obligations

Changes in the School District's long-term obligations during fiscal year 2018 were as follows:

	Beginning Balance at July 1, 2017	Additions	Amortization, Retirements, and Refunding	Ending Balance at June 30, 2018	Amounts Due Within One Year
General obligation bonds:					
Series 2012, net of	$ 8,980,000	$ -	$ (155,000)	$ 8,825,000	$ 155,000
unamortized discount	(72,306)	-	18,077	(54,229)	-
Series B of 2013	7,175,000	-	(7,175,000)	-	-
Series 2015, net of	34,770,000	-	(250,000)	34,520,000	185,000
unamortized premium	2,306,526	-	(144,158)	2,162,368	-
Revenue bonds:					
Series 2008	18,105,000	-	(5,000)	18,100,000	7,380,000
Series A of 2011	13,795,000	-	(190,000)	13,605,000	195,000
Series B of 2011	10,220,000	-	-	10,220,000	-
Series 2014	30,960,000	-	(45,000)	30,915,000	50,000
	126,239,220	-	(7,946,081)	118,293,139	7,965,000
Swap borrowing (2004)	4,237,019	-	(647,322)	3,589,697	655,319
Swap borrowing (2012)	2,126,975	-	(509,642)	1,617,333	509,642
OPEB liability	38,648,184	1,212,873	-	39,861,057	-
Net pension liability	252,442,000	-	(18,000)	252,424,000	-
Embedded derivative instruments	7,424,224	-	(2,685,453)	4,738,771	-
General obligation note payable	3,336,072	-	(217,306)	3,118,766	224,590
Capital lease obligations	3,268,352	5,324,362	(3,045,292)	5,547,422	2,630,416
Accumulated employee benefits	2,803,170	-	(244,625)	2,558,545	731,204
	$ 440,525,216	$ 6,537,235	$ (15,313,721)	$ 431,748,730	$ 12,716,171

General obligation and revenue bonds and notes are described below; other long-term obligations noted above are detailed further in Notes 7, 8, 12, and 13.

Revenue Bonds, Series 2008

In May 2008, the School District issued $18,145,000 of Variable Rate Demand Revenue Bonds, Series 2008 (Series 2008 Bonds) with various maturity dates through May 1, 2021, to current refund $18,100,000 of outstanding General Obligation Bonds, Series D of 1997 Bonds. The variable interest rate is based upon SIFMA; however, the interest payments in the future maturities schedule below were calculated using the synthetic fixed rate as described in Note 13.

Series 2008 Bonds are subject to redemption prior to maturity, at the option of the School District, in whole at any time or in part on any interest payment date, at a redemption price of 100% of the principal amount, together with interest accrued to the redemption date.

Revenue Bonds, Series A of 2011

In November 2011, the School District issued $14,245,000 of Variable Rate Demand Revenue Bonds, Series A of 2011 (Series A 2011 Bonds) with various maturity dates through November 1, 2021, to current refund $14,245,000 of outstanding Series A of 2001 Bonds. The variable interest rate is based upon SIFMA; however, the interest payments in the future maturities schedule below were calculated using the synthetic fixed rate as described in Note 13.

Series A 2011 Bonds are subject to redemption prior to maturity, at the option of the School District, in whole at any time or in part on any interest payment date, at a redemption price of 100% of the principal amount, together with interest accrued to the redemption date.

Revenue Bonds, Series B of 2011

In November 2011, the School District issued $10,220,000 of Variable Rate Demand Revenue Bonds, Series B of 2011 (Series B 2011 Bonds) with various maturity dates through November 1, 2022, to current refund $10,220,000 of outstanding Series A of 2002 Bonds. The variable interest rate is based upon SIFMA; however, the interest payments in the future maturities schedule below were calculated using the synthetic fixed rate as described in Note 13.

Series B 2011 Bonds are subject to redemption prior to maturity, at the option of the School District, in whole at any time or in part on any interest payment date, at a redemption price of 100% of the principal amount, together with interest accrued to the redemption date.

General Obligation Bonds, Series 2012

In February 2012, the School District issued $9,960,000 of General Obligation Bonds, Series 2012 (Series 2012 Bonds) with interest rates ranging from .04% - 2.5% and various maturity dates through May 1, 2024, to current refund $8,510,000 of outstanding General Obligation Bonds, Series of 2006 Bonds, and to fund certain improvements to the School District's facilities.

Series 2012 Bonds which mature on and after May 1, 2018 are subject to redemption prior to maturity, at the option of the School District, as a whole or in part on or after May 1, 2017, upon payment of the redemption price of 100% of the principal amount, together with interest accrued to the date fixed for redemption.

General Obligation Bonds, Series B of 2013

On July 10, 2013, the School District issued $8,130,000 of General Obligation Bonds, Refunding Series B of 2013 (Series 2013B Bonds) with interest rates ranging from 1.55% to 4.00% and various maturity dates through May 1, 2018. The proceeds of the Bonds were used to currently refund the Series D of 2003 Bonds. Series 2013B Bonds are not subject to redemption prior to maturity. All outstanding Series B of 2013 Bonds were paid off during the year ended June 30, 2018.

Revenue Bonds, Series 2014

On May 1, 2014, the School District issued $31,080,000 of Variable Rate Demand Revenue Bonds, Series 2014 (Series 2014 Bonds) with various maturity dates through May 1, 2027, to current refund $31,080,000 of outstanding Series C of 2004 Bonds. The School District was required to issue these bonds in conjunction with the 2014 Swaption agreement, as described further in Note 13. The variable interest rate is based upon SIFMA; however, the interest payments in the future maturities schedule below were calculated using the synthetic fixed rate as described in Note 13.

Series 2014 Bonds are subject to redemption prior to maturity, at the option of the School District, in whole at any time or in part on any interest payment date, at a redemption price of 100% of the principal amount, together with interest accrued to the redemption date.

General Obligation Bonds, Series 2015

On August 19, 2015, the School District issued $34,770,000 of General Obligation Bonds, Series 2015 (Series 2015 Bonds) with interest rates of 2.0%-5.0%, and various maturity dates through May 1, 2033. The proceeds of the Bonds were used to fund renovations and improvements to multiple School District facilities.

Series 2015 Bonds which mature on and after May 1, 2026 are subject to redemption prior to maturity, at the option of the School District, as a whole or in part on or after May 1, 2025, upon payment of the redemption price of 100% of the principal amount, together with interest accrued to the date fixed for redemption.

