

**SHAMOKIN AREA SCHOOL DISTRICT**  
**Coal Township, Pennsylvania**

**Financial and Single Audit Reports**

**For the Year Ended June 30, 2019**

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**JUNE 30, 2019**

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## **SINGLE AUDIT**

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*Independent Auditor's Report*

Members of the School Board  
Shamokin Area School District  
Coal Township, Pennsylvania

**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 Shamokin Area School District (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – General Fund, and required supplementary information as listed in the table of contents, be presented to supplement the basic financial statements and. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 the responsibility of management and was 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2020 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Klacik & Associates, P.C.*

Shamokin, Pennsylvania  
May 26, 2020

**SHAMOKIN AREA SCHOOL DISTRICT  
COAL TOWNSHIP, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
June 30, 2019**

The discussion and analysis of Shamokin Area School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

The Management Discussion and Analysis (MD&A) is an element of the new 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 issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

### **FINANCIAL HIGHLIGHTS**

During the fiscal year 2018-2019, the Shamokin Area School District experienced another year of increases in the costs for labor and instruction and increase in revenue. Overall our expenditures increased by 8%. This increase was primarily due to tuition paid to cyber/charter schools, salary and benefits of staff, and other mandates that have been underfunded. The district also provided educational services to True Core for court placed youth. Due to the low enrollment numbers at True Core the district was not able to recoup the total cost of the educational services provided. The District's revenue increased by 2.1% which was due to an increase in local and federal funds. In the budgeting process, the Board of School Directors balanced the budget by utilizing the general fund, fund balance. The district's actual expenditures did exceed the revenues collected for this school year. The general fund balance has been decreased by \$2,267,446. Even though Northwestern Academy closed its doors in 2015-16, the district is still collecting on unpaid invoices. It is noted that prior to 2012—2013, it was understood and agreed that the District's liability to Northwestern shall be strictly a pass through limited to reimbursement it receives from the resident student's home district within Pennsylvania less seven percent. For years 2012-13 through 2015-16, the district was charged a lease/rental fee from Northwestern Academy to educate the students on-site. Many resident home districts have not paid this fee which was included on the tuition invoices for the education services provided to the students residing at Northwestern Academy.

### **USING THE ANNUAL FINANCIAL REPORT (AFR)**

This annual report consists of two distinct series of financial statements: district-wide and fund.

The first two statements (district-wide) are government-wide financial statements – the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the District's overall financial status.

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

**SHAMOKIN AREA SCHOOL DISTRICT  
COAL TOWNSHIP, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
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June 30, 2019**

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

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

**Figure A-1  
Required Components of  
Shamokin Area School District's  
Financial Report**

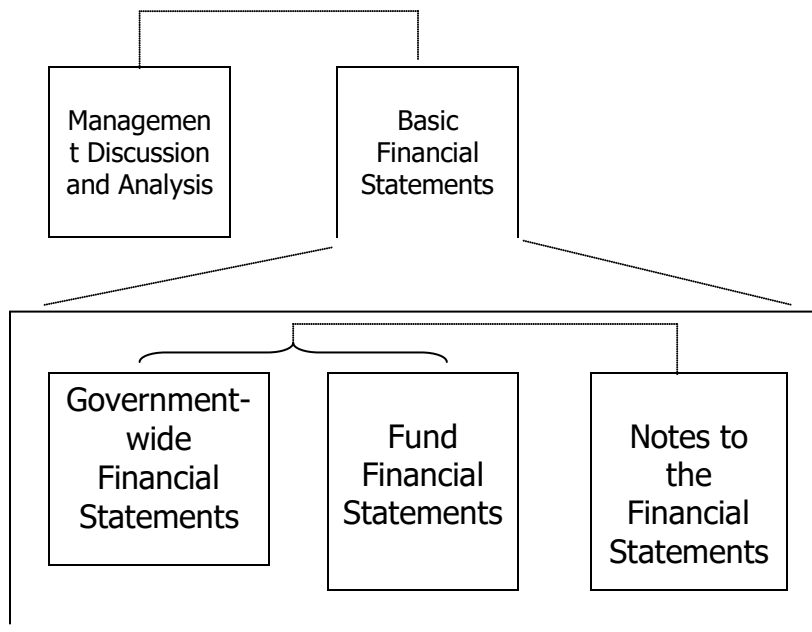


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management discussion and analysis explains the structure and contents of each of the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



**SHAMOKIN AREA SCHOOL DISTRICT  
COAL TOWNSHIP, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
June 30, 2019**

**Figure A-2  
Major Features of Shamokin Area School District's  
Government-wide and Fund Financial Statements**

		<b>Fund Statements</b>		
	<b>Government-wide Statements</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as education, administration, and community services	Activities the District operates similar to private business – Food Services	Instances in which the District is the trustee or agent to someone else's resources – Scholarship Funds
Required financial statements	Statement of Net Position (NAGW)  Statement of Activities (SOA)	Balance Sheet (NAG)  Statement of Revenues, Expenditures, and Changes in Fund Balance (REG)	Statement of Net Position (NAP)  Statement of Revenues, Expenses, and Changes in Net Assets (REP)  Statement of Cash Flows (CFP)	Statement of Fiduciary Net Assets (NAF)  Statement of Changes in Fiduciary Net Assets (CNAF)
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow-outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

**SHAMOKIN AREA SCHOOL DISTRICT  
COAL TOWNSHIP, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
June 30, 2019**

## **OVERVIEW OF FINANCIAL STATEMENTS**

### **Government-wide Statements**

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

The two government-wide statements report the District's net position and how they have changed. Net assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position.

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

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

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

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

### **Fund Financial Statements**

The District's fund financial statements provide detailed information about the most significant funds – not the District as a whole. Some funds are required by state law and by bond requirements.

**Governmental funds** – Most of the 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 fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

**SHAMOKIN AREA SCHOOL DISTRICT  
COAL TOWNSHIP, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
June 30, 2019**

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

**Fiduciary funds** - The District is the trustee, or fiduciary, for some scholarship and agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We exclude these activities from the District's other financial statement because the District cannot use these assets to finance its operations.

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Assets.** Due to GASB 68, state and local governments and its entities must recognize their pension liability by reporting the “net pension liability” in their financial statements. “Net pension liability” is the amount by which the total pension liability exceeds the pension plan’s net assets (now referred to as a plan net position) available for paying benefits. With GASB 68 the District's combined net position is (\$15,530,491) as of June 30, 2019. (See Table A-3.)

