

# **North Allegheny School District**

Single Audit

June 30, 2020

**MaherDuessel**

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# NORTH ALLEGHENY SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2020

## TABLE OF CONTENTS

---

### **Independent Auditor's Report**

<b>Management's Discussion and Analysis</b>	<b>i</b>
---	----------

### **Basic Financial Statements:**

#### Government-Wide Financial Statements:

Statement of Net Position	1
Statement of Activities	2

#### Fund Financial Statements:

Balance Sheet - Governmental Funds	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	4
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	6
Statement of Net Position - Proprietary Fund	7
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund	8
Statement of Cash Flows - Proprietary Fund	9
Statement of Fiduciary Net Position	10

Notes to Financial Statements	11
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# NORTH ALLEGHENY SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2020

## TABLE OF CONTENTS

---

(Continued)

### **Required Supplementary Information:**

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	63
Schedule of the School District's Proportionate Share of PSERS' Net Pension Liability and Schedule of School District Contributions to the PSERS' Pension Plan	65
Schedule of the School District's Proportionate Share of PSERS' Net OPEB Liability and Schedule of School District Contributions to the PSERS' Premium Assistance	66
Schedule of the School District's Total OPEB Liability for its Retiree Plan	67
Notes to Required Supplementary Information	68

### **Supplementary Information:**

Combining Balance Sheet - Other Governmental Funds	71
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Other Governmental Funds	72
Schedule of Expenditures of Federal Awards	73
Notes to Schedule of Expenditures of Federal Awards	74

### **Independent Auditor's Reports Required by the Uniform Guidance:**

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 <i>Government Auditing Standards</i>	75
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# NORTH ALLEGHENY SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2020

## TABLE OF CONTENTS

---

(Continued)

Independent Auditor's Report on Compliance for its Major Program and on Internal Control over Compliance Required by the Uniform Guidance	77
Schedule of Findings and Questioned Costs	80
Summary Schedule of Prior Audit Findings	81

## **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, 2020, 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, 2020, and the respective changes in its financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, other postemployment benefits, and pension information on pages i through x 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 as a whole.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2020 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

*Maher Duessel*

Pittsburgh, Pennsylvania  
December 10, 2020



## **NORTH ALLEGHENY SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **Required Supplementary Information**

**June 30, 2020**

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, 2020. Please review in conjunction with the School District's financial statements that begin on page 1.

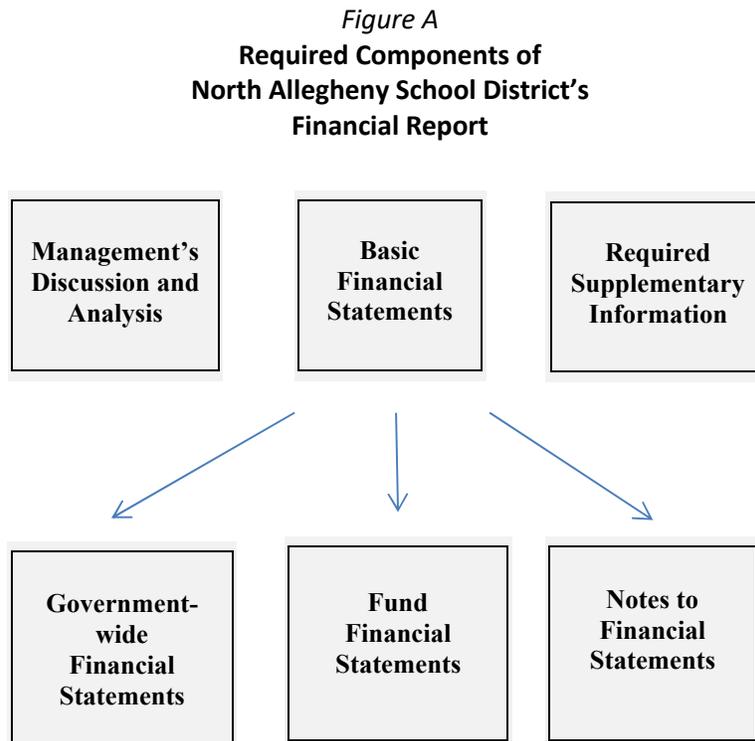
The Management's Discussion and Analysis is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *"Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments."* The intent of this Management's 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:



## **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, make 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 increased by approximately \$395,000 from the previous year compared to a budgeted decrease of \$2.3M. Overall, net revenues and expenditures yielded a positive operating impact in the amount of \$394,897, which was a positive variance to budget by \$2.7M. Excluding the impact of Athletics, which had net favorable operations of \$98K, Local revenue had a total positive variance to budget in the amount of \$1.2M. This was primarily due to more earned income taxes received and additional interim collections compared to the budgeted amount. State revenue had a negative variance to budget of approximately \$196K driven by less Social Security and retirement reimbursements received offset by additional transportation reimbursements. Federal revenue had a negative variance to budget of approximately \$308K driven by Access reimbursements received compared to the budgeted amount. The expenditure variances, excluding the Athletics fund and capital leases, to budget totaled \$4.6M, which was driven by lower program costs due to the COVID-19 pandemic shut-down in mid-March 2020. The School District ended with a fund balance in the General Fund of approximately \$22.3M.

# FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

## Statements of Net Position

The School District's total net position was approximately negative \$225M at June 30, 2020.

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

	2020			2019		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current assets	\$ 80,088,304	\$ 1,010,590	\$ 81,098,894	\$ 108,427,157	\$ 1,292,287	\$ 109,719,444
Other assets	3,455,671	60,776	3,516,447	3,650,036	35,839	3,685,875
Capital assets	173,984,535	1,027,432	175,011,967	147,676,688	1,088,616	148,765,304
<b>Total Assets</b>	<b>257,528,510</b>	<b>2,098,798</b>	<b>259,627,308</b>	<b>259,753,881</b>	<b>2,416,742</b>	<b>262,170,623</b>
<b>Deferred Outflows of Resources</b>	<b>37,977,824</b>	<b>-</b>	<b>37,977,824</b>	<b>43,146,614</b>	<b>-</b>	<b>43,146,614</b>
Current liabilities	30,025,347	333,308	30,358,655	26,656,113	543,062	27,199,175
Long-term liabilities:						
Due within one year	14,246,407	-	14,246,407	13,362,078	-	13,362,078
Due after one year	465,111,016	-	465,111,016	475,639,718	-	475,639,718
<b>Total Liabilities</b>	<b>509,382,770</b>	<b>333,308</b>	<b>509,716,078</b>	<b>515,657,909</b>	<b>543,062</b>	<b>516,200,971</b>
<b>Deferred Inflows of Resources</b>	<b>12,894,907</b>	<b>-</b>	<b>12,894,907</b>	<b>7,903,809</b>	<b>-</b>	<b>7,903,809</b>
Net investment in capital assets	26,490,283	1,027,432	27,517,715	26,371,252	1,088,616	27,459,868
Unrestricted	(253,261,626)	738,058	(252,523,568)	(247,032,475)	785,064	(246,247,411)
<b>Total Net Position</b>	<b>\$(226,771,343)</b>	<b>\$ 1,765,490</b>	<b>\$(225,005,853)</b>	<b>\$(220,661,223)</b>	<b>\$ 1,873,680</b>	<b>\$(218,787,543)</b>

The majority of current assets (approximately 80%) as of June 30, 2020 are made up of unrestricted and restricted cash and cash equivalents of approximately \$36.7M and \$28.1M, respectively.

Approximately \$27.5M 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 9<sup>th</sup> and 10<sup>th</sup> graders; and the senior high school which houses 11<sup>th</sup> and 12<sup>th</sup> 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 2019.

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

	2020			2019		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
<b>Revenues</b>						
<u>Program revenues:</u>						
Charges for services	\$ 737,879	\$ 1,794,010	\$ 2,531,889	\$ 821,395	\$ 2,651,639	\$ 3,473,034
Operating grants and contributions	27,055,357	694,348	27,749,705	26,852,799	638,774	27,491,573
<u>General revenues:</u>						
Property taxes	114,960,647	-	114,960,647	107,033,266	-	107,033,266
Other taxes	19,132,754	-	19,132,754	17,428,883	-	17,428,883
Grants, subsidies and contributions, unrestricted	12,085,219	-	12,085,219	11,839,996	-	11,839,996
Investment earnings	1,331,197	6,939	1,338,136	368,152	8,974	377,126
Investment gain (loss) on derivatives	(120,173)	-	(120,173)	81,694	-	81,694
Miscellaneous	89,760	-	89,760	-	-	-
Transfers	(3,059)	3,059	-	(4,351)	4,351	-
<b>Total Revenues</b>	<b>175,269,581</b>	<b>2,498,356</b>	<b>177,767,937</b>	<b>164,421,834</b>	<b>3,303,738</b>	<b>167,725,572</b>
<b>Expenses</b>						
Instructional services	107,414,641	-	107,414,641	106,262,914	-	106,262,914
Support services	57,446,236	-	57,446,236	52,478,588	-	52,478,588
Non-instructional services	3,169,047	-	3,169,047	344,183	-	344,183
Facilities	2,626,981	-	2,626,981	2,136,565	-	2,136,565
Unallocated depreciation expense	4,441,737	-	4,441,737	4,469,155	-	4,469,155
Interest on long-term debt	6,176,412	-	6,176,412	4,875,785	-	4,875,785
Bond Issue Costs	104,647	-	104,647	296,675	-	296,675
Food services	-	2,606,546	2,606,546	-	3,183,098	3,183,098
<b>Total Expenses</b>	<b>181,379,701</b>	<b>2,606,546</b>	<b>183,986,247</b>	<b>170,863,865</b>	<b>3,183,098</b>	<b>174,046,963</b>
<b>Change in Net Position</b>	<b>\$ (6,110,120)</b>	<b>\$ (108,190)</b>	<b>\$ (6,218,310)</b>	<b>\$ (6,442,031)</b>	<b>\$ 120,640</b>	<b>\$ (6,321,391)</b>