General Obligation Note

In July 2008, the School District issued a $5,072,092 General Obligation Note (Note) to fund payments to the A.W. Beattie Career Center as further described in Note 9. In July 2016, the Note was refinanced in conjunction with the refinancing of the A.W. Beattie Bonds discussed in Note 7 below. Interest rates range from 0.50% to 2.25%, and principal and interest payments are scheduled through October 2028. The note can be paid in full on October 15th of each year until its final maturity in 2028.

Future Maturities

The future scheduled maturities of General Obligation Bonds and Revenue Bonds are as follows for each fiscal year ending June 30:

Fiscal Year Ending June 30,	Principal Payment	Interest Payment	Total Payment
2019	$ 7,965,000	$ 5,066,141	$ 13,031,141
2020	8,350,000	4,728,038	13,078,038
2021	8,880,000	4,265,875	13,145,875
2022	9,395,000	3,824,671	13,219,671
2023	9,310,000	3,430,673	12,740,673
2024-2028	46,250,000	11,948,163	58,198,163
2029-2033	26,035,000	3,364,562	29,399,562
	$ 116,185,000	$ 36,628,123	$ 152,813,123

The future scheduled maturities of the General Obligation Note are as follows for each fiscal year ending June 30:

Fiscal Year Ending June 30,	Principal Payment	Interest Payment	Total Payment
2019	$ 224,590	$ 111,724	$ 336,314
2020	235,516	101,345	336,861
2021	247,656	89,265	336,921
2022	259,796	76,579	336,375
2023	273,150	63,255	336,405
2024-2028	1,545,422	136,287	1,681,709
2029	332,636	3,742	336,378
	$ 3,118,766	$ 582,197	$ 3,700,963

6. 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 of Pennsylvania. 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. 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 per month or their out-of-pocket monthly health insurance premium. As of June 30, 2017, there were no assumed future benefit increases to participating eligible retirees.

Member Contributions:

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

Active members who joined PSERS prior to July 22, 1983:	
Membership Class T-C	5.25%
Membership Class T-D	6.50%
Members who joined PSERS on or after July 22, 1983, and who were active or inactive as of July 1, 2001:	
Membership Class T-C	6.25%
Membership Class T-D	7.50%
Members who joined PSERS after June 30, 2001, and before July 1, 2011:	
Membership Class T-D	7.50%
Members who joined PSERS after June 30, 2011:	
Membership Class T-E*	7.50%
Membership Class T-F**	10.30%

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

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

Employer Contributions:

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

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

The School District remits contributions to PSERS on a quarterly basis. Approximately $8.9 million is owed to PSERS as of June 30, 2018, which represents the School District's required contribution for the end-of-year payroll. The School District's contributions which were recognized by PSERS for the year ended June 30, 2018 were as follows:

Pension Plan	$ 22,060,013
Premium Assistance	576,869
Total	$ 22,636,882

In accordance with Act 29, the Commonwealth of Pennsylvania reimburses school districts for at least one-half of contributions made to PSERS. The School District recorded reimbursements from the Commonwealth of Pennsylvania approximating $11.6 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, 2017 (measurement date), the School District's proportion was 0.5111%, which was an increase of 0.0017% from its proportion measured as of June 30, 2016.

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

At June 30, 2018, the School District reported a liability of $252.424 million for its proportionate share of PSERS' net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward PSERS' total pension liability as of June 30, 2016 to June 30, 2017.

For the year ended June 30, 2018, the School District recognized pension expense of $29.156 million. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net differences between projected and actual earnings on pension plan investments	$ 5,849,000	$ -
Changes in assumptions	6,857,000	-
Differences between expected and actual experience	2,633,000	1,525,000
Changes in proportion	4,781,000	18,000
School District contributions subsequent to the measurement date (June 30, 2017)	22,060,013	-
Total	$ 42,180,013	$ 1,543,000

$22,060,013 reported as deferred outflows of resources resulting from the School District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Date Year Ending June 30:	Reporting Date Year Ending June 30:	Amortization Amount
2018	2019	$ 5,272,000
2019	2020	8,901,000
2020	2021	5,065,000
2021	2022	(661,000)
	Total	$ 18,577,000

Actuarial Assumptions

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

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

Changes in Assumptions

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

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

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

Changes in Benefit Terms

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

Pension Plan Investments

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

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

The target allocation and best estimates of arithmetic 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%	5.1%
Fixed income	36.0%	2.6%
Commodities	8.0%	3.0%
Absolute return	10.0%	3.4%
Risk parity	10.0%	3.8%
Infrastructure/MLPs	8.0%	4.8%
Real estate	10.0%	3.6%
Alternate investments	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	-20.0%	1.1%
	100%	

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 the net pension liability calculated using the discount rates described above, as well as what the School District's proportionate share of the 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 the net pension liability	$ 310,712,000	$ 252,424,000	$ 203,213,000

Pension Plan Fiduciary Net Position

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

8. 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 6 and the School District's retiree plan described below. At June 30, 2018, the School District reported a net OPEB liability composed of the following:

School District's proportionate share of PSERS' net OPEB liability	$ 10,413,000
School District's total OPEB liability for its retiree plan	29,448,057
Net OPEB liability	$ 39,861,057

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

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

OPEB expense related to PSERS Premium Assistance	$ (116,000)
OPEB expense related to School District's retiree plan	2,735,781
Total OPEB expense	$ 2,619,781

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

Deferred Outflows of Resources:	PSERS Premium Assistance	School District's Retiree Plan	Total Deferred Outflows of Resources
Differences between expected and actual experience	$ -	$ -	$ -
Changes in assumptions	-	621,902	621,902
Net difference between projected and actual earnings on pension plan investments	11,000	-	11,000
Changes in proportion	31,000	-	31,000
School District contributions subsequent to the measurement date	576,869	1,708,603	2,285,472
Total	$ 618,869	$ 2,330,505	$ 2,949,374

Deferred Inflows of Resources:	PSERS Premium Assistance	School District's Retiree Plan	Total Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -	$ -
Changes in assumptions	485,000	-	485,000
Net difference between projected and actual earnings on pension plan investments	-	-	-
Changes in proportion	-	-	-
Total	$ 485,000	$ -	$ 485,000

$2,285,472 reported as deferred outflows of resources resulting from the School District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30:	
2019	$ 30,650
2020	30,650
2021	30,650
2022	30,650
2023	27,650
2024	28,652
Total	$ 178,902

Actuarial Assumptions

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

- Actuarial cost method – Entry Age Normal – level % of pay

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

Additional Required Disclosures for PSERS Premium Assistance

Changes in Assumptions

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

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

Changes in Benefit Terms

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

OPEB Plan Investments

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

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

Discount Rate

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

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

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

	1% Decrease (2.13%)	Current Discount Rate (3.13%)	1% Increase (4.13%)
School District's proportionate share of PSERS' net OPEB liability	$ 11,837,000	$ 10,413,000	$ 9,230,000

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

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

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

	1% Decrease	Current Trend	1% Increase
School District's proportionate share of PSERS' net OPEB liability	$ 10,410,000	$ 10,413,000	$ 10,415,000

OPEB Plan Fiduciary Net Position

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

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 (retiree plan). The School District has not accumulated assets for the retiree plan in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75; benefits are paid on a pay-as-you-go basis.