**SHAMOKIN AREA SCHOOL DISTRICT  
COAL TOWNSHIP, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
June 30, 2019**

**Table A-3  
Shamokin Area School District  
For Years Ended June 30, 2018 and 2019  
Net Position**

	<b>Government Activities  2017-2018</b>	<b>Government Activities  2018-2019</b>	<b>Business- Type Activities  2017-2018</b>	<b>Business- Type Activities  2018-2019</b>	<b>Total  2017-2018</b>	<b>Total  2018-2019</b>
Current and other assets	\$16,552,276	\$14,331,499	\$1,728,638	\$1,674,070	\$18,280,914	\$16,005,569
Capital assets	\$21,386,936	\$20,806,291	\$57,865	\$36,727	\$21,444,801	\$20,843,018
<b>Total Assets</b>	<b>\$37,939,212</b>	<b>\$35,137,790</b>	<b>\$1,786,503</b>	<b>\$1,710,797</b>	<b>\$39,725,715</b>	<b>\$36,848,587</b>
<b>Deferred Outflows</b>	<b>\$7,482,614</b>	<b>\$6,009,610</b>			<b>\$7,482,614</b>	<b>\$6,009,610</b>
Current and other liabilities	\$5,507,491	\$5,708,431	\$139,301	\$24,592	\$5,646,792	\$5,733,023
Long-term liabilities	\$53,522,782	\$51,624,044	\$0	\$0	\$53,522,782	\$51,624,044
<b>Total Liabilities</b>	<b>\$59,030,273</b>	<b>\$57,332,475</b>	<b>\$139,301</b>	<b>\$24,592</b>	<b>\$59,169,574</b>	<b>\$57,357,067</b>
<b>Deferred Inflows pension activity</b>	<b>\$637,000</b>	<b>\$1,031,620</b>	<b>\$0</b>		<b>\$637,000</b>	<b>\$1,031,620</b>
Invested in capital assets Net of related debt	\$14,544,935	\$14,395,291	\$57,865	\$36,727	\$14,602,800	\$14,432,018
Restricted for Capital Projects	\$1,640,766	\$970,222	\$0	\$-	\$1,640,766	\$970,222
Unrestricted total net position	-\$30,431,148	-\$32,582,209	\$1,589,337	\$1,649,478	-\$28,841,811	-\$30,932,731
<b>Total Net Position</b>	<b>-\$14,245,447</b>	<b>-\$17,216,696</b>	<b>\$1,647,202</b>	<b>\$1,686,205</b>	<b>-\$12,598,245</b>	<b>-\$15,530,491</b>

**SHAMOKIN AREA SCHOOL DISTRICT  
COAL TOWNSHIP, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
June 30, 2019**

Most of the District's net assets are invested in capital assets (buildings, land, and equipment).

**Table A-4  
Shamokin Area School District  
Change in Net Position  
For Years Ended June 30, 2018 and 2019**

	<b>Governmental Activities 2017-18</b>	<b>Governmental Activities 2018-2019</b>	<b>Business- Type Activities 2017-2018</b>	<b>Business- Type Activities 2018-2019</b>	<b>Total 2017-2018</b>	<b>Total 2018-2019</b>
<b>REVENUES:</b>						
<i>Program Revenues</i>						
Charges for Services	\$153,368	\$210,521	\$344,268	\$155,577	\$497,636	\$366,098
Operating Grants & Contributions	\$9,006,455	\$9,110,803	\$1,149,247	\$1,294,820	\$10,155,702	\$10,405,623
<i>General Revenues</i>						
Property Taxes	\$3,359,169	\$3,789,452	\$0	\$0	\$3,359,169	\$3,789,452
Other Taxes	\$2,924,696	\$2,903,088	\$0	\$0	\$2,924,696	\$2,903,088
State Formula Aid	\$12,441,911	\$12,628,028	\$0	\$0	\$12,441,911	\$12,628,028
Investment Earnings	\$148,384	\$198,800	\$17,062	\$37,004	\$165,446	\$235,804
Transfers	(\$65,040)	(\$67,116)	\$65,040	\$67,116	\$0	\$0
Loss on fixed assets	\$0	\$0	\$0	\$0	\$0	\$0
Other	\$52,445	\$266,909	(\$80)		\$52,365	\$266,909
<b>TOTAL REVENUES</b>	<b>\$28,021,388</b>	<b>\$29,040,485</b>	<b>\$1,575,537</b>	<b>\$1,554,517</b>	<b>\$29,596,925</b>	<b>\$30,595,002</b>
<b>EXPENSES:</b>						
Depreciation – unallocated	\$0	\$0	\$0	\$0	\$0	\$0
Instruction	\$21,265,263	\$21,628,762	\$0	\$0	\$21,265,263	\$21,628,762
Instructional Student	\$1,275,025	\$1,374,433	\$0		\$1,275,025	\$1,374,433

**SHAMOKIN AREA SCHOOL DISTRICT  
COAL TOWNSHIP, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
June 30, 2019**

Support				\$0		
Administration	\$3,509,482	\$3,816,750	\$0	\$0	\$3,509,482	\$3,816,750
Operation & Maintenance of Facilities	\$2,694,841	\$2,905,266	\$0	\$0	\$2,694,841	\$2,905,266
Pupil Transportation	\$1,334,645	\$1,301,011	\$0	\$0	\$1,334,645	\$1,301,011
Student Activities	\$559,790	\$678,405	\$0	\$0	\$559,790	\$678,405
Community Services	\$15,301	\$10,950	\$0	\$0	\$15,301	\$10,950
Scholarships and Awards	\$0	\$0	\$0	\$0	\$0	\$0
Capital Acquisition	\$0	\$0	\$0	\$0	\$0	\$0
Interest on long term debt	\$325,176	\$296,157	\$0	\$0	\$325,176	\$296,157
Food Service	\$0	\$0	\$1,461,734	\$1,515,515	\$1,461,734	\$1,515,515
<b>Total Expenses</b>	<b>\$30,979,523</b>	<b>\$32,011,734</b>	<b>\$1,461,734</b>	<b>\$1,515,515</b>	<b>\$32,441,257</b>	<b>\$33,527,249</b>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>(\$2,958,135)</b>	<b>(\$2,971,249)</b>	<b>\$113,803</b>	<b>\$39,002</b>	<b>(\$2,844,332)</b>	<b>(\$2,932,247)</b>

The District's specific revenues as indicated above were \$30,595,002 for the year ended June 30, 2019. This is an increase of prior year. Taxes and State Formula Aid amounted to \$19,320,568. This is a increase of \$594,792 from prior year that is reflected in taxes collected. Another \$9,321,324 came from Operating Grants and Contributions which also reflects an increase of prior year in the amount of \$161,501. Food service revenue totaled \$1,554,517 and the remainder came from fees charged for services, investment earnings, and miscellaneous sources. (See Table A-4.)

The total cost of all programs and services was \$33,527,249 for the year ended June 30, 2019. This reflected a slight increase of prior year, but our expenditures exceeded the revenue which resulted in a deficit. The general fund was used to balance the 2018-2019 school year. The majority of the District's costs related to educating and servicing students (Instruction, Instructional Student Support, Pupil Transportation, Student Activities), in the amount of \$24,982,611 or 74.5%, Administrative Costs accounted for \$3,816,750 or 11.4%, Operation of the District's Facilities accounted for \$3,212,373 or 9.5%, and Food Service Costs totaled \$1,15,511 or 4.5%. (See Table A-4.) In general most of the District's costs are paid for by District taxpayers and taxpayers of the Commonwealth of Pennsylvania.

**Table A-5**

**SHAMOKIN AREA SCHOOL DISTRICT  
COAL TOWNSHIP, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
June 30, 2019**

**Shamokin Area School District  
Net Cost of Governmental Activities  
For Years Ended June 30, 2018 and 2019**

	Total Cost of Services 2017-2018	Total Cost of Services 2018-2019	Percentage Change	Net Cost 2017-2018	Net Cost of Services 2018-2019	Percentage Change
Depreciation – unallocated	0	0				
Instruction	21,265,263	21,628,762	2%	-13,811,146	-13,669,376	-1.03%
Instructional Student Support	1,275,025	1,374,433	7.80%	-1,189,283	-1,297,890	9.13%
Administration	3,509,482	3,816,750	8.76%	-3,032,237	-3,702,485	22.10%
Operation & Maintenance of Facilities						
	2,694,841	2,905,266	7.81%	-2,499,936	-2,709,629	8.39%
Pupil Transportation	1,334,645	1,301,011	-2.52%	-455,877	-410,087	-10.04%
Student Activities	559,790	678,405	21.19%	-490,744	-593,836	21.01%
Community Services	15,301	10,950	-28.44%	-15,301	-10,950	-28.44%
Interest & Charges on						
Long-Term Debt	325,176	296,157	-8.92%	-325,176	-296,157	-8.92%
Scholarships/Awards	0		0	0	0	
Capital acquisition	0				0	
Refund of prior year revenues	0	0	0	0	0	
<b>Total Expenses</b>	<b>\$30,979,523</b>	<b>\$32,011,734</b>	<b>3.33%</b>	<b>-21,819,700</b>	<b>-22,690,410</b>	<b>3.99%</b>

The results of this year's operations as a whole are reported in the Statement of Activities. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District's activities that are supported by other general revenues. The three largest general revenues are the Basic Education Subsidy provided by the State of Pennsylvania, the local taxes assessed to community taxpayers, and grants from state and federal sources. (See Table A-4.)