## 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,

Functions/Programs	2020		2019	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instructional services	\$ 107,414,641	\$ 90,317,919	\$ 106,262,914	\$ 88,581,167
Support services	57,446,236	49,637,745	52,478,588	45,634,454
Non-instructional services	3,169,047	2,135,190	344,183	(1,009,779)
Facilities	2,626,981	2,503,518	2,136,565	2,136,565
Unallocated expenses - excluding direct expenses reported as a function above:				
Depreciation expense	4,441,737	4,441,737	4,469,155	4,469,155
Interest on long-term debt	6,176,412	4,445,709	4,875,785	3,081,434
Bond Issue Costs	104,647	104,647	296,675	296,675
<b>Total Governmental Activities</b>	<b>\$ 181,379,701</b>	<b>153,586,465</b>	<b>\$ 170,863,865</b>	<b>143,189,671</b>
Less:				
Unrestricted grants, subsidies, and contributions		12,085,219		11,839,996
<b>Total Needs from Local Taxes and Other Revenues</b>		<b>\$ 141,501,246</b>		<b>\$ 131,349,675</b>

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 \$2.50M and \$3.30M for the fiscal years 2020 and 2019, respectively. Food service expenses were \$2.61M and \$3.18M for the fiscal years 2020 and 2019, respectively. The contracted food service vendor guarantees a profit from their services. A profit (loss) of approximately (\$108K) and \$120K was realized for the fiscal years 2020 and 2019, respectively. Without depreciation, the food service operations would have had a profit (loss) of approximately (\$7K) and \$221K for fiscal years 2020 and 2019, 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,

	2020			2019		
	General Fund	Other	Total	General Fund	Other	Total
		Governmental Funds	Governmental Funds		Governmental Funds	Governmental Funds
Beginning Fund Balance	\$ 21,937,535	\$ 57,511,854	\$ 79,449,389	\$ 22,239,635	\$ 1,505,440	\$ 23,745,075
Net Change in Fund Balance	394,897	(32,032,894)	(31,637,997)	(302,100)	56,006,414	55,704,314
Ending Fund Balance	<u>\$ 22,332,432</u>	<u>\$ 25,478,960</u>	<u>\$ 47,811,392</u>	<u>\$ 21,937,535</u>	<u>\$ 57,511,854</u>	<u>\$ 79,449,389</u>

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

For fiscal year 2020, overall, there was a decrease in fund balance across all of the School District's funds in the amount of \$32M. This was mainly due to the construction and renovation projects for two of the School District's Elementary Schools.

### 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 increased by approximately \$395,000 compared to a budgeted decrease of \$2.3M because of positive variances to budget for fiscal year 2020.

In total, the School District received approximately \$655,000 more revenue than originally budgeted excluding athletics. This is mainly attributable higher than budgeted tax collections noted in Local source revenue. State and Federal revenue were in line with the budgeted amount.

Expenditures for the current fiscal year were budgeted at \$174.6M, while actual expenditures were \$169.9M, \$4.7M under budget excluding athletics and capital leases. Savings were primarily realized due to the COVID-19 pandemic shutdown which began mid-March 2020.

Overall, the School District's General Fund actual revenues were greater than expenditures and other financing sources and uses (net) by approximately \$395,000, as displayed on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds, thus increasing 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 2020, the School District's capital assets increased by approximately \$26.3M, mainly due to capital additions of approximately \$31M during the year related to construction and renovation projects throughout the School District.

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

	2020	2019
Land	\$ 406,906	\$ 406,906
Site improvements	9,297,693	7,571,827
Buildings and improvements	112,919,442	117,486,303
Machinery, equipment, and furniture	9,689,132	7,972,530
Text and library books	4,079,896	2,995,795
Vehicles	4,484,090	4,172,670
Construction in progress	33,107,376	7,070,657
	<u>\$ 173,984,535</u>	<u>\$ 147,676,688</u>

### Debt Administration

As of June 30, 2020, the School District had total outstanding bond principal of \$167.9M, a decrease of \$8.5M over bonds principal outstanding of \$176.4M at June 30, 2019. 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,

	2020	2019
General obligation and revenue bonds	\$ 159,145,000	\$ 167,960,000
Unamortized discounts and premiums, net	8,759,730	8,461,022
Swaption borrowing (2004)	2,357,171	2,934,379
Swaption borrowing (2012)	598,049	1,107,691
OPEB liability	38,763,327	37,694,515
Net pension liability	248,837,000	252,794,000
Embedded derivative instrument	7,551,121	6,217,060
General Obligation Note, 2008	2,658,660	2,894,176
Capital lease obligations	7,666,499	6,299,320
Accumulated employee benefits	3,020,866	2,639,633
	<u>\$ 479,357,423</u>	<u>\$ 489,001,796</u>

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The School District continues to hold 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 and creditworthiness. In the last review, S&P cites "... extremely strong wealth due to the district's residential nature within the Pittsburgh MSA; very strong income indicators with a very diverse tax base; good financial management; and strong reserves" as factors that contribute to this rating.

The expenditure budget for the 2020-2021 fiscal year is \$2.5M more than the budget for 2019-2020. This is driven by an increase in contractual salaries and respective PSERS contributions. The School District is required to contribute, by state law, to the employee retirement program and has been budgeted at an employer contribution rate of 34.51%. While this cost is shared with the Commonwealth of Pennsylvania, retirement expense accounts for approximately 15.5% of the budget. Health insurance costs have historically increased each year for the School District. Based on premiums and claims, the School District anticipates these costs to slightly decrease in the 2020-2021 budget vs the 2019-2020 budget due to favorable renewal rates. However, if the historical trend continues after the 2020-2021 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. Overall budgeted revenues are expected to slightly increase in 2020-2021 vs 2019-2020 driven by additional state revenue related to retirement reimbursements while revenue from local sources were budgeted to remain flat due to conservatism built in for COVID-19 economic impacts.

The School District has committed itself to financial excellence for many years. The School District ranks the 6<sup>th</sup> lowest millage among the suburban school districts in Allegheny County. 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 Kermit J. Houser, Treasurer, at North Allegheny School District, 200 Hillvue Lane, Pittsburgh, PA 15237.



# NORTH ALLEGHENY SCHOOL DISTRICT

## STATEMENT OF NET POSITION

JUNE 30, 2020

Assets	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	\$ 35,783,474	\$ 868,112	\$ 36,651,586
Restricted cash, cash equivalents, and investments for capital additions	28,076,977	-	28,076,977
Property taxes receivable, net of allowance for uncollectibles	1,318,957	-	1,318,957
Earned income taxes receivable	3,534,056	-	3,534,056
Intergovernmental receivable	9,653,090	142,478	9,795,568
Other receivables	1,721,750	-	1,721,750
Inventory	140,594	60,776	201,370
Net investment in joint venture	2,658,660	-	2,658,660
Derivative investment - basis swap	656,417	-	656,417
Capital assets, net of accumulated depreciation:			
Non-depreciable	33,514,282	-	33,514,282
Depreciable	140,470,253	1,027,432	141,497,685
<b>Total Assets</b>	<b>257,528,510</b>	<b>2,098,798</b>	<b>259,627,308</b>
<b>Deferred Outflows of Resources</b>			
Deferred charge on refunding	9,759	-	9,759
Pension	34,411,394	-	34,411,394
OPEB	2,931,660	-	2,931,660
Accumulated decrease in fair value of hedging derivatives	625,011	-	625,011
<b>Total Deferred Outflows of Resources</b>	<b>37,977,824</b>	<b>-</b>	<b>37,977,824</b>
<b>Liabilities</b>			
Accounts payable and other current liabilities	8,958,424	112,161	9,070,585
Tax refunds payable	600,000	-	600,000
Accrued salaries and benefits	19,304,436	-	19,304,436
Accrued interest payable	633,665	-	633,665
Unearned revenue	528,822	221,147	749,969
Non-current liabilities:			
Due within one year	14,246,407	-	14,246,407
Due in more than one year	465,111,016	-	465,111,016
<b>Total Liabilities</b>	<b>509,382,770</b>	<b>333,308</b>	<b>509,716,078</b>
<b>Deferred Inflows of Resources</b>			
Pension	8,961,000	-	8,961,000
OPEB	3,933,907	-	3,933,907
<b>Total Deferred Inflows of Resources</b>	<b>12,894,907</b>	<b>-</b>	<b>12,894,907</b>
<b>Net Position</b>			
Net investment in capital assets	26,490,283	1,027,432	27,517,715
Unrestricted	(253,261,626)	738,058	(252,523,568)
<b>Total Net Position</b>	<b>\$ (226,771,343)</b>	<b>\$ 1,765,490</b>	<b>\$ (225,005,853)</b>

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

# NORTH ALLEGHENY SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2020

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
Instructional services	\$ 107,414,641	\$ -	\$ 17,096,722	\$ -	\$ (90,317,919)	\$ -	\$ (90,317,919)
Support services	57,446,236	31,845	7,776,646	-	(49,637,745)	-	(49,637,745)
Non-instructional service	3,169,047	582,571	451,286	-	(2,135,190)	-	(2,135,190)
Facilities	2,626,981	123,463	-	-	(2,503,518)	-	(2,503,518)
Unallocated expenses - excluding direct expenses reported as a function above:							
Depreciation expense	4,441,737	-	-	-	(4,441,737)	-	(4,441,737)
Interest on long-term debt	6,176,412	-	1,730,703	-	(4,445,709)	-	(4,445,709)
Bond issue costs	104,647	-	-	-	(104,647)	-	(104,647)
Total governmental activities	181,379,701	737,879	27,055,357	-	(153,586,465)	-	(153,586,465)
<b>Business-Type Activities:</b>							
Food services	2,606,546	1,794,010	694,348	-	-	(118,188)	(118,188)
<b>Total Primary Government</b>	\$ 183,986,247	\$ 2,531,889	\$ 27,749,705	\$ -	(153,586,465)	(118,188)	(153,704,653)
<b>General revenues:</b>							
<b>Taxes:</b>							
Property taxes, levied for general purposes, net of uncollectibles					114,960,647	-	114,960,647
Earned income taxes					16,947,331	-	16,947,331
Other taxes levied for general purposes					2,185,423	-	2,185,423
<b>Grants, subsidies, and contributions not restricted to specific programs</b>							
Investment income					12,085,219	-	12,085,219
Investment gain (loss) on derivative instruments, net					1,331,197	6,939	1,338,136
Miscellaneous					(120,173)	-	(120,173)
Miscellaneous					89,760	-	89,760
Transfers					(3,059)	3,059	-
Total general revenues and investment gain on derivative instruments					147,476,345	9,998	147,486,343
<b>Change in Net Position</b>					(6,110,120)	(108,190)	(6,218,310)
<b>Net Position:</b>							
Beginning of year					(220,661,223)	1,873,680	(218,787,543)
End of year					\$ (226,771,343)	\$ 1,765,490	\$ (225,005,853)