The School District may be responsible for a portion of the cost as set by the contract agreement in force at the time of retirement. The School District pays the premium for these benefits; however, the retiree must reimburse the School District for a portion, or all, of the costs in some cases.

Benefits Provided

The benefit limits and employee and employer contributions are established through employee contracts and past practices. Details of the benefits provided are as follows:

Administrative and Confidential Employees

Any administrator or confidential employee who fully retires under the PSERS system may opt to continue medical, dental, and vision benefit coverages until the employee reaches Medicare eligibility. The School District pays the premium for these benefits; however, the retiree must reimburse the School District as follows:

Premium Sharing: The member, spouse, and dependents each pay 13% of the premiums for medical, prescription drug, dental, and vision until the member reaches Medicare eligibility. Upon the member reaching Medicare eligibility, he or she may elect Medicare supplement coverage by paying the full premium, and dental coverage for the family by paying the full premium. Upon the spouse reaching Medicare eligibility, he or she may elect Medicare supplement coverage by paying the full premium or remain on the group plan at the same subsidy level provided that the School District retiree is not eligible for Medicare.

In addition, for administrative employees, the School District will pay the full premium for a life insurance policy on the member's life only for an amount of up to 3 times salary at retirement until the member reaches Medicare eligibility and $10,000 afterwards. The School District also provides retired confidential employees an individual life insurance policy of $10,000 entirely at the School District's expense.

Professional Employees

Professional employees who retire from the School District at the highest step of the salary column with at least 10 years of service are entitled to receive medical, dental, and vision benefits for the earlier of 10 years and member Medicare eligibility. The School District is responsible for a portion of the cost as set by the contract agreement in force at the time of retirement. The School District pays the premium for these benefits; however, the retiree must reimburse the School District as follows:

Premium Sharing: For professionals with a retirement date prior to 6/1/2015, the member, spouse, and dependents must pay the remaining monthly premium for the current benefit plan year after the School District contributes the 1994 plan year premium for medical, prescription drug, dental, and vision plus an additional $200 until the member reaches a Medicare eligibility. For professionals with a retirement date after 6/1/2015, the member, spouse, and dependents must pay 35% of the monthly premium for the current benefit plan year after the School District contributes 65% of the premium for medical, prescription drug, dental, and vision until the member reaches Medicare eligibility. Upon the member reaching age 65, he or she may elect Medicare supplement coverage by paying the full premium, and dental coverage for the family by paying the full premium. Upon the spouse reaching Medicare eligibility, he or she may elect Medicare supplement coverage by paying the full premium or remain on the group plan at the same subsidy level provided that the School District retiree is not eligible for Medicare.

In addition, the School District also provides retired professional employees an individual life insurance policy of $2,000 entirely at the School District's expense.

Bus Driver Employees

The School District does not provide post-retirement medical, dental, or vision coverage to bus drivers upon retirement. However, eligible retirees may receive coverage under the medical, dental, and visions plans, as extended to active members of their bargaining units, provided the retiree pays the full monthly premium for such coverages.

In addition, the School District also provides retired bus drivers an individual life insurance policy of $1,500 entirely at the School District's expense.

Garage Mechanic Employees

Garage Mechanic employees who retire from the School District after the age of 60 with at least 25 years of service or retire through PSERS are entitled to receive medical, dental, and vision benefits under the following stipulations:

Premium Sharing: If the member retires at or after age 60 with at least 25 years with the School District, the School District will contribute 50% of premiums for medical, prescription drug, dental, and vision for the member, spouse, and dependents for the earlier of three years and member Medicare eligibility. The member must pay the remaining premiums. After three years, the member, spouse, and dependents may continue dental coverage by paying full premiums, and upon the member reaching Medicare eligibility, he or she may elect Medicare supplement coverage by paying the full premium, and dental coverage for the family by paying the full premium. Upon the spouse reaching Medicare eligibility, he or she may elect Medicare supplement coverage by paying the full premium or remain on the group plan at the same subsidy level, provided that the School District retiree is not eligible for Medicare and is within the three-year eligibility window.

In addition, the School District also provides retired garage mechanics an individual life insurance policy of $1,500 entirely at the School District's expense.

Paraprofessional Employees

Paraprofessional employees who retire from the School District after the age of 60 with at least 10 years of service or retire through PSERS are entitled to receive medical, dental, and vision benefits under the following stipulations:

Premium Sharing: If the member retires at or after age 60 with at least 10 years with the School District, the School District will contribute 50% of premiums for medical, prescription drug, dental, and vision for the member, spouse, and dependents for the earlier of three years and member Medicare eligibility. The member must pay the remaining premiums. After three years, the member, spouse, and dependents may continue dental coverage by paying full premiums, and upon the member reaching Medicare eligibility, he or she may elect Medicare supplement coverage by paying the full premium, and dental coverage for the family by paying the full premium. Upon the spouse reaching Medicare eligibility, he or she may elect Medicare supplement coverage by paying the full premium or remain on the group plan at the same subsidy level, provided that the School District retiree is not eligible for Medicare and is within the three-year eligibility window.

In addition, the School District also provides retired paraprofessionals an individual life insurance policy of $1,500 entirely at the School District's expense.

Custodians and Maintenance Employees

Custodial and maintenance employees who retire from the School District after the age of 55 with at least 30 years of service or retire through PSERS are entitled to receive medical, dental, and vision benefits under the following stipulations:

Premium Sharing: If the member retires at or after age 55 with at least 30 years of service with the School District, or if the member retires at or after age 60 with at least 25 years of service with the School District, the School District will contribute 50% of the individual cost of premiums for medical, prescription drug, dental, and vision for the member for the earlier of three years and member Medicare eligibility. The member must pay the remaining premiums. After three years, the member may continue dental coverage by paying full premiums, and upon the member reaching Medicare eligibility, he or she may elect Medicare supplement coverage by paying the full premium, and dental coverage by paying the full premium. At the point of retirement, any covered spouse or dependents are offered COBRA coverage as legally required.