#### **FINANCIAL ANALYSIS OF DISTRICT FUNDS**

As of June 30, 2019, the District's governmental funds reported a combined fund balance of \$5,360,558 a decrease of \$2,937,990 from the prior year amount of \$8,298,548. (See Table A-6.) There was a decrease overall. Decreases were in the capital funds for the elementary QZAB project and ESCO energy project bond payables and other capital projects. The other factors are specific to two funds:

##### **General Fund:**

Overall, the District budgeted adequately for all levels of expenditures. Overall, actual expenditures of \$30,617,708 reflect 94% of the original budget estimate of

**SHAMOKIN AREA SCHOOL DISTRICT  
COAL TOWNSHIP, PENNSYLVANIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
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\$32,749,539 or 6% of the original budget was not expended. Towards the end of the fiscal year the district historically does not maximize each expenditure line item unless it is deemed necessary. In addition, funds were budgeted to resolve past year issues regarding wards of state reimbursement from the state that may be owed to Northwestern as a contingency. This item is still being discussed with our solicitor.

Total actual revenue totaled \$28,489,370 equating to a deficit of \$2,267,446 which decreases the general fund balance. Local, State, and Federal revenue increased from prior year approximately \$596,018.

**Capital Reserve Fund:**

The District established this fund in accordance with Section 1432 of the Pennsylvania Municipal Code and in compliance with the Pennsylvania School Code. It is utilized for unforeseen and various capital expenditures. In 2018-2019 the district expended a total of \$844,556 in capital projects, debt service, purchases, and improvements throughout the district. From 2012-13 fiscal year, the QZAB debt service has been paid from the capital reserve account. The QZAB Bond was affected by the Federal Government Sequestrian which decreased the 100% repayment of the interest. The district is receiving about 91% of the interest paid for the Elementary Project Bond Issuance (QZAB). The District is receiving PlanCon funds for the Elementary Project as of the 2017-18 school year. The plancon funds must be recorded in the general fund prior to transferring to the capital reserve per PDE. The ESCO (energy) project debt service will be paid from the capital reserve account. The ESCO (energy) project debt was a loan in prior years. The district refinanced this loan as bond to save funds over the remaining term. However due to the impact the debt service is having on the capital projects fund, the district was considering moving debt service to the general fund. In the Fall of 2019, the School Board Members approved a motion for debt payments to be made through the general fund due to the depleting capital reserve fund.

At the beginning of the fiscal year, the capital reserve fund balance was \$1,640,766. With all of the capital expenditures and revenue, the ending fund balance totaled \$970,222 or a net change in fund balance of \$670,544.



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**Table A-6  
Shamokin Area School District  
Change in Fund Balances  
For Years Ended June 30, 2018 and 2019**

	<b>Fund Balance 30-Jun-18</b>	<b>Fund Balance 30-Jun-19</b>	<b>Increase (Decrease)</b>
General Fund	\$6,657,782	\$4,390,336	(\$2,267,446)
Capital Reserve Fund	1,640,766	970,222	(\$670,544)
Non-Major Funds	0	0	0
<b>Totals</b>	<b>\$8,298,548</b>	<b>\$5,360,558</b>	<b>(\$2,937,990)</b>

Revenues for the District's governmental funds were \$29,040,485 while total expenses were \$32,011,734 yielding a deficiency of \$2,971,249. During the 2019-20 school year, the School Board Members voted to use the General Fund to pay for the QZAB (elementary project) and the ESCO (MS/HS energy savings) Bonds due to a diminishing Capital Reserve Fund.

#### **General Fund Budget**

During the fiscal year, the Board of School Directors (The Board) may authorize revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. All adjustments are again confirmed at the time the annual audit is accepted, which is after the end of the fiscal year, which is not prohibited by state law.

The District applies for federal, state, and local grants and these grants cannot always be anticipated in the budgeting process.

Budgeted expenditures and other financing uses also increased this same amount to compensate for the additional approved grants. Transfers between specific categories of expenditures/financing uses occur during the year. The most significant transfers occur from the budget reserve category to specific expenditure areas.

The Budgetary Reserve includes amounts that may be funded by designated fund balance for planned opportunities of expenditures for improvements/enhancements to the District operations. The district fund balance has been used to offset past and forecasted future budget deficits but no longer can sustain such action. These amounts will only be appropriated into expenditure categories if the fiscal results of the prior year-end with a positive addition to fund balance, which exceeds the

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total of these projected expenditures. The Board is using this method of budgeting to control tax increases while also protecting the integrity of the fund balance.

The following provides a summary of General Fund revenues:

**Table A-7  
Shamokin Area School District  
General Fund Revenues  
For Years Ended June 30, 2018 and 2019**

	<b>Revenues 2017-18</b>	<b>Revenues 2018-19</b>	<b>Increase (Decrease)</b>	<b>% Change</b>
Local Sources	6,583,352	6,931,996	\$ 348,644	5.30%
State Sources	20,079,295	20,233,965	\$ 154,670	0.77%
Federal Sources	1,230,705	1,323,409	\$ 92,704	7.53%
<b>Total Revenue</b>	<b>\$27,893,352</b>	<b>\$28,489,370</b>	<b>\$596,018</b>	<b>2.14%</b>

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The following provides a summary of General Fund expenditures:

**Table A-8  
Shamokin Area School District  
General Fund Expenditures  
For Years Ended June 30, 2018 and 2019**

	<b>Expenditures 2017-2018</b>	<b>Expenditures 2018-2019</b>	<b>Increase (Decrease)</b>	<b>% Change</b>
Instruction	\$19,320,705	\$20,821,342	\$1,500,637	7.77%
Support Services	8,397,429	9,122,123	\$ 724,694	9%
Non- instructional services	555,150	674,178	\$ 119,028	21.44%
Refunds of prior year revenues	76419	65	\$ (76,354)	-100%
<b>Total Expenditures</b>	<b>\$28,349,703</b>	<b>\$30,617,708</b>	<b>\$2,268,005</b>	<b>8.00%</b>

Total General Fund expenditures increased by \$2,268,005 or 8% from the previous year. Employees Benefits increased due to increase cost of healthcare and PSERS retirement. Equipment increased due to purchases of computers and technology for classrooms. Cyber School tuition cost increased by \$581,568 from prior school year. During the 2015-16 school year the SAEA and AFSCME contracts were settled and salaries reflect wage increases. These contracts ended on June 30, 2018 and both were renegotiated. The SAEA is a 5 year term ending in school year 2022-23. The AFSCME renewal expires at end of 2021-22. (See Table A-8.)