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

# NORTH ALLEGHENY SCHOOL DISTRICT

## BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2020

	General Fund	2019 Elementary Fund	Other Governmental Funds	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 35,223,433	\$ -	\$ 560,041	\$ 35,783,474
Restricted cash, cash equivalents, and investments for capital additions	-	27,650,848	426,129	28,076,977
Property taxes receivable, net of allowance for uncollectibles	1,318,957	-	-	1,318,957
Earned income taxes receivable	3,534,056	-	-	3,534,056
Intergovernmental receivable	7,946,223	-	-	7,946,223
Other receivables	1,721,506	244	-	1,721,750
Due from other funds	14,846	-	2,782,000	2,796,846
Inventory	140,594	-	-	140,594
<b>Total Assets</b>	<b>\$ 49,899,615</b>	<b>\$ 27,651,092</b>	<b>\$ 3,768,170</b>	<b>\$ 81,318,877</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balance</b>				
<b>Liabilities:</b>				
Accounts payable and other current liabilities	\$ 3,032,968	\$ 5,866,209	\$ 59,247	\$ 8,958,424
Tax refunds payable	600,000	-	-	600,000
Accrued salaries and benefits	19,304,436	-	-	19,304,436
Due to other funds	2,782,000	-	14,846	2,796,846
Unearned revenues	528,822	-	-	528,822
<b>Total Liabilities</b>	<b>26,248,226</b>	<b>5,866,209</b>	<b>74,093</b>	<b>32,188,528</b>
<b>Deferred Inflows of Resources:</b>				
Unavailable revenue - taxes	1,318,957	-	-	1,318,957
<b>Fund Balance:</b>				
<b>Nonspendable:</b>				
Inventory	140,594	-	-	140,594
<b>Restricted for:</b>				
Capital projects	-	21,784,883	1,884,883	23,669,766
<b>Committed for:</b>				
Future debt issuance and swaption costs	2,947,193	-	-	2,947,193
<b>Assigned:</b>				
Appropriation of fund balance - PSERS	2,684,774	-	-	2,684,774
Athletics	347,644	-	-	347,644
Technology	-	-	1,809,194	1,809,194
Unassigned	16,212,227	-	-	16,212,227
<b>Total Fund Balance</b>	<b>22,332,432</b>	<b>21,784,883</b>	<b>3,694,077</b>	<b>47,811,392</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 49,899,615</b>	<b>\$ 27,651,092</b>	<b>\$ 3,768,170</b>	<b>\$ 81,318,877</b>

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, 2020

<b>Total Fund Balance - Governmental Funds</b>	\$	47,811,392
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.		173,984,535
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.		1,318,957
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.		9,759
Accrued interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the funds.		(633,665)
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.		1,706,867
The net investment in joint venture does not represent a financial asset that would be recorded as an asset in the governmental funds.		2,658,660
The investment in derivative instruments and deferred outflow do not represent a financial asset that would be recorded within the governmental funds.		1,281,428
The actuarially accrued other post-employment benefit (OPEB) liability, net pension liability, and deferred inflows and outflows of resources for pension for the School District's employees are not recorded on the fund financial statements.		(263,152,180)
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	\$	(167,904,730)
Derivative instrument		(7,551,121)
Note payable		(2,658,660)
Swap loan		(2,955,220)
Capital leases		(7,666,499)
Compensated absences		(3,020,866)
		(191,757,096)
<b>Total Net Position - Governmental Activities</b>	<b>\$</b>	<b>(226,771,343)</b>

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, 2020

	General Fund	2019 Elementary Fund	Other Governmental Funds	Total
<b>Revenues:</b>				
Local sources	\$ 137,184,395	\$ 791,323	\$ 392,875	\$ 138,368,593
State sources	36,484,712	-	-	36,484,712
Federal sources	843,386	-	-	843,386
<b>Total revenues</b>	<b>174,512,493</b>	<b>791,323</b>	<b>392,875</b>	<b>175,696,691</b>
<b>Expenditures:</b>				
Current:				
Instruction	100,841,410	-	307,404	101,148,814
Support services	51,813,809	687,571	369,980	52,871,360
Operation of non-instructional services	3,677,918	31,178	32,760	3,741,856
Facilities acquisition, construction, and improvement services	22,971	34,394,101	1,326,098	35,743,170
Debt service:				
Principal	11,698,490	-	-	11,698,490
Interest	7,066,187	-	-	7,066,187
Bond issue costs	-	-	104,647	104,647
<b>Total expenditures</b>	<b>175,120,785</b>	<b>35,112,850</b>	<b>2,140,889</b>	<b>203,601,834</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(608,292)</b>	<b>(34,321,527)</b>	<b>(1,748,014)</b>	<b>(36,677,833)</b>
<b>Other Financing Sources (Uses):</b>				
Transfer in	-	-	3,932,000	3,932,000
Transfer out	(3,935,059)	-	-	(3,935,059)
Proceeds from capital lease	4,875,669	-	-	4,875,669
Proceeds from sale of assets	104,310	-	-	104,310
Proceeds from refunding bond	-	-	8,045,000	8,045,000
Bond premium	-	-	832,339	832,339
Payment to bond holders	-	-	(8,772,692)	(8,772,692)
Insurance recoveries	11,450	-	-	11,450
Refund of prior year (receipts)/expenditures	(53,181)	-	-	(53,181)
<b>Total other financing sources (uses)</b>	<b>1,003,189</b>	<b>-</b>	<b>4,036,647</b>	<b>5,039,836</b>
<b>Net Change in Fund Balance</b>	<b>394,897</b>	<b>(34,321,527)</b>	<b>2,288,633</b>	<b>(31,637,997)</b>
<b>Fund Balance:</b>				
Beginning of year	21,937,535	56,106,410	1,405,444	79,449,389
End of year	<u>\$ 22,332,432</u>	<u>\$ 21,784,883</u>	<u>\$ 3,694,077</u>	<u>\$ 47,811,392</u>

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, 2020

**Net Change in Fund Balance - Governmental Funds** \$ (31,637,997)

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:

	\$	39,065,429	
Capital asset additions			
Less: depreciation expense		<u>(12,211,870)</u>	26,853,559

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. (545,712)

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. (7,624,366)

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. (262,147)

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. 7,274,664

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. (56,240)

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. 269,352

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. (381,233)

**Change in Net Position of Governmental Activities** \$ (6,110,120)

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

# NORTH ALLEGHENY SCHOOL DISTRICT

## STATEMENT OF NET POSITION PROPRIETARY FUND

JUNE 30, 2020

	Enterprise Fund Food Service
<hr/> <b>Assets</b> <hr/>	
Current assets:	
Cash and cash equivalents	\$ 868,112
Intergovernmental receivable	142,478
Inventory	60,776
Total current assets	<hr/> 1,071,366 <hr/>
Non-current assets:	
Machinery and equipment	3,183,029
Less: accumulated depreciation	<hr/> (2,155,597) <hr/>
Total non-current assets	<hr/> 1,027,432 <hr/>
<b>Total Assets</b>	<hr/> <b>\$ 2,098,798</b> <hr/>
<hr/> <b>Liabilities and Net Position</b> <hr/>	
Liabilities:	
Accounts payable	\$ 112,161
Unearned revenue	221,147
Total Liabilities	<hr/> 333,308 <hr/>
Net Position:	
Net investment in capital assets	1,027,432
Unrestricted	738,058
Total Net Position	<hr/> 1,765,490 <hr/>
<b>Total Liabilities and Net Position</b>	<hr/> <b>\$ 2,098,798</b> <hr/>

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, 2020

	Enterprise Fund Food Service
<b>Operating Revenue:</b>	
<u>Sale of food</u>	<u>\$ 1,794,010</u>
<b>Operating Expenses:</b>	
Supplies	155,140
Depreciation	101,379
Other purchased services	<u>2,350,027</u>
Total operating expenses	<u>2,606,546</u>
<b>Net Operating Loss</b>	<u>(812,536)</u>
<b>Non-operating Revenues:</b>	
<u>State subsidies</u>	53,118
Federal revenues:	
Subsidies	509,062
Donated commodities	130,168
Local revenues	2,000
Earnings on investments	<u>6,939</u>
Total non-operating revenues	<u>701,287</u>
Income (loss) before transfer in	(111,249)
Transfer In	<u>3,059</u>
<b>Change in Net Position</b>	(108,190)
<b>Net Position:</b>	
<u>Beginning of year</u>	<u>1,873,680</u>
End of year	<u><u>\$ 1,765,490</u></u>