In addition, the School District also provides retired custodians and maintenance staff an individual life insurance policy of $1,500 entirely at the School District's expense.

At June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefit payments	865
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	1,083
	1,948

For the year ended June 30, 2018, the School District contributed $828,000 and retirees contributed $723,000 to the retiree plan.

Actuarial Assumptions

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

- Actuarial cost method – entry age normal
- Asset valuation method – market value
- Participation rate – 100% of administers and confidentials, 80% of professionals, paraprofessionals, maintenance and garage employees eligible for a subsidy, and 30% of employees not eligible for subsidy are assumed to elect health coverage. 100% assumed to elect life insurance coverage. Spouses of employees other than administrators and confidentials are assumed to cease all health coverages upon attainment of age 65.
- Mortality rates for healthy annuitants and dependent beneficiaries were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both males and females. For disabled annuitants, rates were based on the RP-2000 Combined Disabled Table with age set back 7 years for males and 3 years for females.

Changes in Assumptions

The discount rate changed from 2.49% to 3.13%.

Changes in Benefit Terms

There were no changes in benefit terms.

Changes in the Total OPEB Liability

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

Total OPEB liability, July 1, 2017	$	27,676,184
Changes for the year:		
Service cost		1,916,659
Interest on the total OPEB liability		715,472
Changes of assumptions		725,552
Benefit payments		(1,585,810)
Total OPEB liability, June 30, 2018	$	29,448,057

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 (2.13%)	Current Discount Rate (3.13%)	1% Increase (4.13%)
School District's total OPEB liability	$ 31,772,540	$ 29,448,057	$ 27,295,769

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	$ 26,150,197	$ 29,448,057	$ 33,391,249

9. 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.

In July 2016, the Center issued revenue bonds of $14,765,000 for the purpose of refinancing the July 2008 bonds. The July 2008 bonds were originally issued to fund capital improvements to the Center. 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.

As described in Note 5, in July 2008 the School District issued a general obligation note to fund their proportionate share of the Center's debt issuance. The School District's share of the capital improvements to the Center is reported as a net investment in joint venture on the government-wide financial statements of the School District. The note was refinanced in conjunction with the refinanced Bonds discussed in the paragraph above.

The School District is obligated to remit its proportionate share of the Center's budget based on its percentage of proportional enrollment for the operational, alternative high school, and substitute service budgets and proportional assessed value for the administrative budget. The School District's combined proportionate share of funding for the year ended June 30, 2018 was approximately $914,966 for operations and $336,782 for debt service.

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. Accordingly, the School District's net investment and share of operating results are not included in the School District's financial statements. The most recent available Center unassigned governmental fund type fund balance at June 30, 2017 is $1,582,571. Complete financial statements of the Center can be obtained from the Center's administrative offices.

10. Interfund Receivables, Payables, and Transfers

Interfund receivable and payable balances at June 30, 2018, as well as interfund transfers for the year ended June 30, 2018, are summarized below:

	Interfund Receivable	Interfund Payable	Transfers In	Transfers Out
Major Fund:				
General Fund	$ -	$ -	$ -	$ 189,000
Other governmental funds	341,837	341,837	189,000	-
Total	$ 341,837	$ 341,837	$ 189,000	$ 189,000

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.

11. Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District provides medical insurance coverage under either traditional indemnity insurance contracts, point of service medical plans, and Health Maintenance Organization plans. The School District continues to carry commercial insurance for all other risks of loss. There has been no reduction in insurance coverage from the previous year, nor have amounts of settlements exceeded coverage levels in the past three years.

12. Leases and Commitments

The School District entered into various lease agreements for financing the acquisition of technology, buses, and other vehicles. These leases qualify as capital leases. Payments under these capital leases were approximately $3.05 million during the fiscal year.

In addition, the School District leases copiers and computers under various operating lease agreements. Total payments made on these leases for the year ended June 30, 2018 were approximately $402,000.

The following is a schedule of future minimum rental payments, under these leases, at June 30, 2018:

Fiscal Year Ending June 30,	Capital	Operating
2019	$ 2,742,834	$ 359,176
2020	2,125,642	359,176
2021	687,271	359,176
2022	92,111	-
2023	92,111	-
Total minimum lease payments	5,739,969	$ 1,077,528
Less: amount representing interest	(192,547)	
Present value of future minimum lease payments	$ 5,547,422	

13. Swaps

During fiscal year 2005, as a synthetic refunding of its outstanding Series D of 1997 Bonds, Series A of 2001, Series A of 2002, and Series C of 2004 Bonds, the School District entered into four swaption contracts that provided the School District up-front payments totaling approximately $5.5 million. The swaptions give the counterparty the option to make the School District enter into pay-fixed, receive-variable interest rate swaps as described further below. Because the options were exercised, the School District makes net swap payments as required by the terms of the contracts, that is, receiving a variable rate as noted above for the term of the swap from the counterparty and making a fixed rate payment to the counterparty. Below are the details of the swap transactions.

2012 Swap

In December 2004, as a synthetic refunding of its Series D of 1997 Bonds, the School District received a payment of $1,844,450, representing the present-value, risk-adjusted savings of a refunding as of May 1, 2008, without issuing refunding bonds. The swaption gave the counterparty the option to make the School District enter into a pay-fixed, receive-variable interest rate swap.

On May 1, 2008, the option was exercised, and the School District current refunded the existing Series D of 1997 Bonds and issued the Series 2008 Bonds. The intention of the 2008 swap was to effectively change the School District's variable interest rate on the Series 2008 Bonds to a synthetic fixed rate of 5.00%. This rate was amended to 4.311% in October 2011, which terminated this previously effective hedge. A new derivative instrument (the "2012 Swap") was created, based upon the amended synthetic rate, and the 2012 Swap is considered to be an effective hedge as of year-end.

Per the agreement, the School District receives interest at the variable rate of 68% of one month LIBOR (London Interbank Offered Rate) while paying a fixed rate of 4.311%. The interest payments are calculated based on a notional amount of $18,100,000, which reduces beginning on May 1, 2019 so that the notional amount approximates the principal outstanding on the Series 2008 Bonds. The swap expires on May 1, 2021 consistent with the last principal payment on the Series 2008 Bonds.