**CAPITAL ASSETS AND DEBT ADMINISTRATION**  
**Capital Assets**

As of June 30, 2019, the District had \$20,843,018 in net capital assets, including land, buildings, furniture and equipment. This is a decrease of 2.81% based on the total of \$21,444,801 in June of 2018 due to decreases in site improvements, building and building improvements, furniture and equipment. (reference table A-9.)

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**Table A-9  
Shamokin Area School District  
Capital Assets  
For Years Ended June 30, 2018 and 2019**

	Governmental Activities 2017-2018	Governmental Activities 2018-2019	Business- Type Activities 2017-2018	Business-Type Activities 2018-2019	Total 2017-2018	Total 2018-2019	% Change
Land	10,362,707	10,362,707	0	0	10,362,707	10,362,707	0.00%
Site Improvements	553,059	\$497,312	\$0	\$0	553,059	\$497,312	-10.08%
Building and Building Improvements (net of acc dep)	9,567,524	9,136,935	0	0	9,567,524	9,136,935	-4.50%
Furniture and Equipment (net of acc dep)	903,646	809,337	57,865	36,727	961,511	846,064	-12%
Debt Issuance		0			0	0	0%
Construction in Progress	0				0	0	
<b>Totals</b>	<b>\$21,386,936</b>	<b>\$20,806,291</b>	<b>\$57,865</b>	<b>\$36,727</b>	<b>\$21,444,801</b>	<b>\$20,843,018</b>	<b>-2.81%</b>

### **Debt Administration**

As of June 30, 2011, the District had total outstanding general obligation debt of \$0. During the 2011-12 fiscal year, the district approved a \$4,068,000 bond issue via the Qualified Zone Academy Bond program offered through ARRA for the elementary renovation project. This project is amortized over eighteen years at near zero percent interest.

In June, 2015, the district approved a \$4.5 million loan to complete an Energy ESCO project at the Middle/High School which was in conjunction with a PEDDA grant in the awarded amount of \$500,000. In September, 2017, the district refinanced this loan to a bond for savings.

Other obligations include accrued vacation pay and sick leave for specific employees of the District and other post-employment benefits. More detailed information about our long-term liabilities is included in the financial statements. (See Table A-10.)

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The following provides a summary of our Long-Term Liabilities:

**Table A-10  
Shamokin Area School District  
Long-Term Liabilities  
For Years Ended June 30, 2018 and 2019**

	<b>Year Ending 30-Jun-18</b>	<b>Year Ending 30-Jun-19</b>	<b>Increase (Decrease)</b>	<b>% Change</b>
General Obligation Bonds	\$6,411,000	\$5,975,000	-436,000	-6.80%
Current portion of long term debt	431,000	436,000	5,000	1.16%
Accrued interest	76,913	67,929	-8,984	-12%
Compensated Absences and Other Post Employment Benefits	345,088	\$390,946	45,858	13.29%
Net pension liability	42,721,000	41,668,000	(\$1,053,000)	-2.46%
Current portion of compensated absences	25,000	25,000	0	
Other Post employment benefits		3,061,169		
<b>Totals</b>	<b>\$50,010,001</b>	<b>\$51,624,044</b>	<b>1,614,043</b>	<b>3.13%</b>

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

A major financial issue facing the District is the funding of the district contractual obligations, specifically salaries and benefits for district staff. Another growing concern is tuition cost to charter cyber schools. The cost for cyber tuition in 2018-19 was a 43% increase to cost in 2017-18. The Collective Bargaining agreement with the Shamokin Area Educational Association was settled during prior to the start of 2018-19 as well as the agreement with AFSCME who represents the support staff employees. SAEA is a five year agreement expires June 30, 2023 and the AFSCME expires June 20, 2022. All eligible staff participate in the Central Susquehanna Regional Health Care Trust administered through the CSIU. The annual cost per enrollee for the PPO program is based on a tier rate of individual and dependent enrollment.

The projected tiers for 2019-20 annual cost are Single \$9,000 to the highest cost tier of Family \$25,188. The tiers establish a potential liability and difficulty in budgeting as employees move from single to two party or family coverage. Looking back to the year 2015-16 the rate of increase was 5.5%. It is projected for the 2020-21 school year to increase by 1.6% per tier level. The rates of increase are based upon claims over a period of time. These increases vary and are not predictable.

A cost savings to the district will be the move from the healthcare plan PPO \$0 deductible to the QHDP at the IRS minimum. The district is also contributing to an Health Savings Plan for eligible employees. This contribution decreases from initial year to final year of the AFSCME agreement and remains at 40% for the SAEA employees.

The district approved retirement incentives during 2011-12 that compensates retiring teachers \$10,000 per year into an HRA account for seven years or until age 65. This seven year incentive ends in June, 2018. Although not a financial savings except for year one, for the district, it minimized the amount of furloughs. Support staff employees were given \$500 per year of service as an incentive to retire, however this was a one time only transaction and does not affect any employee in future years. Although the 2017-18 school year ends this incentive, the retirement incentive of \$6,000 for 5 years continues for professional staff retiring in prior school years.

Our special education, alternative education and most notable, the cyber charter school population appears to be increasing proportionately year after year. As a result, Shamokin Area School District expenses for these programs have increased each school year. The majority of these expenses are out of our control. For fiscal year 2009-10, the district spent \$684,817.20 for cyber charter schools which also was \$451,817.20 over budget. In 2010-11, the cost totaled \$913,283.77 and in 2011-12, the total was \$915,067.69. The 2013-14 budget line item was \$1,200,000 and the cost was \$875,450.23. For the first four months of 2014-15 the enrollment has increased by 50% when compared to 1314 enrollment year numbers. A decrease was seen in 2013-14 but the costs and enrollment continue to increase such that 2015-16 was \$1,419,448.59. The 2016-17 school year was \$1,503,577 and 2017-18 did show a slight decrease with the total being \$1,370,956. There have been bills introduced at the state level to address the funding inequities, however movement has been limited. The district has researched alternative programs for these students to participate in that would decrease the cost. One such program is offering online courses. Our district has implemented this program. The cost for the 2016-17 was \$169,742 and in 2017-18 the cost was \$171,500. In 2018-19, this cost was \$243,691. This cost is also growing and has exceeded \$300,000 at this time. The district is continuing to offer the online courses as an alternate to charter/cyber school. Even with this alternative, the most recent years have shown the total cost to the cyber/charter schools to have increased. The cost in 2018-19 for charter/cyber tuition was \$1,952,524.

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Due to a court case the tuition rate paid to these schools is now based upon budgeted costs as oppose to actual costs. The actual costs determine the district's tuition rate that the district may charge to non-resident students. Due to this court ruling, the rate of tuition being invoiced by the charter/cyber schools is in excess of the district's actual tuition rate. The charter/cyber school tuition rate is above the approved school district tuition rate and is not separated as an elementary or secondary rate. These underfunded mandates have challenged the district to face many budgeting issues. In recent years, the School Board Members have used the general fund balance to balance our annual budgets. Unfortunately, the general fund balance will not be able to continue this practice and decisions of curtailing or eliminating programs will need to be addressed.

The local parochial school, Our Lady of Lourdes High School, which has become a pre-kindergarten to twelfth grade facility. Depending on the future success of this initiative, it may cause some parents to enroll their children in the district. Depending on the actual influx of children, this situation may present some challenges, both physically and financially for the district in the future years.