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, 2020

	Food Service Fund
<b>Cash Flows From Operating Activities:</b>	
Receipts from users	\$ 1,917,143
Payments to suppliers for goods and services	(2,728,478)
Net cash provided by (used in) operating activities	(811,335)
<b>Cash Flows From Non-Capital Financing Activities:</b>	
Grants and subsidies received:	
Local	2,000
State	56,408
Federal	427,724
Interfund receipts (payments)	3,059
Net cash provided by (used in) non-capital financing activities	489,191
<b>Cash Flows From Capital and Related Financing Activities:</b>	
Purchase of fixed assets	(40,195)
<b>Cash Flows From Investing Activities:</b>	
Earnings on investments	6,939
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(355,400)</b>
<b>Cash and Cash Equivalents:</b>	
Beginning of year	1,223,512
End of year	\$ 868,112
<b>Reconciliation of Net Operating Loss to Net Cash Provided by (Used in) Operating Activities:</b>	
Net operating loss	\$ (812,536)
Adjustments to reconcile net operating loss to net cash provided by (used in) operating activities:	
Depreciation expense	101,379
Donated commodities	130,168
Change in:	
Due from other fund	4,345
Inventory	(24,937)
Unearned revenue	118,788
Accounts payable	(328,542)
Total adjustments	1,201
Net cash provided by (used in) operating activities	\$ (811,335)
<b>Non-Cash Financing Transaction:</b>	
The School District received donated commodities of \$130,168 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, 2020

	<u>Agency Fund</u>
<hr/>	
<b>Assets</b>	
<hr/>	
Cash and cash equivalents	<u>\$ 721,787</u>
<b>Liabilities</b>	
<hr/>	
Other current liabilities	<u>\$ 721,787</u>

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

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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### 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

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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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 funds:

#### 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 and Grants Fund, separate accounting funds, are presented as part of the General Fund.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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### 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 are being funded by proceeds from the Series 2019 Bonds.

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.

### Construction Fund

The 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 and refundings.

### Technology Fund

The Technology Fund is utilized to account for financial resources and investments in district wide network infrastructure, and the acquisition and repair of other technical equipment, systems, and platforms.

### **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.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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### **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.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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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.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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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.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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### Prepays

Any expenses paid prior to the related services rendered will be recorded as a prepaid expense.

### 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 improvements	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.

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# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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### 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 Other Post-Employment Benefits (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 OPEBs on the government-wide financial statements. These amounts are determined based on actuarial valuations performed for each plan. Notes 6 through 8 present additional information about the School District's pension and OPEB plans.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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### 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 Pronouncement

The requirements of the following Governmental Accounting Standards Board (GASB) Statement were adopted for the School District's 2020 financial statements:

GASB Statement No. 95, "*Postponement of the Effective Dates of Certain Authoritative Guidance*," provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. The provisions of this statement have been adopted.

### Pending Pronouncements

GASB has issued statements that will become effective in future years, including Statement Nos. 84 (Fiduciary Activities), 87 (Leases), 89 (Accounting for Interest Cost), 90 (Majority Equity Interests), 91 (Conduit Debt Obligations), 92 (Omnibus 2020), 93 (Interbank Offered Rates), 94 (Public-Private and Public-Public Partnerships), 96 (Information Technology Arrangements), and 97 (Deferred Compensation Plans). Management has not yet determined the impact of these statements on the financial statements.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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### 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 Assistant Director of Finance/Treasurer 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.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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### 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, particularly given the significant social and economic disruptions and uncertainties associated with the ongoing COVID-19 pandemic and the COVID-19 control responses, and such differences may be material.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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### 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, PNC, and Federated Investors (described below) have received a AAA rating from Standard & Poor's.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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*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, 2020, \$43,304,815 of the School District's bank balance of \$43,854,852 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 \$41,949,693 as of June 30, 2020.

### 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. Federated Investors Money Market Funds and the Money Market Mutual Funds 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.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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The School District's investments included bank balances at June 30, 2020 of:

	<u>Fair Value</u>
Pooled investment funds:	
PLGIT	\$ 1,413,017
PSDLAF	1,385,658
Federated Investors - Money Market Fund	119,558
Money Market Mutual Funds	<u>19,801,037</u>
	<u>\$ 22,719,270</u>

As of June 30, 2020, the carrying amount of the School District's investments included on the statement of net position and balance sheet was \$22,778,870, 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 \$1,237,920 and \$1,170,459, respectively, for the year ended June 30, 2020. The carrying amount of deposits for the student activities funds was \$692,358 and the bank balance was \$734,270. Of the bank balance, \$0 was covered by federal depository insurance. The remaining balance of \$734,270 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 \$29,429. These investments are included as cash and cash equivalents on the statement of fiduciary net position.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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### 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, 2020 is as follows:

July 1, 2019 - tax date

July 1, 2019 - August 31, 2019 – 2% discount period

September 1, 2019 - October 31, 2019 – face payment period

November 1, 2019 - Collection – 10% penalty period

Property taxes were levied at the rate of 19.1408 mills in fiscal year 2019 - 2020 based on assessed values provided by Allegheny County. The assessed valuation was approximately \$6.1 billion for the 2019 - 2020 levy. The property taxes receivable amount is net of an uncollectible allowance of approximately \$1.4 million.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

### 4. Capital Assets

Capital asset activity for the year ended June 30, 2020 was as follows:

	Beginning Balance at June 30, 2019	Increases	Decreases	Ending Balance at June 30, 2020
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 406,906	\$ -	\$ -	\$ 406,906
Construction in progress	7,070,657	31,139,011	(5,102,292)	33,107,376
Total capital assets, not being depreciated	<u>7,477,563</u>	<u>31,139,011</u>	<u>(5,102,292)</u>	<u>33,514,282</u>
Capital assets, being depreciated:				
Site improvements	15,345,263	2,802,285	-	18,147,548
Building and improvements	236,645,327	1,378,928	-	238,024,255
Machinery, equipment, and furniture	24,692,320	5,831,258	(2,645,808)	27,877,770
Text and library books	12,740,741	2,076,384	(28,764)	14,788,361
Vehicles	10,477,903	936,931	(261,964)	11,152,870
Total capital assets, being depreciated	<u>299,901,554</u>	<u>13,025,786</u>	<u>(2,936,536)</u>	<u>309,990,804</u>
Less: accumulated depreciation for:				
Site improvements	(7,773,436)	(1,076,419)	-	(8,849,855)
Building and improvements	(119,159,024)	(5,945,789)	-	(125,104,813)
Machinery, equipment, and furniture	(16,719,790)	(3,629,656)	2,160,808	(18,188,638)
Text and library books	(9,744,946)	(963,519)	-	(10,708,465)
Vehicles	(6,305,233)	(596,487)	232,940	(6,668,780)
Total accumulated depreciation	<u>(159,702,429)</u>	<u>(12,211,870)</u>	<u>2,393,748</u>	<u>(169,520,551)</u>
Capital assets being depreciated, net	<u>140,199,125</u>	<u>813,916</u>	<u>(542,788)</u>	<u>140,470,253</u>
Governmental activities capital assets, net	<u>\$ 147,676,688</u>	<u>\$ 31,952,927</u>	<u>\$ (5,645,080)</u>	<u>\$ 173,984,535</u>

Included above in the statement of net position is equipment of approximately \$19,537,000 that was capitalized under leasing arrangements.

	Beginning Balance at June 30, 2019	Increases	Decreases	Ending Balance at June 30, 2020
<b>Business-Type Activities:</b>				
Capital assets:				
Machinery and equipment	\$ 3,142,834	\$ 40,195	\$ -	\$ 3,183,029
Less: accumulated depreciation for:				
Machinery and equipment	(2,054,218)	(101,379)	-	(2,155,597)
Business-type activities capital assets, net	<u>\$ 1,088,616</u>	<u>\$ (61,184)</u>	<u>\$ -</u>	<u>\$ 1,027,432</u>

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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

**Governmental Activities:**

Instructional services:	
Regular instruction	\$ 2,888,393
Special instruction	918
Vocational instruction	14,044
Support services	2,793
Administration:	
Operation of plant and maintenance services	1,868,949
Student transportation services	106,521
Central	1,179,220
Non-instructional services:	
Student activities	16,366
Facilities acquisition, construction, and improvement services	1,692,929
Unallocated building depreciation	<u>4,441,737</u>
	<u>\$ 12,211,870</u>

**Business-type Activities:**

Food service	<u>\$ 101,379</u>
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# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

### 5. Long-Term Obligations

#### Changes in Long-Term Obligations

Changes in the School District's long-term obligations during fiscal year 2020 were as follows:

	Beginning Balance at July 1, 2019	Additions	Amortization, Retirements, and Refunding	Ending Balance at June 30, 2020	Amounts Due Within One Year
General obligation bonds:					
Series 2012, net of unamortized discount	\$ 8,670,000 (36,153)	\$ -	\$ (8,670,000) 36,153	\$ -	\$ -
Series 2015, net of unamortized premium	34,335,000 2,018,210	-	(185,000) (144,157)	34,150,000 1,874,053	10,000 -
Series 2019, net of unamortized premium	59,740,000 6,478,965	-	-	59,740,000 6,219,806	285,000 -
Series 2019A, net of unamortized premium	-	8,045,000 832,339	-	8,045,000 665,871	140,000 -
Revenue bonds:					
Series 2008	10,720,000	-	(7,745,000)	2,975,000	2,975,000
Series A of 2011	13,410,000	-	(210,000)	13,200,000	5,570,000
Series B of 2011	10,220,000	-	-	10,220,000	-
Series 2014	30,865,000	-	(50,000)	30,815,000	65,000
	<u>176,421,022</u>	<u>8,877,339</u>	<u>(17,393,631)</u>	<u>167,904,730</u>	<u>9,045,000</u>
Swap borrowing (2004)	2,934,379	-	(577,208)	2,357,171	568,283
Swap borrowing (2012)	1,107,691	-	(509,642)	598,049	509,642
OPEB liability	37,694,515	1,068,812	-	38,763,327	-
Net pension liability	252,794,000	-	(3,957,000)	248,837,000	-
Embedded derivative instruments	6,217,060	1,334,061	-	7,551,121	-
General obligation note payable	2,894,176	-	(235,516)	2,658,660	247,656
Capital lease obligations	6,299,320	4,875,669	(3,508,490)	7,666,499	3,014,510
Accumulated employee benefits	2,639,633	381,233	-	3,020,866	861,316
	<u>\$ 489,001,796</u>	<u>\$ 16,537,114</u>	<u>\$ (26,181,487)</u>	<u>\$ 479,357,423</u>	<u>\$ 14,246,407</u>

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.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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### 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.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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### 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.