2012A Swap

In December 2004, as a synthetic refunding of its Series A of 2001 Bonds, the School District received a payment of $752,200, representing the present-value, risk-adjusted savings of a refunding as of November 1, 2011, without issuing refunding bonds. The swaption gave the counterparty the option to make the School District enter into a pay-fixed, receive-variable interest rate swap.

On November 1, 2011, the option was exercised, and the School District current refunded the existing Series A of 2001 Bonds and issued the Series A 2011 Bonds. The intention of the 2011A swap was to effectively change the School District's variable interest rate on the Series A 2011 Bonds to a synthetic fixed rate of 4.76%. This rate was amended to 4.116% in October 2011, which terminated this previously ineffective hedge. A new derivative instrument (the "2012A Swap") was created, based upon the amended synthetic rate, and the 2012A Swap is considered to be an effective hedge as of year-end.

Per the agreement, the School District receives interest at the variable rate of 68% of one month LIBOR while paying a fixed rate of 4.116%. The interest payments are calculated based on a notional amount which reduces so that it approximates the principal outstanding on the Series A 2011 Bonds. The swap expires on November 1, 2021 consistent with the last principal payment on the Series A 2011 Bonds.

<u>2012B Swap</u>

In December 2004, as a synthetic refunding of its Series A of 2002 Bonds, the School District received a payment of $727,400, representing the present-value, risk-adjusted savings of a refunding as of November 1, 2011, without issuing refunding bonds. The swaption gave the counterparty the option to make the School District enter into a pay-fixed, receive-variable interest rate swap.

On November 1, 2011 the option was exercised, and the School District current refunded the existing Series A of 2002 Bonds and issued the Series B 2011 Bonds. The intention of the 2011B swap was to effectively change the School District's variable interest rate on the Refunding Bonds to a synthetic fixed rate of 5.05%. This rate was amended to 4.465% in October 2011, which terminated this previously ineffective hedge. A new derivative instrument (the "2012B Swap") was created, based upon the amended synthetic rate, and the 2012B Swap is considered to be an effective hedge as of year-end.

Per the agreement, the School District receives interest at the variable rate of 68% of one month LIBOR while paying a fixed rate of 4.465%. The interest payments are calculated based on a notional amount of $10,220,000, which reduces beginning on November 1, 2021 so that the notional amount approximates the principal outstanding on the Series B 2011

Bonds. The swap expires on November 1, 2022 consistent with the last principal payment on the Series B 2011 Bonds.

2014 Swap

In December 2004, as a synthetic refunding of its Series C of 2004 Bonds, the School District received a payment of $2,203,250, representing the present-value, risk-adjusted savings of a refunding as of May 1, 2014, without issuing refunding bonds. The swaption gave the counterparty the option to make the School District enter into a pay-fixed, receive-variable interest rate swap.

On May 1, 2014, the option was exercised, and the School District current refunded the existing Series C of 2004 Bonds and issued Variable Rate Refunding Bonds (Series 2014A Bonds). The intention of the swap was to effectively change the School District's variable interest rate on the 2014A Bonds to a synthetic fixed rate of 5.25%. The 2014 Swap is considered to be an ineffective hedge as of year-end.

Per the agreement, the School District receives interest at the variable rate of 68% of one month LIBOR while paying a fixed rate of 5.25%. The interest payments are calculated based on a notional amount which reduces so that it approximates the principal outstanding on the 2014A Bonds. The swap expires on May 1, 2027 consistent with the last principal payment on the 2014A Bonds.

Fair Value of Embedded 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.

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

Swap	Effective Hedge	June 30, 2017 Fair Value	Current year value change	June 30, 2018 Fair Value
2012 swap	Yes	$ (260,433)	$ 335,987	$ 75,554
2012A swap	Yes	(140,241)	171,386	31,145
2012B swap	Yes	(212,394)	179,608	(32,786)
		$ (613,068)	$ 686,981	$ 73,913
2014 swap	No	$ (6,811,156)	$ 1,998,472	$ (4,812,684)

As the 2012, 2012A, and 2012B swaps are considered effective hedges, the aggregate change in fair market value during the year is reported as a change to deferred outflows on the statement of net position, with no impact to the current year statement of activities. The 2014 swap is considered an ineffective hedging derivative, whereby the change in fair market value will be considered a derivative investment gain or loss recognized in the statement of activities each year.

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 School District has the recurring fair value measurement as of June 30, 2018 for the swap values noted above. The swaps are valued using significant other observable inputs (Level 2 inputs).

Swap Borrowings

A portion of the upfront cash payment received by the School District at the time the original swaptions were entered into is considered to be a borrowing at the rates described below. In addition, when the School District terminated the original 2008, 2011A, and 2011B swaps in October 2011 (replaced by the 2012, 2012A, and 2012B swaps), those derivative instruments had an aggregate fair value of ($5,057,415). In order to establish the new derivative instruments, the School District effectively received additional loans from the counterparty in this amount. As of June 30, 2018, these borrowings had outstanding balances as detailed below:

Loan	Estimated borrowing rate	Balance of swap borrowing June 30, 2017	Additions	Repayments	Balance of swap borrowing June 30, 2018
Original loans:					
2012 swap	3.63%	$ 607,710	$ -	$ (228,789)	$ 378,921
2012A swap	3.86%	425,082	-	(107,596)	317,486
2012B swap	4.02%	491,737	-	(87,013)	404,724
2014 swap	4.56%	2,712,490	-	(223,924)	2,488,566
New loans in 2012:					
2012 swap	4.31%	605,422	-	(186,284)	419,138
2012A swap	4.12%	748,330	-	(176,078)	572,252
2012B swap	4.47%	773,223	-	(147,280)	625,943
		$ 6,363,994	$ -	$ (1,156,964)	$ 5,207,030

Estimated future payments on the above swap borrowings are as follows:

Fiscal Year Ending June 30,	Total Principal	Total Interest
2019	$ 1,164,961	$ 215,433
2020	1,094,877	168,633
2021	840,929	123,064
2022	563,032	78,715
2023	340,142	63,164
2024-2027	1,203,089	115,085
	$ 5,207,030	$ 764,094

Interest Rate Swap

In November 2006, in an effort to reduce the overall yield on the School District's Series C of 2004 Bonds, the School District entered into an interest rate swap contract. Per the interest rate swap agreement, the School District was to receive interest at the variable rate of approximately 60% of 10 years USD-ISDA Swap Rate while paying a variable rate of 68% of one month LIBOR plus .30%. The interest payments are to be calculated based on an original notional amount of $31,080,000, which has been decreasing since November 1, 2011, so that the notional amount approximates the principal outstanding on the related bonds (now the 2014A Bonds after the refunding discussed above). The swap expires on May 1, 2027, consistent with the last principal payment on the refunded bonds.