Prior to the end of 2015-2016, Northwestern Academy closed its doors (May 2016). Providing instruction at Northwestern Academy has seen its challenges. A decision was made to provide special education instruction in 1213 and with the addition of regular education in 1314. At that time, enrollment numbers were steady. These enrollment numbers declined since 1213 which made it difficult to project tuition revenue and the needs of instructional staff. At the start of the 2015-16 school year several buildings at Northwestern were closed and the district decreased staff. However in December 2015 additional closures took place requiring the district to terminate additional staff. Enrollment declined drastically and the cost of the rental/lease per student ADM increased even more making it extremely costly. Though the district does invoice the home districts of costs, school code does limit what can be charged for regular education tuition. One concern of the invoice was whether or not a rental charge could be placed upon the District. Prior state audits have stated the rental cost could not be charged but in a court hearing the funds that were in escrow due to a conflict in opinion was ordered to be released to Northwestern. Other items of concern between Shamokin Area School District and Northwestern Human Services are Wards of state tuition reimbursement for years prior to 2008-09, regular education tuition portion of the special education students during 2012-13, and outstanding payments from home school districts of invoices primarily for lease rental costs. In the initial agreement with Northwestern, Shamokin Area School District was to act as a pass through of the funds between school districts of enrolled students and Northwestern which limited the liability to the district. These matters are currently being litigated.

Upon Northwestern's closure, the District became responsible for providing educational services to a new facility called Coal Township Youth Academy which houses court placed youth. This facility began accepting students in January, 2018. The Facility can house a maximum of 32 students. Due to the low enrollment numbers, the cost to the district exceeds the amount that we are limited to invoice the home districts by school code. This facility closed at end of 2018-19 school year. The facility is now ran by DTA and the educational services are provided by the CSIU in the 2019-20 school year.

The District expects its retirement contribution on behalf of its employees to the Pennsylvania School Employees Retirement System (PSERS) to continue increasing in the future. House Bill 2497 was passed on October 14, 2010. This legislation addressed in part, the anticipated increases in PSERS. Specifically, for 2011-12, the employer contribution rate is 8.65%. For 2012-13 the rate is established at 12.36% which would have been 28.71% without this legislation. The rate for 2013-14 was 16.93%. The 2014-15 is 21.41% and 25.84% for 2015-16. There also were changes to the plan for

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new employees related to retirement age, multiplier, and the vesting period. Legislation is still addressing these issues. The annual increases present a significant funding issue for the Commonwealth of Pennsylvania as well as local school districts. The 2016-17 is set at 30.03 % and 2017-18 at 32.57%. The 2018-19 is 33.43%, 2019-20 is a rate of 34.29%, and projected for 2020-21 is 34.51%. With this said for every \$1.00 the district pays in salary, one must also add the benefit costs of retirement, social security, unemployment, and workers compensation. The District does receive subsidy reimbursement for the retirement and social security from the state.

The district was approved for a \$500,000 PEDA grant to focus on energy savings by updating/replacing HVAC system at High School. This project began in the summer of 2015 and it is anticipated to be completed in the summer of 2016. The energy savings will be applied to the cost of financing a project. This project was financed at \$4.5 million. It is anticipated over the 20 years that an energy savings of at least \$2million will be seen by the district.

The district is projecting an operating deficit in the range of \$3,000,000; the actual budget figure for 2018-19 was \$2,267,446. Personnel, tuition, and legal issues have contributed to the estimated increase in the deficit. In 13-14, 14-15 and 15-16, the district was able to keep their expenses within the revenue collected and not have a high need to use the fund balance to budget. To accommodate the shortfall between our expenses and revenue, the deficit of was applied to the general fund balance. This decrease resulted in an ending fund balance of \$4,390,336 as of June 30, 2019. For the school year 2018-19, the district's actual expenditures increased by 8% with the revenues increasing by 2%. Act 48 of 2002 prohibited districts from raising taxes if their fund balance exceeded eight percent of their projected expenditures. Thus the district has been able to raise taxes over the past several years which began in 2012-13. Unfortunately, this only creates roughly \$97,000 in additional revenue for a mill increase. Although the district budgeted with an 85% rate of collection, it should be noted that property tax collection for 2018-19 exceeded its anticipated amount by 10%. Prior to Act 48, the last district tax increase was in June of 1992. The combination of not raising local real estate taxes, reduced state funding, maintenance of infrastructure, increase healthcare costs, increase PSERS contributions, and increased cyber charter school expenditures has contributed to this current financial dilemma. The need to cut programs, staff and supplies may be necessary to balance the budget in future years.

House Bill 39 was signed into law as Act 1 of 2008. This legislation outlined rules for slot money distribution, requiring front-end voter referenda on tax shifting, mandating new school district budget practices, and requiring back end voter referenda on future real estate tax increases above an "index" and on building projects. Among other things, Act 1 is designed to provide homeowner real estate tax reductions in varying amounts. Act 1 in conjunction with the reduced state funding may continue to have many collateral consequences for school districts, including negative education program impacts, possible bond downgrade and related borrowing expense, substantial implementation expense and many diverse required actions.



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**Table A-12  
Shamokin Area School District  
Employer's Retirement Contributions**

<b>Retirement 2009-10</b>	<b>Retirement 2008-2009</b>	<b>Retirement 2007-2008</b>	<b>Retirement 2006-2007</b>	<b>Retirement 2005-2006</b>	<b>Retirement 2004-2005</b>	<b>Retirement 2003-2004</b>	<b>Retirement 2011-12</b>
4.78%	4.76%	7.13%	6.46%	4.69%	4.23%	3.77%	8.65%

<b>Retirement 2012-2013</b>	<b>Retirement 2013-2014</b>	<b>Retirement 2014-2015</b>	<b>Retirement 2015-2016</b>	<b>Retirement 2016-2017</b>	<b>Retirement 2017-2018</b>	<b>Retirement 2018-19</b>	<b>Retirement 2019-20</b>
12.36%	16.93%	21.41%	25.84%	30.03%	32.57%	33.43%	34.29%

**CONTACTING THE DISTRICT FINANCIAL MANAGEMENT**

Our financial report is designed to provide our citizens, taxpayers, parents, students, and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please visit the district website, [www.indians.k12.pa.us](http://www.indians.k12.pa.us) and click on the link titled "Right to Know" request form or contact Karen Colangelo, Business Manager at Shamokin Area School District, 2000 West State Street, Coal Township PA 17866, (570) 648-5752.