### Revenue Bonds

If the School District fails or refuses to make adequate provision in its budget for any fiscal year for the debt service payable in respect of the Bonds, any registered owner of any Bond may bring suit in the Court of Common Pleas of Allegheny County. Upon a finding of such failure or neglect, the Court, by writ of mandamus, may require the School District to pay into the Sinking Fund the first tax moneys or other available revenues or moneys thereafter received in such fiscal year by the School District until the sum on deposit in the Sinking Fund shall equal the moneys that should have been budgeted or appropriated to pay debt service on the Bonds. In addition, if the School District fails or neglects to pay or cause to be paid the interest or principal on any of the Bonds, as the same becomes due and payable, and such failure shall continue for thirty (30) days, the thereof shall, any registered owner of any Bond may, subject to any appropriate priorities created under the Local Government Unit Debt Act, have the right to recover the amount due in an action in assumpsit in the Court of Common Pleas of Allegheny County. The judgment recovered shall have an appropriate priority upon the moneys next coming into the treasury of the School District.

### 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.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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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 Bond, Series 2019

In June 2019, the School District issued \$59,740,000 of General Obligation Bonds, Series 2019 (Series 2019 Bonds) with interest rates of 3.0% - 5.0%, and various maturity dates through May 1, 2044. The proceeds of the Bonds will be primarily used to fund the expansion of Franklin Elementary School and the renovation of McKnight Elementary School.

Series 2019 Bonds which mature on and after May 1, 2030 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, 2029, upon payment of the redemption price of 100% of the principal amount, together with interest accrued to the date fixed for redemption.

### General Obligation Bond, Series A of 2019

In October 2019, the School District issued \$8,045,000 of General Obligation Bonds, Series A of 2019 (Series A 2019 Bonds) with interest rates of 3.0% - 4.0%, and various maturity dates through May 1, 2024, to current refund \$8,670,000 of outstanding General Obligation Bonds, Series of 2012 Bonds. Series 2019A Bonds are not subject to optional or mandatory redemption prior to their stated maturity dates.

The issuance of the Series A 2019 Bonds resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$20,000. The cash flow savings from this refunding approximated the economic gain, and debt service payments remained consistent with those of the refunded bonds. Additionally, the issuance of the 2019A Bonds generated a deferred charge on refunding of \$138,846, which is amortized over the life of the 2019A Bonds.

### 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 9 below. Interest rates range from 0.50% to 2.25%, and principal and

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# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

interest payments are scheduled through October 2028. The note can be paid in full on October 15<sup>th</sup> 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:

<u>Fiscal Year Ending June 30,</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Payment</u>
2021	\$ 9,045,000	\$ 6,753,430	\$ 15,798,430
2022	9,575,000	6,301,827	15,876,827
2023	9,505,000	5,897,129	15,402,129
2024	8,870,000	5,669,813	14,539,813
2025	10,385,000	5,301,725	15,686,725
2026-2030	42,305,000	19,264,763	61,569,763
2031-2035	32,770,000	11,306,600	44,076,600
2036-2040	23,715,000	5,319,600	29,034,600
2041-2044	12,975,000	1,223,200	14,198,200
	<u>\$ 159,145,000</u>	<u>\$ 67,038,087</u>	<u>\$ 226,183,087</u>

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

<u>Fiscal Year Ending June 30,</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Payment</u>
2021	\$ 247,656	\$ 89,265	\$ 336,921
2022	259,796	76,579	336,375
2023	273,150	63,255	336,405
2024	286,504	49,264	335,768
2025	301,072	34,575	335,647
2026-2029	1,290,482	56,190	1,346,672
	<u>\$ 2,658,660</u>	<u>\$ 369,128</u>	<u>\$ 3,027,788</u>

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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### 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](http://www.psers.pa.gov).

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

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

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

#### Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions or OPEBs, pension expense, and OPEB expense, information about the fiduciary net position of PSERS and additions to/deductions from PSERS' fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Detailed information about PSERS' fiduciary net position related to pension and OPEBs is available in the PSERS Comprehensive Annual Financial Report, which can be found on the PSERS website at [www.psers.pa.gov](http://www.psers.pa.gov).

The net pension liability and the net OPEB liability are recorded as governmental activities expected to be paid from the General Fund.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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### 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 through June 30, 2019. 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 eligible out-of-pocket monthly health insurance premium. As of June 30, 2019, there were no assumed future benefit increases to participating eligible retirees.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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### 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%
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#### **Members who joined PSERS after June 30, 2011 and before June 30, 2019:**

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%.

#### **Members who joined PSERS on or after July 1, 2019:**

Membership Class T-G (hybrid)*	8.25% (combined rate)
Membership Class T-H (hybrid)**	7.50% (combined rate)
Defined Contribution only	7.50%

\*Shared risk program could cause future contribution rates to fluctuate between 5.25% and 11.25%.

\*\* Shared risk program could cause future contribution rates to fluctuate between 4.50% and 10.50%

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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On June 12, 2017, Commonwealth of Pennsylvania Act 5 of 2017 was signed into law. This legislation establishes a new hybrid defined benefit/defined contribution retirement benefit plan applicable to all school employees who become new members of PSERS on July 1, 2019 and thereafter. The three new plan design options under Act 5 include two hybrid plans consisting of defined benefit and defined contribution components and a stand-alone defined contribution plan. A stand-alone defined benefit plan is no longer available to new members after June 30, 2019.

### Employer Contributions:

The School District's contractually required PSERS contribution rate for the fiscal year ended June 30, 2020 was 34.29% 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 33.36% rate for the Pension Plan, a 0.84% rate for the Premium Assistance, and a 0.09% rate for Act 5 Defined Contribution.

The combined rate for the fiscal year ended June 30, 2020 was an increase from the fiscal year ended June 30, 2019 combined rate of 33.43%. The combined contribution rate will increase to 34.51% in fiscal year 2021 and is projected to grow to 38.17% by fiscal year 2028.

The School District remits contributions to PSERS on a quarterly basis. Approximately \$10 million is owed to PSERS as of June 30, 2020, 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, 2020 were as follows:

Pension Plan	\$	24,448,394
Premium Assistance		<u>615,607</u>
Total	\$	<u><u>25,064,001</u></u>

In accordance with Act 29, the Commonwealth of Pennsylvania (Commonwealth) reimburses school districts for approximately one-half of contributions made to PSERS. The School District recorded reimbursements from the Commonwealth approximating \$12.9 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.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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### 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, 2019 (measurement date), the School District's proportion was 0.5319%, which was an increase of 0.0053% from its proportion measured as of June 30, 2018.

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

At June 30, 2020, the School District reported a liability of \$248.837 million for its proportionate share of PSERS' net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2018 to June 30, 2019.

For the year ended June 30, 2020, the School District recognized pension expense of \$30.993 million.

At June 30, 2020, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between projected and actual earnings on pension plan investments	\$ 1,370,000	\$ 8,248,000
Changes in assumptions	2,379,000	-
Differences between expected and actual experience	-	713,000
Changes in proportion	6,214,000	-
School District contributions subsequent to the measurement date	24,448,394	-
Total	<u>\$ 34,411,394</u>	<u>\$ 8,961,000</u>

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

\$24,448,394 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Measurement Date</u> Year Ending June 30,	<u>Reporting Date</u> Year Ending June 30,	<u>Amortization</u> Amount
2020	2021	\$ 4,191,000
2021	2022	(1,752,000)
2022	2023	(1,875,000)
2023	2024	438,000
	Total	<u>\$ 1,002,000</u>

### Actuarial Assumptions

The actuarial valuation used for the June 30, 2019 measurement date contained the following methods and assumptions:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.25%, includes inflation at 2.75%
- Salary growth – Effective average of 5.00%, comprised of 2.75% for inflation and 2.25% for real wage growth and merit or seniority increases
- Mortality rates were based on the RP-2014 Mortality Tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Experience study – July 1, 2010 through June 30, 2015

### Changes in Assumptions

There were no changes in assumptions affecting the actuarial valuation used for the June 30, 2019 measurement date.

### Changes in Benefit Terms

There were no changes in benefit terms affecting the actuarial valuation used for the June 30, 2019 measurement date.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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### 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 geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	20.0%	5.6%
Fixed income	36.0%	1.9%
Commodities	8.0%	2.7%
Absolute return	10.0%	3.4%
Risk parity	10.0%	4.1%
Infrastructure/MLPs	8.0%	5.5%
Real estate	10.0%	4.1%
Alternate investments	15.0%	7.4%
Cash	3.0%	0.3%
Financing (LIBOR)	-20.0%	0.7%
	<u>100%</u>	

For PSERS' year ended June 30, 2019, the annual money-weighted rate of return on the pension plan investments, net of pension plan investment expenses, was 6.58%.

### 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

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# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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	\$ 309,953,000	\$ 248,837,000	\$ 197,086,000

**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 (retiree plan) described below. At June 30, 2020, the School District reported a net OPEB liability composed of the following:

School District's proportionate share of PSERS' net OPEB liability	\$ 11,313,000
School District's total OPEB liability for its retiree plan	27,450,327
Net OPEB liability	\$ 38,763,327

PSERS' net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate PSERS' net OPEB liability was determined by rolling forward PSERS' total OPEB

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

liability as of June 30, 2018 to June 30, 2019. The School District's retiree plan's total OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the retiree plan's total OPEB liability was determined by rolling forward the retiree plan's total OPEB liability as of June 30, 2018 to June 30, 2019.