Under the interest rate swap agreement, the School District will make or receive net swap payments as required by the terms of the contract that is, receiving the variable rate as noted above for the term of the swap from the counterparty and making a variable rate payment based on 68% of one month LIBOR plus .30% to the counterparty. The School District considered this derivative investment to be an ineffective hedge.

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 has the recurring fair value measurement as of June 30, 2018 for the interest rate swap noted above. This swap is valued using significant unobservable inputs (Level 3 inputs).

As of June 30, 2018 and 2017, the interest rate swap was estimated to have positive fair values of $79,823 and $518,834, respectively.

Risks

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

- Credit risk is the risk that the counterparty will not fulfill its obligations. As of June 30, 2018, the 2012B and 2014 swaps had a negative fair market value to the School District and, as such, the School District had no credit risk exposure related to these transactions; however, the 2012 and 2012A swaps, and the 2014 interest rate swap was subject to credit risk, as it had a positive fair market value. In the event that the counterparty's rating is downgraded to a certain level (and based on the fair value of the swap at the time of the downgrade) the counterparty would be required to post collateral to support its obligations under the swap.

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the School District's financial instruments or the School District's cash flows. The 2014 interest rate swap is 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 if the interest index on the variable rate arm of the swap is based on 10 years USD-ISDA Swap Rate and the variable interest rate on the Refunding Bonds is based on a different index, such as a tax-exempt index like the Securities Industry and Financial Markets Association (SIFMA). 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.

14. Contingencies

Real Estate Tax Appeals

There is an ongoing appeal process through which a taxpayer may contest the assessed value of their property. This process could result in reductions in tax revenues and refunds of taxes previously collected. The School District has recorded an estimated liability for real estate tax refunds in the amount of approximately $600,000 as of June 30, 2018.

Litigation

The School District is involved in claims and lawsuits incidental to its operations. In the opinion of the administration, the ultimate resolution of these matters will not have a material adverse effect on the financial position of the School District.

Government Grants

Certain grants require the fulfillment of conditions and compliance with applicable laws and regulations set forth in the grant agreements. Failure to fulfill the conditions or maintaining compliance with the aforementioned laws and regulations could result in the return of the funds to the grantors. Although this is a possibility, the School District deems the contingency remote.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH ALLEGHENY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2018

	Budget		
	Original	Final	Actual
Revenues:			
Local sources:			
Real estate taxes - current	$ 101,905,377	$ 101,905,377	$ 101,823,682
Public utility realty tax	125,000	125,000	113,812
Payments in lieu of current taxes	1,500	1,500	1,495
Current per capita taxes	170,000	170,000	177,905
Current Act 511 taxes - flat rate assessment	170,000	170,000	177,905
Delinquent taxes - all levies	1,598,000	1,598,000	1,378,411
Current Act 511 tax - proportional assessment	14,778,000	14,778,000	15,436,485
Special Education - Grants to State	884,500	884,500	995,297
Earnings from investments	20,000	20,000	41,153
Rental of facilities	120,000	120,000	91,305
Athletic revenues	-	-	575,462
Miscellaneous revenue	577,383	577,383	605,473
Total local sources	120,349,760	120,349,760	121,418,385
State sources:			
Basic instructional subsidy	9,435,217	9,435,217	9,427,810
Special education	3,792,136	3,792,136	3,809,087
Transportation	2,000,000	2,000,000	2,209,123
Rental reimbursement	1,907,621	1,907,621	1,844,293
Medical, dental, and nurses services	166,000	166,000	161,600
State property tax reduction	2,226,980	2,226,980	2,226,980
Safe schools	-	-	5,078
Social Security reimbursements	2,700,500	2,700,500	2,631,913
Retirement reimbursements	11,660,500	11,660,500	11,636,443
Ready to Learn block grant	581,758	581,758	581,758
Total state sources	34,470,712	34,470,712	34,534,085
Federal sources:			
Title I - Grants to Local Educational Agencies	190,000	190,000	194,889
Title III - Language Instruction LEP/Immigrant Students	3,500	3,500	2,812
Title II - Improving Teacher Quality State Grants	120,000	120,000	110,323
Title IV - Student Support and Academic Enrichment Program	-	-	9,218
Medical assistance reimbursement	755,000	755,000	685,663
Total federal sources	1,068,500	1,068,500	1,002,905
Total revenues	155,888,972	155,888,972	156,955,375

(Continued)

* Athletic Fund revenues and expenses were budgeted separately, but for financial reporting purposes are included in the General Fund.

See accompanying notes to required supplementary information.

NORTH ALLEGHENY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2018

	Budget Original	Budget Final	Actual	
Expenditures:				
Instruction:				
Regular programs	71,351,744	70,937,057	76,086,667	**
Special programs	18,498,801	18,498,801	18,859,034	
Vocational education programs	3,368,546	3,368,546	1,258,970	
Other instructional programs	100,319	100,319	55,986	
Total instruction	93,319,410	92,904,723	96,260,657	
Support services:				
Pupil personnel	5,423,010	5,423,010	5,586,670	
Instructional staff	4,280,162	4,285,324	4,249,075	
Administration	9,982,086	9,982,173	9,992,625	
Pupil health	1,423,112	1,423,112	1,393,742	
Business	1,825,417	1,825,417	1,980,284	
Operation and maintenance of plant services	10,672,640	10,672,640	10,657,368	
Student transportation services	6,898,260	6,898,260	7,667,223	**
Central	5,981,903	4,082,036	3,931,528	
Other support services	156,000	156,000	159,794	
Total support services	46,642,590	44,747,972	45,618,309	
Operation of non-instructional services:				
Student activities	3,087,510	3,107,510	3,939,150	*
Community services	88,989	88,989	83,223	
Total operation of non-instructional services	3,176,499	3,196,499	4,022,373	
Facilities acquisition, construction, and improvement services	67,500	67,500	103,835	
Debt service:				
Principal	9,119,639	10,945,299	10,865,294	
Interest	4,913,545	5,244,773	5,232,254	
Total debt service	14,033,184	16,190,072	16,097,548	
Total expenditures	157,239,183	157,106,766	162,102,722	
Excess (Deficiency) of Revenues Over Expenditures	(1,350,211)	(1,217,794)	(5,147,347)	
Other Financing Sources (Uses):				
Transfer out	(189,000)	(189,000)	(189,000)	
Proceeds from capital lease	-	-	5,324,362	**
Proceeds from sale of assets	-	-	1,851	
Refund of prior years receipts	(50,000)	(182,417)	(89,241)	
Total other financing sources (uses)	(239,000)	(371,417)	5,047,972	
Net Change in Fund Balance	(1,589,211)	(1,589,211)	(99,375)	
Fund Balance:				
Beginning of year	22,339,010	22,339,010	22,339,010	
End of year	$ 20,749,799	$ 20,749,799	$ 22,239,635	