# Shamokin Area School District

## Statement of Net Position

As of June 30, 2019

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 5,389,289	\$ 1,748,863	\$ 7,138,152
Investments	190,647	-	190,647
Receivables, net:			
Taxes	3,312,051	-	3,312,051
Due from other governments	5,276,487	55,645	5,332,132
Inventories	-	32,587	32,587
Internal balances	163,025	(163,025)	-
Total Current Assets	<u>14,331,499</u>	<u>1,674,070</u>	<u>16,005,569</u>
Capital Assets:			
Land not being depreciated	10,362,707	-	10,362,707
Land and site improvements, net of accum. deprec.	497,312	-	497,312
Buildings and improvements, net of accum. deprec.	9,136,935	-	9,136,935
Furniture and equipment, net of accum. deprec.	809,337	36,727	846,064
Total Capital Assets	<u>20,806,291</u>	<u>36,727</u>	<u>20,843,018</u>
<b>TOTAL ASSETS</b>	<b>35,137,790</b>	<b>1,710,797</b>	<b>36,848,587</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Pension Activity	5,676,362	-	5,676,362
OPEB Activity	<u>333,248</u>	<u>-</u>	<u>333,248</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>6,009,610</b>	<b>-</b>	<b>6,009,610</b>
<b>LIABILITIES:</b>			
Accounts payable	2,987,117	-	2,987,117
Accrued salaries and benefits	2,671,066	-	2,671,066
Unearned income	50,098	18,048	68,146
Other	150	6,544	6,694
Long-Term Liabilities:			
Due within one year:			
Bonds and loans	436,000	-	436,000
Compensated absences	25,000	-	25,000
Accrued interest	67,929	-	67,929
Due in more than one year:			
Bonds and loans	5,975,000	-	5,975,000
Compensated absences	390,946	-	390,946
Net pension liability	41,668,000	-	41,668,000
Net OPEB liability	3,061,169	-	3,061,169
TOTAL LIABILITIES	<u>57,332,475</u>	<u>24,592</u>	<u>57,357,067</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Pension Activity	810,000	-	810,000
OPEB Activity	<u>221,620</u>	<u>-</u>	<u>221,620</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>1,031,620</b>	<b>-</b>	<b>1,031,620</b>
<b>NET POSITION:</b>			
Invested in capital assets, net of related debt	14,395,291	36,727	14,432,018
Restricted for capital projects	970,222	-	970,222
Unrestricted	(32,582,209)	1,649,478	(30,932,731)
Total Net Position	<u>\$ (17,216,696)</u>	<u>\$ 1,686,205</u>	<u>\$ (15,530,491)</u>

See notes to financial statements  
which are an integral part of this statement.

**Shamokin Area School District**  
**Statement of Activities**  
**For the Year Ended June 30, 2019**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>						
Instruction	\$ 21,628,762	\$ 125,952	\$ 7,833,434	\$ (13,669,376)	\$ -	\$ (13,669,376)
Instructional student support	1,374,433	-	76,543	(1,297,890)	-	(1,297,890)
Administrative and financial support services	3,816,750	-	114,265	(3,702,485)	-	(3,702,485)
Operation and maintenance of plant services	2,905,266	-	195,637	(2,709,629)	-	(2,709,629)
Pupil transportation	1,301,011	-	890,924	(410,087)	-	(410,087)
Student activities	678,405	84,569	-	(593,836)	-	(593,836)
Community services	10,950	-	-	(10,950)	-	(10,950)
Interest on long-term debt	296,157	-	-	(296,157)	-	(296,157)
Total Governmental Activities	32,011,734	210,521	9,110,803	(22,690,410)	-	(22,690,410)
<b>Business-Type Activities:</b>						
Food services	1,515,515	155,577	1,294,820	-	(65,118)	(65,118)
Total Primary Government	<u>\$ 33,527,249</u>	<u>\$ 366,098</u>	<u>\$ 10,405,623</u>	<u>(22,690,410)</u>	<u>(65,118)</u>	<u>(22,755,528)</u>
<b>General Revenues:</b>						
Taxes:						
Property taxes, levied for general purposes, net				3,789,452	-	3,789,452
Public utility, realty, earned income and miscellaneous taxes levied for general purposes, net				2,903,088	-	2,903,088
Grants, subsidies, and contributions not restricted				12,628,028	-	12,628,028
Investment Earnings				198,800	37,004	235,804
Miscellaneous				266,909	-	266,909
Transfers				(67,116)	67,116	-
Total General Revenues				<u>19,719,161</u>	<u>104,120</u>	<u>19,823,281</u>
Change in Net Position				(2,971,249)	39,002	(2,932,247)
Net Position - June 30, 2018				<u>(14,245,447)</u>	<u>1,647,203</u>	<u>(12,598,244)</u>
Net Position - June 30, 2019				<u>\$ (17,216,696)</u>	<u>\$ 1,686,205</u>	<u>\$ (15,530,491)</u>

See notes to financial statements  
which are an integral part of this statement.

**Shamokin Area School District**

## Balance Sheet

## Governmental Funds

June 30, 2019

	General Fund	Capital Reserve Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 4,423,412	\$ 965,877	\$ 5,389,289
Investments	190,647	-	190,647
Taxes Receivable, Net	3,312,051	-	3,312,051
Due from Other Funds	163,025	7,955	170,980
Intergovernmental Receivables	5,276,487	-	5,276,487
<b>TOTAL ASSETS</b>	<b>\$ 13,365,622</b>	<b>\$ 973,832</b>	<b>\$ 14,339,454</b>
<b>LIABILITIES</b>			
Accounts Payable	\$ 2,983,507	\$ 3,610	\$ 2,987,117
Due to Other Funds	7,955	-	7,955
Accrued Salaries and Benefits	2,671,066	-	2,671,066
Other Current Liabilities	150	-	150
Unearned Revenue	50,098	-	50,098
<b>TOTAL LIABILITIES</b>	<b>5,712,776</b>	<b>3,610</b>	<b>5,716,386</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Revenues	3,262,510	-	3,262,510
<b>FUND BALANCES</b>			
Restricted Fund Balance	-	970,222	970,222
Assigned Fund Balance	2,000,000	-	2,000,000
Unassigned Fund Balance	2,390,336	-	2,390,336
<b>TOTAL FUND BALANCES</b>	<b>4,390,336</b>	<b>970,222</b>	<b>5,360,558</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES &amp; FUND BALANCES</b>	<b>\$ 13,365,622</b>	<b>\$ 973,832</b>	<b>\$ 14,339,454</b>

See notes to financial statements  
which are an integral part of this statement.

**Shamokin Area School District**  
Reconciliation of Governmental Funds Balance Sheet  
to the Statement of Net Position  
As of June 30, 2019

**TOTAL FUND BALANCES, GOVERNMENTAL FUNDS** **\$ 5,360,558**

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the fund financial statements, but are reported in the governmental activities of the statement of net position.

Cost of capital assets	\$ 54,137,967	
Less: accumulated depreciation	<u>(33,331,676)</u>	20,806,291

Deferred outflows and inflows of resources related to pension and OPEB are applicable to future periods, and therefore, are not reported in the funds:

Deferred outflows of resources related to pensions	5,676,362	
Deferred inflows of resources related to pensions	(810,000)	
Deferred outflows of resources related to OPEB	333,248	
Deferred inflows of resources related to OPEB	<u>(221,620)</u>	4,977,990

Long-term liabilities, including bond and notes payable, are not due and payable in the current period and are not reported as liabilities in the fund statements.

Net Pension Liability	(41,668,000)	
Net OPEB Liability	(3,061,169)	
Bonds Payable	(6,411,000)	
Compensated Absences	<u>(415,946)</u>	(51,556,115)

Governmental funds do not report a liability for accrued interest until due and payable; such liability is accrued on the District-Wide financial statements.	(67,930)
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Delinquent personal and property taxes receivables are not available soon enough to pay for the current period's expenditures and are, therefore, deferred in the funds.	<u>3,262,510</u>
--	------------------

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES** **\$(17,216,696)**

**Shamokin Area School District**  
**Statement of Revenues, Expenditures Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2019**