For the year ended June 30, 2020, the School District recognized OPEB expense as follows:

OPEB expense related to PSERS		
Premium Assistance	\$	616,547
OPEB expense related to School		
District's retiree plan		2,131,381
Total OPEB expense	\$	2,747,928

At June 30, 2020, 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	\$ 64,000	\$ -	\$ 64,000
Changes in assumptions	375,000	452,891	827,891
Net difference between projected and actual earnings on OPEB plan investments	19,000	-	19,000
Changes in proportion	353,000	-	353,000
School District contributions subsequent to the measurement date	615,607	1,052,162	1,667,769
Total	\$ 1,426,607	\$ 1,505,053	\$ 2,931,660

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

Deferred Inflows of Resources:	PSERS Premium Assistance	School District's Retiree Plan	Total Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,880,848	\$ 2,880,848
Changes in assumptions	336,000	717,059	1,053,059
Net difference between projected and actual earnings on OPEB plan investments	-	-	-
Changes in proportion	-	-	-
Total	\$ 336,000	\$ 3,597,907	\$ 3,933,907

\$1,667,769 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	PSERS Premium Assistance	School District's Retiree Plan
2021	\$ 71,000	\$ (584,371)
2022	71,000	(584,371)
2023	68,000	(584,371)
2024	66,000	(584,369)
2025	143,000	(688,025)
Thereafter	56,000	(119,509)
Total	\$ 475,000	\$ (3,145,016)

### Additional Required Disclosures for PSERS Premium Assistance

#### Actuarial Assumptions

The actuarial valuation used for the June 30, 2019 measurement date contained the following methods and assumptions:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 2.79% - S&P 20-year Municipal Bond Rate

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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- Salary increases – Effective average of 5.00%, comprised of 2.75% for inflation and 2.25% for real wage growth and merit or seniority increases
- Premium Assistance reimbursement is capped at \$1,200 per year
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in Premium Assistance per year
- Mortality rates were based on the RP-2014 Mortality Tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale
- Experience study – July 1, 2010 through June 30, 2015
- Participation rate –
  - Eligible retirees will elect to participate pre-age 65 at 50%
  - Eligible retirees will elect to participate post-age 65 at 70%

### Changes in Assumptions

The discount rate decreased from 2.98% to 2.79% for the actuarial valuation used for the June 30, 2019 measurement date.

### Changes in Benefit Terms

There were no changes in benefit terms affecting the actuarial valuation used for the June 30, 2019 measurement date.

### 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.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.9%	0.03%
US core fixed income	92.8%	1.2%
Non-US developed fixed	1.3%	0.04%
	<u>100.0%</u>	

For PSERS' year ended June 30, 2019, the annual money-weighted rate of return on the Premium Assistance plan investments, net of plan investment expenses, was 2.68%.

### Discount Rate

The discount rate used to measure the total OPEB liability was 2.79%. Under the Premium Assistance plan's funding policy, contributions are structured for short-term funding of the Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of the Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of the Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments; therefore, the plan is considered a "pay-as-you-go" plan. A discount rate of 2.79%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2019, was applied to all projected benefit payments to measure the total OPEB liability. The discount rate used to measure the Total OPEB liability decreased from 2.98% as of June 30, 2018 to 2.79% as of June 30, 2019.

### 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

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# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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 (1.79%)	Current Discount Rate (2.79%)	1% Increase (3.79%)
School District's proportionate share of PSERS' net OPEB liability	\$ 12,888,000	\$ 11,313,000	\$ 10,007,000

### 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, 2019, 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	\$ 11,311,000	\$ 11,313,000	\$ 11,314,000

### Additional Required Disclosures for the School District's Retiree Plan

#### Plan Description

The School District administers a single-employer defined benefit healthcare plan to provide additional postemployment benefits to eligible retirees (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.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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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 13.5% 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:

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# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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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, until the retiree reaches Medicare eligibility, 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

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# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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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

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# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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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, 2019, the date of the most recent actuarial valuation, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefit payments	1,133
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	<u>910</u>
	<u><u>2,043</u></u>

### Contributions

For the year ended June 30, 2020, the School District contributed \$713,000 and retirees contributed \$434,000 to the retiree plan.

### Actuarial Assumptions

The total OPEB liability was determined by rolling forward the retiree plan as of the June 30, 2018 actuarial valuation to June 30, 2019 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 administrators 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.
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# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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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 – separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation [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 discount rate increased from 2.98% to 3.36%.

### Changes in Benefits

There were no changes in benefit terms affecting the actuarial valuation used for the June 30, 2019 measurement date.

### 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, 2020 were as follows:

Total OPEB liability, July 1, 2019	\$	26,715,515
Changes for the year:		
Service cost		1,882,019
Interest on the total OPEB liability		833,733
Changes of benefit terms		-
Differences between expected and actual experience		-
Changes of assumptions		(836,569)
Benefit payments		(1,144,371)
		<u>(1,144,371)</u>
Total OPEB liability, June 30, 2020	\$	<u>27,450,327</u>

### Discount Rate

The discount rate used to measure the June 30, 2020 total OPEB liability was 3.36%, based on S&P Municipal Bond 20-year high grade rate index at July 1, 2019.

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# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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### 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 (2.36%)	Current Discount Rate (3.36%)	1% Increase (4.36%)
School District's total OPEB liability	\$ 29,704,636	\$ 27,450,327	\$ 25,363,123

### 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	\$ 24,269,141	\$ 27,450,327	\$ 31,251,615

## 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

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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, 2020 was \$891,324 for operations and \$336,861 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, 2019 is \$2,402,907 unassigned fund balance. 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, 2020, as well as interfund transfers for the year ended June 30, 2020, are summarized below:

	Interfund Receivable	Interfund Payable	Transfers In	Transfers Out
Major Fund:				
General Fund	\$ 14,846	\$ 2,782,000	\$ -	\$ 3,935,059
Other governmental funds	2,782,000	14,846	3,932,000	-
Enterprise fund	-	-	3,059	-
Total	<u>\$ 2,796,846</u>	<u>\$ 2,796,846</u>	<u>\$ 3,935,059</u>	<u>\$ 3,935,059</u>

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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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, computers, buses, and other vehicles. These leases qualify as capital leases. Payments under these capital leases were approximately \$3.5 million during the fiscal year.

In addition, the School District leases copiers under various operating lease agreements. Total payments made on these leases for the year ended June 30, 2020 were approximately \$370,000.

As of June 30, 2020, the School District has commitments of approximately \$10.2 million related to construction contracts that are funded through General Obligation Bonds.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

The following is a schedule of future minimum rental payments, under these leases, at June 30, 2020:

Fiscal Year Ending June 30,	Capital	Operating
2021	\$ 3,014,510	\$ 376,005
2022	2,419,350	368,867
2023	1,568,069	368,867
2024	900,759	368,867
2025	169,967	368,867
Total minimum lease payments	8,072,655	<u>\$ 1,851,473</u>
Less: amount representing interest	<u>(406,156)</u>	
Present value of future minimum lease payments	<u>\$ 7,666,499</u>	

### 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.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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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.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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### 2012B Swap

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

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# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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:

<u>Swap</u>	<u>Effective Hedge</u>	<u>June 30, 2019 Fair Value</u>	<u>Current year value change</u>	<u>June 30, 2020 Fair Value</u>
2012 swap	Yes	\$ 24,720	\$ (50,192)	\$ (25,472)
2012A swap	Yes	(141,193)	(28,261)	(169,454)
2012B swap	Yes	(281,423)	(148,662)	(430,085)
		<u>\$ (397,896)</u>	<u>\$ (227,115)</u>	<u>\$ (625,011)</u>
2014 swap	No	<u>\$ (5,819,164)</u>	<u>\$ (1,106,946)</u>	<u>\$ (6,926,110)</u>

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, 2020 for the swap values noted above. The swaps are valued using significant other observable inputs (Level 2 inputs).

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

### 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, 2020, these borrowings had outstanding balances as detailed below:

Loan	Estimated borrowing rate	Balance of swap borrowing June 30, 2019	Additions	Repayments	Balance of swap borrowing June 30, 2020
Original loans:					
2012 swap	3.63%	\$ 158,537	\$ -	\$ (125,255)	\$ 33,282
2012A swap	3.86%	207,428	-	(112,509)	94,919
2012B swap	4.02%	314,162	-	(94,256)	219,906
2014 swap	4.56%	2,254,251	-	(245,189)	2,009,062
New loans in 2012:					
2012 swap	4.31%	232,855	-	(186,283)	46,572
2012A swap	4.12%	396,174	-	(176,078)	220,096
2012B swap	4.47%	478,663	-	(147,280)	331,383
		<u>\$ 4,042,070</u>	<u>\$ -</u>	<u>\$ (1,086,850)</u>	<u>\$ 2,955,220</u>

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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

<u>Fiscal Year Ending June 30,</u>	<u>Total Principal</u>	<u>Total Interest</u>
2021	\$ 840,602	\$ 123,392
2022	563,974	78,972
2023	347,554	63,288
2024	293,970	49,902
2025	307,612	36,260
2026-2029	601,508	28,923
	<u>\$ 2,955,220</u>	<u>\$ 380,737</u>

### 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, 2020 for the interest rate swap noted above. This swap is valued using significant unobservable inputs (Level 3 inputs).

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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As of June 30, 2020 and 2019, the interest rate swap was estimated to have fair values of \$656,417 and \$366,969, 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, 2020, the 2012, 2012A, 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 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

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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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, 2020.

#### 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.

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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### **15. COVID-19**

In early 2020, an outbreak of a novel strain of coronavirus was identified, and infections have been found in a number of countries around the world, including the United States. The coronavirus and its associated impacts on supply chains, travel, employee productivity, and other economic activities has had, and may continue to have, a material effect on financial markets and economic activity. The extent of the impact of the coronavirus on the School District's operational and financial performance is uncertain and cannot be predicted.