(Concluded)

* Athletic Fund revenues and expenses were budgeted separately, but for financial reporting purposes are included in the General Fund. Actual expenses of $537,639 are included in the above student activities expense line item.

** Actual expenses for capital lease are included in the above regular programs and student transportation services expense line item.

Note: During the year ended June 30, 2018, expenditures exceeded appropriations in various categories noted above. These overages were in part due to the accounting for capital leases in year one, and were funded by available fund balance and excess revenues in the current year.

See accompanying notes to required supplementary information.

NORTH ALLEGHENY SCHOOL DISTRICT

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

Last 10 Fiscal Years*

	2018	2017	2016	2015
School District's proportion of PSERS' net pension liability	0.5111%	0.5094%	0.5047%	0.4874%
School District's proportionate share of PSERS' net pension liability	$ 252,424,000	$ 252,442,000	$ 218,612,000	$ 192,916,000
School District's covered payroll	$ 68,042,977	$ 65,970,049	$ 64,939,246	$ 62,199,314
School District's proportionate share of PSERS' net pension liability as a percentage of its covered payroll	370.9773%	382.6615%	336.6408%	310.1578%
PSERS' plan fiduciary net position as a percentage of PSERS' total pension liability	51.8400%	50.1400%	54.3600%	57.2382%

* 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**

	2018	2017	2016	2015
Contributions recognized by PSERS	$ 22,060,013	$ 20,105,773	$ 16,570,924	$ 14,083,000
School District's covered payroll	$ 70,919,914	$ 68,037,962	$ 65,967,573	$ 62,199,314
Contributions as a percentage of covered payroll	31.1055%	29.5508%	25.1198%	22.6417%

** 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 information.

NORTH ALLEGHENY SCHOOL DISTRICT

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

Last 10 Fiscal Years*

		2018
School District's proportion of PSERS' net OPEB liability		0.5111%
School District's proportionate share of PSERS' net OPEB liability	$	10,413,000
School District's covered payroll	$	68,042,977
School District's proportionate share of PSERS' net OPEB liability as a percentage of its covered payroll		15.3036%
PSERS' plan fiduciary net position as a percentage of PSERS' total OPEB liability		5.7300%

* 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 Years**

		2018
Contributions recognized by PSERS	$	576,869
School District's covered payroll	$	70,919,914
Contributions as a percentage of covered payroll		0.8134%

** 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 information.

NORTH ALLEGHENY SCHOOL DISTRICT

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

Last 10 Fiscal Years*

Total OPEB Liability:	2018
Service cost	$ 1,916,659
Interest	715,472
Changes of benefit terms	-
Differences between actual and expected experience	-
Changes of assumptions	725,552
Benefit payments	(1,585,810)
Net Changes in Total OPEB Liability	1,771,873
Total OPEB Liability - Beginning	27,676,184
Total OPEB Liability - Ending	$ 29,448,057
Covered Payroll	$ 68,081,801
Total OPEB Liability as a Percentage of Covered Payroll	43.25%

* 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 requited supplementary information.

1. Budgetary Data

The North Allegheny School District (School District) prepares its budget for the General Fund on the budgetary basis of accounting. This basis is consistent with the basis of accounting used in presenting the General Fund in the basic financial statements, except that: (1) any new capital leases are omitted from expenditures and omitted from proceeds from capital leases, (2) the Athletic Fund is reported as part of the General Fund but is budgeted separately from the General Fund each year, and (3) entries related to debt refunding are omitted so that all that is left in other financing sources related to the debt refunding are the cash proceeds from the issuance of the bonds.

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

Changes in Benefit Terms

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

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

None.

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

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

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

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

Actuarial Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contributions are calculated as of the June 30 preceding the fiscal year in which contributions are made. That is, the contributions calculated as of June 30, 2017 (using the June 30, 2016 actuarial valuation) were made during the fiscal year ended June 30, 2018. The following actuarial methods and assumptions were used to determine contribution rates reported in the pension required supplementary schedules:

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

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

Changes in Benefit Terms

None.

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

The discount rate increased from 2.71% to 3.13%.

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

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

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect

PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Actuarial Assumptions Used in Calculations of Actuarially Determined Contributions

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

- Investment return – 3.13% - 20-year S&P Municipal Bond Rate
- Salary increases – Effective average of 5.00%, comprised of 2.75% for inflation and 2.25% for real wage growth and merit or seniority increases
- Benefit payments – no postretirement benefit increases assumed in the future
- Mortality rates were based on the RP-2014 Mortality Tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale
- Assumed healthcare cost trends were applied to retirees with less than $1,200 in Premium Assistance per year

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

Changes in Benefit Terms

None.

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

The discount rate changed from 2.49% to 3.13%. The trend assumption was updated. Assumptions for salary, mortality, withdrawal, and retirement were updated based on new PSERS assumptions.