	General Fund	Capital Reserve Fund	Total Governmental Funds
<b>REVENUES</b>			
Local Sources:			
Taxes	\$ 5,824,818	\$ -	\$ 5,824,818
Earnings On Investments	130,105	68,696	198,801
Other Local Sources	977,073	-	977,073
State Sources	20,233,965	-	20,233,965
Federal Sources	1,323,409	-	1,323,409
<b>TOTAL REVENUES</b>	<b>28,489,370</b>	<b>68,696</b>	<b>28,558,066</b>
<b>EXPENDITURES</b>			
Instruction	20,821,342	-	20,821,342
Support Services	9,122,123	108,416	9,230,539
Non-Instructional Services	674,178	-	674,178
Debt Service - Principal	-	431,000	431,000
Debt Service - Interest	-	305,140	305,140
Refunds of Prior Year Revenues	65	-	65
<b>TOTAL EXPENDITURES</b>	<b>30,617,708</b>	<b>844,556</b>	<b>31,462,264</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(2,128,338)</b>	<b>(775,860)</b>	<b>(2,904,198)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from Sale of Fixed Assets	2,750	-	2,750
Insurance Recoveries	30,574	-	30,574
Interfund Transfers In (Out)	(172,432)	105,316	(67,116)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(139,108)</b>	<b>105,316</b>	<b>(33,792)</b>
<b>Net Change in Fund Balances</b>	<b>(2,267,446)</b>	<b>(670,544)</b>	<b>(2,937,990)</b>
Fund Balance - July 1, 2018	6,657,782	1,640,766	8,298,548
Fund Balance - June 30, 2019	<u>\$ 4,390,336</u>	<u>\$ 970,222</u>	<u>\$ 5,360,558</u>

See notes to financial statements  
which are an integral part of this statement.

**Shamokin Area School District**  
Reconciliation of Statement of Revenues, Expenditures and  
Changes in Fund Balances to the Statement of Activities  
Governmental Funds  
For the Year Ended June 30, 2019

**Net changes in fund balances, total governmental funds** \$ (2,937,990)

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

Depreciation expense	(691,662)
Capital outlay	111,017

Under the modified accrual basis of accounting used in governmental funds, revenues are not reported until they become available. In the Statement of Activities, however, revenues are recorded regardless of when financial resources are available. 519,024

Governmental funds report repayment of bond and capital lease principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long term liabilities. 431,000

Pension and other post employment benefit (OPEB) expense is reported in the Statement of Activities are recognized on the accrual basis. The net pension liability and OPEB liability are adjusted for any difference between years.

Pension activity	(716,960)
OPEB activity	351,197

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment is the net change of the following balances:

Compensated absences	(45,858)
Accrued interest	8,983

**Change in net position of governmental activities** \$ (2,971,249)

See notes to financial statements  
which are an integral part of this statement.

**Shamokin Area School District**

## Statement of Net Position

## Proprietary Fund

June 30, 2019

	<u>Food Service</u>
ASSETS	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 1,748,863
Intergovernmental Receivables	55,645
Inventories	<u>32,587</u>
Total Current Assets	<u>1,837,095</u>
 <i>Noncurrent Assets:</i>	
Machinery and Equipment, Net	<u>36,727</u>
 TOTAL ASSETS	 1,873,822
 LIABILITIES	
<i>Current Liabilities:</i>	
Due to Other Funds	163,025
Unearned Revenues	18,048
Other Current Liabilities	<u>6,544</u>
Total Current Liabilities	<u>187,617</u>
 TOTAL LIABILITIES	 187,617
 NET POSITION	
Investment in Capital Assets, net of Related Debt	36,727
Unrestricted Net Position	<u>1,649,478</u>
 TOTAL NET POSITION	 <u>\$ 1,686,205</u>

See notes to financial statements  
which are an integral part of this statement.



**Shamokin Area School District**  
Statement of Revenues, Expenditures Changes in Net Position  
Proprietary Funds  
For the Year Ended June 30, 2019

	Food Service
OPERATING REVENUES:	
Food Service Revenue	\$ 155,577
OPERATING EXPENSES:	
Salaries	73,369
Employee Benefits	64,585
Purchased Property Services	14,509
Other Purchased Service	584,122
Supplies	752,722
Depreciation	26,208
TOTAL OPERATING EXPENSES	1,515,515
OPERATING INCOME/(LOSS)	(1,359,938)
NONOPERATING REVENUES (EXPENSES):	
Earnings on Investments	37,004
State Grants	48,385
Federal Grants	1,246,435
TOTAL NONOPERATING REVENUES (EXPENSES)	1,331,824
CONTRIBUTIONS, TRANSFERS, AND SPECIAL AND EXTRAORDINARY ITEMS	
Interfund Transfers - In	67,116
TOTAL CONTRIBUTIONS, TRANSFERS, AND SPECIAL AND EXTRAORDINARY ITEMS	67,116
CHANGE IN NET POSITION	39,002
NET POSITION - JULY 1, 2018	1,647,203
NET POSITION - JUNE 30, 2019	\$ 1,686,205

See notes to financial statements  
which are an integral part of this statement.

**Shamokin Area School District**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Year Ended June 30, 2019**

	Food Service
<i>Cash Flows from Operating Activities</i>	
Cash Received from Customers and Intergovernments	\$ 163,466
Cash Payments to Employees for Services	(137,954)
Cash Payments to Suppliers for Goods and Services	<u>(1,373,367)</u>
Net Cash (Used for) Operating Activities	(1,347,855)
<i>Cash Flows from Noncapital Financing Activities</i>	
State Grants	54,262
Federal Grants	1,266,853
Operating Transfers In (Primary Government)	<u>67,116</u>
Net Cash Provided by Noncapital Financing Activities	1,388,231
<i>Cash Flows from Capital Financing Activities</i>	
Payments for Fac Acquisition, Construction and Improvement	<u>(4,000)</u>
Net Cash Provided by Capital Financing Activities	(4,000)
<i>Cash Flows from Investing Activities</i>	
Earnings on Investments	<u>37,004</u>
Net Cash Provided by Investing Activities	37,004
Net Increase (Decrease) in Cash and Cash Equivalents	<u>73,380</u>
Cash and Cash Equivalents Beginning of Year	<u>1,675,483</u>
Cash and Cash Equivalents End of Year	<u><u>\$ 1,748,863</u></u>
Operating Income (Loss)	\$ (1,359,938)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:	
Depreciation	25,138
Other Adjustments	92,070
(Increase) Decrease in Accounts Receivable	(113,980)
(Increase) Decrease in Other Current or Noncurrent Assets	13,110
(Increase) Decrease in Inventories	(3,526)
Increase (Decrease) in Accounts Payable	<u>(729)</u>
Total Adjustments	<u>12,083</u>
Net Cash (Used for) Operating Activities	<u><u>\$ (1,347,855)</u></u>

See notes to financial statements  
which are an integral part of this statement.

**Shamokin Area School District**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2019**

	Pension Fiduciary Fund	Private Purpose Trust Fund	Agency Fund - Student Activity
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ -	\$ 59,518	\$ 177,667
Investments	505,286	-	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>TOTAL ASSETS</b>	<u>505,286</u>	<u>59,518</u>	<u>177,667</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>LIABILITIES</b>			
Other Current Liabilities	-	-	177,667
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>\$ 177,667</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>NET POSITION</b>			
Restricted for Student Scholarships	-	59,518	
Restricted for Employee OPEB other than pensions	505,286	-	
	<u>                    </u>	<u>                    </u>	
<b>TOTAL FIDUCIARY NET POSITION</b>	<u>\$ 505,286</u>	<u>\$ 59,518</u>	
	<u>                    </u>	<u>                    </u>	

See notes to financial statements  
which are an integral part of this statement.