## **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, 2020

Revenues:	Budget		Actual
	Original	Final	
<b>Local sources:</b>			
Real estate taxes - current	\$ 114,909,155	\$ 114,909,155	\$ 115,242,842
Public utility realty tax	115,000	115,000	109,558
Payments in lieu of current taxes	1,500	1,500	1,495
Current per capita taxes	180,000	180,000	177,149
Current Act 511 taxes - flat rate assessment	180,000	180,000	177,149
Delinquent taxes - all levies	1,456,000	1,456,000	1,502,378
Current Act 511 tax - proportional assessment	16,356,800	16,356,800	16,947,331
Special Education - Grants to State	1,000,000	1,000,000	1,108,011
Tuition	-	-	10,303
Earnings from investments	784,423	784,423	776,362 <sup>1,2</sup>
Rental of facilities	125,000	125,000	127,143 <sup>1</sup>
Athletic revenues	-	-	390,353 <sup>1</sup>
Miscellaneous revenue	532,511	532,511	614,321 <sup>2</sup>
Total local sources	135,640,389	135,640,389	137,184,395
<b>State sources:</b>			
Basic instructional subsidy	9,817,000	9,817,000	9,865,939
Special education	3,870,000	3,870,000	3,951,055
Transportation	2,000,000	2,000,000	2,148,536
Rental reimbursement	1,740,000	1,740,000	1,763,836
Medical, dental, and nurses services	165,000	165,000	163,217
State property tax reduction	2,219,280	2,219,280	2,219,280
Safe schools	30,000	30,000	36,100
Tuition for orphans and children placed in private homes	-	-	13,737
Social Security reimbursements	2,934,500	2,934,500	2,793,841
Retirement reimbursements	13,324,000	13,324,000	12,947,413
Ready to Learn block grant	581,758	581,758	581,758
Miscellaneous revenue	-	-	-
Total state sources	36,681,538	36,681,538	36,484,712
<b>Federal sources:</b>			
Title I - Grants to Local Educational Agencies	170,370	170,370	164,999
Title III - Language Instruction LEP/Immigrant Students	4,000	4,000	2,828
Title II - Improving Teacher Quality State Grants	105,111	105,111	109,492
Title IV - Student Support and Academic Enrichment Program	12,734	12,734	17,268
Medical assistance reimbursement	859,040	859,040	548,799
Total federal sources	1,151,255	1,151,255	843,386
Total revenues	173,473,182	173,473,182	174,512,493

(Continued)

<sup>1</sup> Athletic Fund revenues and expenses were budgeted separately, but for financial reporting purposes are included in the General Fund.

<sup>2</sup> Grant 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, 2020

Expenditures:	Budget		Actual
	Original	Final	
<b>Instruction:</b>			
Regular programs	79,854,834	79,839,135	76,966,678 <sup>2,3</sup>
Special programs	21,942,585	21,942,585	22,633,613 <sup>2</sup>
Vocational education programs	1,228,191	1,228,191	1,228,185
Other instructional programs	45,402	45,402	12,934
Total instruction	103,071,012	103,055,313	100,841,410
<b>Support services:</b>			
Pupil personnel	5,835,783	5,814,233	5,709,905
Instructional staff	4,411,118	4,426,729	4,223,762
Administration	10,348,848	10,403,002	10,199,656
Pupil health	1,543,538	1,543,713	1,592,375
Business	1,938,707	1,913,357	1,851,815
Operation and maintenance of plant services	11,744,281	11,744,555	11,123,977
Student transportation services	8,333,466	8,326,166	10,246,716 <sup>3</sup>
Central	4,843,675	4,843,639	6,712,174 <sup>2,3</sup>
Other support services	159,195	159,195	153,429
Total support services	49,158,611	49,174,589	51,813,809
<b>Operation of non-instructional services:</b>			
Student activities	3,371,236	3,370,957	3,640,902 <sup>1</sup>
Community services	85,005	85,005	37,016
Total operation of non-instructional services	3,456,241	3,455,962	3,677,918
<b>Facilities acquisition, construction, and improvement services</b>			
	100,000	100,000	22,971
<b>Debt service:</b>			
Principal	11,899,786	11,899,786	11,698,490
Interest	6,899,869	6,899,869	7,066,187
Total debt service	18,799,655	18,799,655	18,764,677
Total expenditures	174,585,519	174,585,519	175,120,785
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(1,112,337)</b>	<b>(1,112,337)</b>	<b>(608,292)</b>
<b>Other Financing Sources (Uses):</b>			
Transfer out	(1,150,000)	(1,150,000)	(3,935,059)
Proceeds from capital lease	-	-	4,875,669 <sup>3</sup>
Proceeds from sale of assets	125,000	125,000	104,310
Insurance recoveries	-	-	11,450
Refund of prior years receipts	(150,000)	(150,000)	(53,181)
Total other financing sources (uses)	(1,175,000)	(1,175,000)	1,003,189
<b>Net Change in Fund Balance</b>	<b>(2,287,337)</b>	<b>(2,287,337)</b>	<b>394,897</b>
<b>Fund Balance:</b>			
Beginning of year	21,937,535	21,937,535	21,937,535
End of year	\$ 19,650,198	\$ 19,650,198	\$ 22,332,432

(Concluded)

<sup>1</sup> Athletic Fund revenues and expenses were budgeted separately, but for financial reporting purposes are included in the General Fund.

Actual expenses of \$297,680 are included in the above student activities expense line item.

<sup>2</sup> Grant Fund revenues and expenses were budgeted separately, but for financial reporting purposes are included in the General Fund.

<sup>3</sup> Actual expenses for capital lease are included in the above regular programs, central, and student transportation services expense line item.

Note: During the year ended June 30, 2020, expenditures exceeded appropriations in various categories noted above. These overages 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<sup>1</sup>

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
School District's proportion of PSERS' net pension liability	0.5319%	0.5266%	0.5111%	0.5094%	0.5047%	0.4874%
School District's proportionate share of PSERS' net pension liability	\$ 248,837,000	\$ 252,794,000	\$ 252,424,000	\$ 252,442,000	\$ 218,612,000	\$ 192,916,000
School District's covered payroll	\$ 75,358,490	\$ 70,918,353	\$ 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	330.2043%	356.4578%	370.9773%	382.6615%	336.6408%	310.1578%
PSERS' plan fiduciary net position as a percentage of PSERS' total pension liability	55.6600%	54.0000%	51.8400%	50.1400%	54.3600%	57.2382%

<sup>1</sup> 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<sup>2</sup>

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contributions recognized by PSERS	\$ 24,448,394	\$ 23,705,601	\$ 22,060,013	\$ 20,105,773	\$ 16,570,924	\$ 14,083,000
School District's covered payroll	\$ 76,296,940	\$ 73,362,014	\$ 70,919,914	\$ 68,037,962	\$ 65,967,573	\$ 62,199,314
Contributions as a percentage of covered payroll	32.0437%	32.3132%	31.1055%	29.5508%	25.1198%	22.6417%

<sup>2</sup> 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<sup>1</sup>

	2020	2019	2018
School District's proportion of PSERS' net OPEB liability	0.5319%	0.5266%	0.5111%
School District's proportionate share of PSERS' net OPEB liability	\$ 11,313,000	\$ 10,979,000	\$ 10,413,000
School District's covered payroll	\$ 73,358,490	\$ 70,918,353	\$ 68,042,977
School District's proportionate share of PSERS' net OPEB liability as a percentage of its covered payroll	15.4215%	15.4812%	15.3036%
PSERS' plan fiduciary net position as a percentage of PSERS' total OPEB liability	5.5600%	5.5600%	5.7300%

<sup>1</sup> 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<sup>2</sup>

	2020	2019	2018
Contributions recognized by PSERS	\$ 615,607	\$ 603,547	\$ 576,869
School District's covered payroll	\$ 76,296,940	\$ 73,362,014	\$ 70,919,914
Contributions as a percentage of covered payroll	0.8069%	0.8227%	0.8134%

<sup>2</sup> 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<sup>1</sup>

	2020	2019	2018
<b>Total OPEB Liability:</b>			
Service cost	\$ 1,882,019	\$ 2,023,863	\$ 1,916,659
Interest	833,733	956,101	715,472
Changes of benefit terms	-	(24,322)	-
Differences between actual and expected experience	-	(4,033,186)	-
Changes of assumptions	(836,569)	53,605	725,552
Benefit payments	(1,144,371)	(1,708,603)	(1,585,810)
<b>Net Changes in Total OPEB Liability</b>	734,812	(2,732,542)	1,771,873
<b>Total OPEB Liability - Beginning</b>	26,715,515	29,448,057	27,676,184
<b>Total OPEB Liability - Ending</b>	\$ 27,450,327	\$ 26,715,515	\$ 29,448,057
<b>Covered Payroll</b>	\$ 70,731,816	\$ 70,731,816	\$ 68,081,801
<b>Total OPEB Liability as a Percentage of Covered Payroll</b>	38.81%	37.77%	43.25%

<sup>1</sup> The amounts presented for each fiscal year were determined as of the measurement 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

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2020

### 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 and Grants Fund are reported as part of the General Fund but are 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 Assumptions Used Under GASB Statement No. 68 for the PSERS Pension Plan

Actuarial Valuation Date/ Measurement Date	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
School District Fiscal Year In Which NPL is Recorded	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015
Discount Rate	7.25%	7.25%	7.25%	7.25%	7.50%	7.50%
Salary Increases	5.00%	5.00%	5.00%	5.00%	5.50%	5.50%
Mortality	RP-2014, Scale MP-2015	RP-2014, Scale MP-2015	RP-2014, Scale MP-2015	RP-2014, Scale MP-2015	RP-2000	RP-2000
Changes in Benefits	A new hybrid defined benefit/defined contribution plan is applicable for new PSERS members on July 1, 2019 and thereafter	None	Vested Class T-E and T-F members can withdraw their accumulated contributions and interest	None	None	None
Actuarially Calculated Contribution Rate from Actuarial Date Shown Above	33.51%	33.36%	32.60%	31.74%	29.20%	25.00%
School District Fiscal Year in Which Actuarially Calculated Contribution Rate Is Applied	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2020