SUPPLEMENTARY INFORMATION

NORTH ALLEGHENY SCHOOL DISTRICT

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS

JUNE 30, 2018

	Capital Project Funds				Other
	Technology Fund	BWE/Marshall Construction Fund	2019 Elementary Fund	Capital Reserve Fund	Other Governmental Funds Total
Assets					
Cash and cash equivalents	$ 266,021	$ 2,277,897	$ -	$ 160,995	$ 2,704,913
Due from other funds	-	341,837	-	-	341,837
Total Assets	$ 266,021	$ 2,619,734	$ -	$ 160,995	$ 3,046,750
Liabilities and Fund Balance					
Liabilities:					
Accounts payable and other current liabilities	$ 528,291	$ 230,936	$ 431,550	$ 8,696	$ 1,199,473
Due to other funds	-	-	341,837	-	341,837
Total Liabilities	528,291	230,936	773,387	8,696	1,541,310
Fund Balance:					
Restricted	-	2,388,798	-	152,299	2,541,097
Assigned	-	-	-	-	-
Unassigned	(262,270)	-	(773,387)	-	(1,035,657)
Total Fund Balance	(262,270)	2,388,798	(773,387)	152,299	1,505,440
Total Liabilities and Fund Balance	$ 266,021	$ 2,619,734	$ -	$ 160,995	$ 3,046,750

NORTH ALLEGHENY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2018

	Capital Project Funds				Other
	Technology Fund	BWE/Marshall Construction Fund	2019 Elementary Fund	Capital Reserve Fund	Governmental Funds Total
Revenues:					
Local sources	$ 159,234	$ 18,067	$ -	$ 50,664	$ 227,965
Expenditures:					
Instructional	352,742	353,600	-	-	706,342
Support services	86,900	560,870	158	194,046	841,974
Facilities acquisition, construction, and	-				
improvement services	608,013	4,130,108	773,229	83,250	5,594,600
Total expenditures	1,047,655	5,044,578	773,387	277,296	7,142,916
Excess (Deficiency) of Revenues Over Expenditures	(888,421)	(5,026,511)	(773,387)	(226,632)	(6,914,951)
Other Financing Sources (Uses):					
Transfers in (out)	-	-	-	189,000	189,000
Refund of prior year (receipts)/expenditures	-	-	-	-	-
Total other financing sources (uses)	-	-	-	189,000	189,000
Net Change in Fund Balance	(888,421)	(5,026,511)	(773,387)	(37,632)	(6,725,951)
Fund Balance:					
Beginning of year	626,151	7,415,309	-	189,931	8,231,391
End of year	$ (262,270)	$ 2,388,798	$ (773,387)	$ 152,299	$ 1,505,440

NORTH ALLEGHENY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Project Title	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Dates	Total Received For the Year	Accrued (Deferred) Revenue at July 1, 2017	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at June 30, 2018	Expenditures to Subrecipients
U.S. Department of Agriculture									
Passed through the Pennsylvania Department of Education:									
National School Lunch Program	10.555	n/a	7/1/16-6/30/17	$ 52,449	$ 52,449	$ -	$ -	$ -	$ -
National School Lunch Program	10.555	n/a	7/1/17-6/30/18	300,271	-	358,985	358,985	58,714	-
Passed through the Pennsylvania Department of Agriculture:									
National School Lunch Program (Donated Commodities)	10.555	n/a	7/1/17-6/30/18	169,234	-	169,234	169,234	-	-
Subtotal 10.555				521,954	52,449	528,219	528,219	58,714	-
School Breakfast Program	10.553	n/a	7/1/16-6/30/17	1,933	1,933	-	-	-	-
School Breakfast Program	10.553	n/a	7/1/17-6/30/18	12,065	-	15,028	15,028	2,963	-
Subtotal 10.553				13,998	1,933	15,028	15,028	2,963	-
Total U.S. Department of Agriculture/Child Nutrition Cluster				535,952	54,382	543,247	543,247	61,677	-
U.S. Department of Education									
Passed through the Pennsylvania Department of Education:									
Title I Grants to Local Educational Agencies	84.010	013-170285	7/1/16-6/30/17	49,430	29,062	20,368	20,368	-	-
Title I Grants to Local Educational Agencies	84.010	013-180285	7/1/17-6/30/18	163,577	-	174,521	174,521	10,944	-
Subtotal 84.010				213,007	29,062	194,889	194,889	10,944	-
Title II Supporting Effective Instruction State Grants	84.367	020-170285	7/1/16-6/30/17	15,321	13,751	1,570	1,570	-	-
Title II Supporting Effective Instruction State Grants	84.367	020-180285	7/1/17-6/30/18	90,119	-	108,753	108,753	18,634	-
Subtotal 84.367				105,440	13,751	110,323	110,323	18,634	-
Title IV Student Support and Academic Enrichment Program	84.424	144-180285	7/1/17-6/30/18	10,000	-	9,218	9,218	(782)	-
Passed through the Allegheny Intermediate Unit:									
Special Education - Grants to States/Special Education Cluster	84.027	n/a	7/1/17-6/30/18	972,267	460,677	990,688	990,688	479,098	-
English Language Acquisition Grants	84.365	n/a	7/1/16-6/30/17	-	(3,280)	2,812	2,812	(468)	-
English Language Acquisition Grants	84.365	n/a	7/1/17-6/30/18	4,000	-	-	-	(4,000)	-
Subtotal 84.365				4,000	(3,280)	2,812	2,812	(4,468)	-
Total U.S. Department of Education				1,304,714	500,210	1,307,930	1,307,930	503,426	-
Total Expenditures of Federal Awards				$ 1,840,666	$ 554,592	$ 1,851,177	$ 1,851,177	$ 565,103	$ -

See accompanying notes to schedule of expenditures of federal awards.

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of the North Allegheny School District (School District) under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School District.

2. Summary of Significant Accounting Policies

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

North Allegheny School District

Independent Auditor's Reports
Required by the Uniform Guidance

Year Ended June 30, 2018

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
North Allegheny 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 North Allegheny School District (School District), Pennsylvania, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated December 14, 2018.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of 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 School District'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 School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maher Duessel

Pittsburgh, Pennsylvania
December 14, 2018

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

Board of Directors
North Allegheny School District

Report on Compliance for its Major Federal Program

We have audited North Allegheny School District's (School District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the School District's major federal program for the year ended June 30, 2018. The School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the School District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on its Major Federal Program

In our opinion, the School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control over Compliance

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

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

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

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
December 14, 2018

NORTH ALLEGHENY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2018

I. Summary of Audit Results

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

2. Internal control over financial reporting:

   Material weakness(es) identified? ☐ yes ☒ no
   Significant deficiencies identified that are not considered to be material weakness(es)?
   ☐ yes ☒ none reported

3. Noncompliance material to financial statements noted? ☐ yes ☒ no

4. Internal control over major programs:

   Material weakness(es) identified? ☐ yes ☒ no
   Significant deficiencies identified that are not considered to be material weakness(es)?
   ☐ yes ☒ none reported

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

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

7. Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027	Special Education – Grants to States (IDEA, Part B), Special Education Cluster

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.

NORTH ALLEGHENY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2018

NO FINDINGS IN THE PRIOR YEAR.

NO UNRESOLVED FINDINGS FROM PAST AUDITS.