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

Actuarial Valuation Date/ Measurement Date	6/30/2019	6/30/2018	6/30/2017
School District Fiscal Year In Which NOL is Recorded	6/30/2020	6/30/2019	6/30/2018
Discount Rate	2.79%	2.98%	3.13%
Salary Increases	5.00%	5.00%	5.00%
Mortality	RP-2014, Scale MP-2015	RP-2014, Scale MP-2015	RP-2014, Scale MP-2015
Changes in Benefits	A new hybrid defined benefit/defined contribution plan is applicable for new PSERS members on July 1, 2019 and thereafter	None	Vested Class T-E and T-F members can withdraw their accumulated contributions and interest
Actuarially Calculated Contribution Rate from Actuarial Date Shown Above	0.82%	0.84%	0.83%
School District Fiscal Year in Which Actuarially Calculated Contribution Rate Is Applied	6/30/2021	6/30/2020	6/30/2019

# NORTH ALLEGHENY SCHOOL DISTRICT

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2020

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

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

Actuarial Date	7/1/2018	7/1/2018	7/1/2017
Measurement Date	7/1/2019	7/1/2018	7/1/2017
School District Fiscal Year	6/30/2020	6/30/2019	6/30/2018
Discount Rate	3.36%	2.98%	3.13%
Salary Increases	3.50% - 6.25%	3.50% - 6.25%	3.50% - 6.25%
Mortality	RP-2014, Scale MP-2015	RP-2014, Scale MP-2015	RP-2014, Scale MP-2015
Assumed Healthcare Trend Rates	5.50%	5.50%	6.00%
Changes in Benefits	No changes in the current year	Administrators and Confidentials must now pay 13.5% of the premium to continue coverage	RP-2014, Scale MP-2015

## **SUPPLEMENTARY INFORMATION**

# NORTH ALLEGHENY SCHOOL DISTRICT

## COMBINING BALANCE SHEET OTHER GOVERNMENTAL FUNDS

JUNE 30, 2020

	Capital Project Funds			Other Governmental Funds Total
<b>Assets</b>	Technology Fund	Construction Fund	Reserve Fund	
Cash and cash equivalents	\$ 560,041	\$ 205,527	\$ 220,602	\$ 986,170
Due from other funds	1,282,000	-	1,500,000	2,782,000
<b>Total Assets</b>	<b>\$ 1,842,041</b>	<b>\$ 205,527</b>	<b>\$ 1,720,602</b>	<b>\$ 3,768,170</b>
<b>Liabilities and Fund Balance</b>				
<b>Liabilities:</b>				
Accounts payable and other current liabilities	\$ 32,847	\$ 26,400	\$ -	\$ 59,247
Due to other funds	-	14,846	-	14,846
<b>Total Liabilities</b>	<b>32,847</b>	<b>41,246</b>	<b>-</b>	<b>74,093</b>
<b>Fund Balance:</b>				
Restricted	-	164,281	1,720,602	1,884,883
Assigned	1,809,194	-	-	1,809,194
Unassigned	-	-	-	-
<b>Total Fund Balance</b>	<b>1,809,194</b>	<b>164,281</b>	<b>1,720,602</b>	<b>3,694,077</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 1,842,041</b>	<b>\$ 205,527</b>	<b>\$ 1,720,602</b>	<b>\$ 3,768,170</b>

# NORTH ALLEGHENY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2020

	Capital Project Funds			Other Governmental Funds Total
	Technology Fund	Construction Fund	Capital Reserve Fund	
<b>Revenues:</b>				
Local sources	\$ 387,618	\$ 3,269	\$ 1,988	\$ 392,875
<b>Expenditures:</b>				
Current				
Instructional	307,404	-	-	307,404
Support services	114,904	8,003	247,073	369,980
Operation of non-instructional services	-	-	32,760	32,760
Facilities acquisition, construction, and improvement services	432,522	879,225	14,351	1,326,098
Debt service:				
Bond issue costs	-	104,647	-	104,647
<b>Total expenditures</b>	<b>854,830</b>	<b>991,875</b>	<b>294,184</b>	<b>2,140,889</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(467,212)</b>	<b>(988,606)</b>	<b>(292,196)</b>	<b>(1,748,014)</b>
<b>Other Financing Sources (Uses):</b>				
Transfers in (out)	2,032,000	-	1,900,000	3,932,000
Proceeds from refunding bonds	-	8,045,000	-	8,045,000
Premium on refunding bonds issued	-	832,339	-	832,339
Payment to bond holders	-	(8,772,692)	-	(8,772,692)
Refund of prior year (receipts) expenditures	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>2,032,000</b>	<b>104,647</b>	<b>1,900,000</b>	<b>4,036,647</b>
<b>Net Change in Fund Balance</b>	<b>1,564,788</b>	<b>(883,959)</b>	<b>1,607,804</b>	<b>2,288,633</b>
<b>Fund Balance:</b>				
Beginning of year	244,406	1,048,240	112,798	1,405,444
End of year	\$ 1,809,194	\$ 164,281	\$ 1,720,602	\$ 3,694,077

**NORTH ALLEGHENY SCHOOL DISTRICT**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2020

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, 2019	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at June 30, 2020	Expenditures to Subrecipients
<b>U.S. Department of Agriculture</b>									
Passed through the Pennsylvania Department of Education:									
National School Lunch Program	10.555	n/a	7/1/18-6/30/19	\$ 52,943	\$ 52,943	-	\$ -	\$ -	\$ -
National School Lunch Program	10.555	n/a	7/1/19-6/30/20	333,882	-	423,381	423,381	89,499	-
Passed through the Pennsylvania Department of Agriculture:									
National School Lunch Program (Donated Commodities)	10.555	n/a	7/1/19-6/30/20	130,168	-	130,168	130,168	-	-
Subtotal 10.555				516,993	52,943	553,549	553,549	89,499	-
School Breakfast Program	10.553	n/a	7/1/18-6/30/19	2,539	2,539	-	-	-	-
School Breakfast Program	10.553	n/a	7/1/19-6/30/20	38,360	-	85,681	85,681	47,321	-
Subtotal 10.553				40,899	2,539	85,681	85,681	47,321	-
Total U.S. Department of Agriculture/Child Nutrition Cluster				557,892	55,482	639,230	639,230	136,820	-
<b>U.S. Department of Education</b>									
Passed through the Pennsylvania Department of Education:									
Title I Grants to Local Educational Agencies	84.010	013-190285	7/1/18-6/30/19	22,958	15,795	7,163	7,163	-	-
Title I Grants to Local Educational Agencies	84.010	013-200285	7/1/19-6/30/20	147,645	-	157,835	157,835	10,190	-
Subtotal 84.010				170,603	15,795	164,998	164,998	10,190	-
Title II Supporting Effective Instruction State Grants	84.367	020-190285	7/1/18-6/30/19	20,912	16,402	4,510	4,510	-	-
Title II Supporting Effective Instruction State Grants	84.367	020-200285	7/1/19-6/30/20	104,982	-	104,982	104,982	-	-
Subtotal 84.367				125,894	16,402	109,492	109,492	-	-
Title IV Student Support and Academic Enrichment Program	84.424	144-190285	7/1/18-6/30/19	1,687	(3,851)	5,538	5,538	-	-
Title IV Student Support and Academic Enrichment Program	84.424	144-200285	7/1/19-6/30/20	12,734	-	11,730	11,730	(1,004)	-
Subtotal 84.424				14,421	(3,851)	17,268	17,268	(1,004)	-
Passed through the Allegheny Intermediate Unit:									
Special Education - Grants to States/Special Education Cluster	84.027	n/a	7/1/19-6/30/20	1,210,839	569,225	1,102,307	1,102,307	460,693	-
Special Education - Preschool Grants/Special Education Cluster	84.173	n/a	7/1/19-6/30/20	-	-	5,704	5,704	5,704	-
Subtotal Special Education Cluster				1,210,839	569,225	1,108,011	1,108,011	466,397	-
English Language Acquisition State Grants	84.365	n/a	7/1/18-6/30/19	-	(4,133)	4,133	4,133	-	-
English Language Acquisition State Grants	84.365	n/a	7/1/19-6/30/20	-	-	2,828	2,828	2,828	-
English Language Acquisition State Grants	84.365	n/a	7/1/19-6/30/20	14,911	-	-	-	(14,911)	-
Subtotal 84.365				14,911	(4,133)	6,961	6,961	(12,083)	-
Total U.S. Department of Education				1,536,668	593,438	1,406,730	1,406,730	463,500	-
Total Expenditures of Federal Awards				\$ 2,094,560	\$ 648,920	\$ 2,045,960	\$ 2,045,960	\$ 600,320	\$ -

See accompanying notes to schedule of expenditures of federal awards.

# NORTH ALLEGHENGY SCHOOL DISTRICT

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2020

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### **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, 2020. 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, 2020

**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, 2020, 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 10, 2020.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) as a basis for designing 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 financial statements. 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.

*Mahe Duessel*

Pittsburgh, Pennsylvania  
December 10, 2020

## 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, 2020. 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, 2020.

### **Report on Internal Control over Compliance**

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

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

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

Board of Directors  
North Allegheny School District  
Independent Auditor's Report on Compliance for its  
Major Program and on Internal Control over Compliance

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

*Mahe Duessel*

Pittsburgh, Pennsylvania  
December 10, 2020

# NORTH ALLEGHENY SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2020

### 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 and 84.173

Special Education Cluster (IDEA)

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, 2020**

**NO FINDINGS IN THE PRIOR YEAR.**

**NO UNRESOLVED FINDINGS FROM PAST AUDITS.**