**Shamokin Area School District**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2019**

	Pension Fiduciary Fund	Private Purpose Trust Fund
	<u>          </u>	<u>          </u>
ADDITIONS		
Gifts and Contributions	\$       -	\$     1,183
Earnings on Investments	35,944	6
	<u>          </u>	<u>          </u>
TOTAL ADDITIONS	35,944	1,189
DEDUCTIONS		
Scholarships Awarded	-	4,850
Benefits Paid	4,219	-
	<u>          </u>	<u>          </u>
TOTAL DEDUCTIONS	4,219	4,850
	<u>          </u>	<u>          </u>
CHANGE IN FIDUCIARY NET POSITION	31,725	(3,661)
FIDUCIARY NET POSITION - JULY 1, 2018	473,561	63,179
	<u>          </u>	<u>          </u>
FIDUCIARY NET POSITION - JUNE 30, 2019	<u>\$   505,286</u>	<u>\$    59,518</u>

See notes to financial statements  
which are an integral part of this statement.

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Shamokin Area School District (the District) is governed by the Shamokin Area School District Board of Education (the Board), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

In June 1999, GASB approved Statement No. 34, *"Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments."*

The financial statements include:

- Management's Discussion and Analysis (MD&A), providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full-accrual accounting for all of the District's activities.
- A change in the fund financial statements to focus on major funds.

**A. DEFINING THE REPORTING ENTITY**

The reporting entity was defined by applying the following criteria which were established by the GASB Statement No. 14, *"The Financial Reporting Entity."*

- (A) Financial interdependency
- (B) Selection of governing authority
- (C) Designation of management
- (D) Ability to significantly influence operations
- (E) Accountability for fiscal matters

In defining the reporting entity, all known federal program awards received by the entity have been included and have been subjected to the terms and requirements of the Single Audit Act.

In applying the above criteria, the District does not have any component units nor is the District a component unit of any other primary government.

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. DEFINING THE REPORTING ENTITY (Continued)**

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

**B. FUND ACCOUNTING**

On June 15, 2010, the GASB issued GASB Statement No. 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*." This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 establishes criteria for classifying fund balances into specifically defined classifications that should be based on hierarchy that reflects the extent to which the government is bound to honor constraints on how those funds can be spent.

Established classifications are as follows:

Nonexpendable – Amounts that cannot be spent because they are either in a nonspendable form or are legally or contractually required to be maintained intact.

Restricted – Amounts constrained to be used for a specific purpose stipulated by constitution, external resource providers or through enabling legislation.

Committed – Amounts constrained to be used for a specific purpose determined by a formal action of the School District Board of Directors (the District's highest level of decision-making authority).

Assigned – Amounts intended to be used for a specific purpose by the finance committee or an individual authorized by the governing body.

Unassigned – Residual amounts available for any purpose not contained in other classifications.

**Order of Fund Balance Spending Policy**

The District's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting entries.

**Shamokin Area School District**  
 Note to the Financial Statements  
 June 30, 2019

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. FUND ACCOUNTING (Continued)**

First, nonspendable fund balances are determined. Then, restricted fund balances for the non-General funds are classified as restricted fund balance.

It is possible for the non-General funds to have negative unassigned fund balance when nonspendable amounts plus the restricted fund balances for specific purpose amounts exceed the positive fund balance for the non-General fund.

Fund Balance	General Fund	Capital Reserve Fund	Total Governmental Funds
Nonspendable	\$ -	\$ -	\$ -
Restricted	-	970,222	970,222
Committed	-	-	-
Assigned	2,000,000	-	2,000,000
Unassigned	2,390,336	-	2,390,336
<b>TOTAL FUND BALANCE</b>	<b>\$ 4,390,336</b>	<b>\$ 970,222</b>	<b>\$ 5,360,558</b>

**C. BASIS OF PRESENTATION**

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities provide information about the financial activities of the overall District, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-Type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each business-type activity of the District and for each function of the District's governmental activities.

- Direct Expenses are those that are clearly identifiable with a specific program.

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. BASIS OF PRESENTATION (Continued)**

- Program revenues include 1) charges to students or recipients who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.
- Taxes and other items not properly included among program revenues are reported as general revenues.

The effect of interfund activity has been removed from these statements.

Proprietary fund operating revenues, such as charges for services, result from transactions associated with the fund's principal activity in which each party receives and gives up essentially equal values. Non-operating revenues, such as investment earnings, result from transactions in which the parties do not exchange equal values. Revenues generated by ancillary activities are also reported as non-operating revenues.

The statement of net position presents the District's non-fiduciary assets and liabilities, with the difference reported as net position. Net Position is reported in three categories:

- Net Investment in Capital Assets, - Consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes, and other debt attributable to the acquisition, construction or improvement of those assets.
- Restricted Net Position – Results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions of enabling legislation.
- Unrestricted Net Position – Consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

**Fund Financial Statements**

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. All individual governmental funds are considered to be major funds and are reported as separate columns in the governmental fund financial statements.



**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. BASIS OF PRESENTATION (Continued)**

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues and expenditures. Separate statements are presented for governmental funds, proprietary funds and fiduciary fund categories. The emphasis of fund financial statements is on major funds, each displayed in a separate column.

A fund is considered to be major if it is the primary operating fund of the District or meets the following criteria:

- Total assets, liabilities, revenues or expenditures/expenses of that individual governmental fund or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental or enterprise funds combined

At its discretion, the District may designate any fund not meeting the above criteria to be reported as major funds. All funds not meeting the above criteria would be reported as "non-major funds" in the fund financial statements. Fiduciary funds are aggregated and reported by fund type.

The District reports the following major governmental funds:

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

**Capital Reserve Fund** -The Capital Reserve Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary and trust funds.

The District reports the following major proprietary fund:

**Food Service Fund** - The Food Service Fund is used to account for all financial transactions related to the food service operation within the District.

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The District reports the following types of fiduciary funds:

**Agency Funds** - The Agency Fund accounts for assets held by the District as an agent for the students. It consists of the Student Activities Funds only, which accounts for monies raised by students to finance student clubs and organizations but held by the District.

**Trust Funds** – The Trust Funds have been established by citizens for the purpose of providing scholarships and other funding for qualifying students of the District, as well as employee OPEB. The trust agreements designate the District to establish committees to make annual recipient selections based on established criteria.

**D. BASIS OF ACCOUNTING**

The district-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities are reported as other financing sources.

Expenditure-driven grants are recognized as revenues when the qualifying expenditures have been incurred and all other grant requirements have been met. Under the terms of grant agreements, the District funds certain programs by a combination of grants and general revenues. Therefore, when program expenses are incurred there is both restricted and unrestricted net position available to finance the program. The District applies grant resources to such programs before using general revenues.

All business-type activities and enterprise funds of the district follow FASB Statements and Interpretations on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**E. BUDGETS AND BUDGETARY ACCOUNTING**

The District prepares a budget for the General Fund as required by the Commonwealth of Pennsylvania Public School Code. Budgets are not used for any other funds of the District. The District follows the following procedures in establishing the budgetary data reflected in the financial statements.

- An operating budget is adopted prior to the beginning of each year for the General Fund on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required.
- The Pennsylvania School Code dictates specific procedures relative to adoption of the School District's budget and reporting of its financial statements, specifically:
- The School District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.
- The School District is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which it is located, and within fifteen days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative office of the School District.
- Notice that public hearing will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least ten days prior to when final action on adoption is taken by the Board.

Legal budgetary control is maintained at the sub-function/major object level. The Board of School Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

In order to preserve a portion of an appropriation for which an expenditure has been committed by a purchase order, contract or other form of commitment, an encumbrance is recorded. Encumbrances outstanding at year end, if any, are reported in the fund financial statements as reservations of fund balances.

Included in the General Fund budget are program budgets as prescribed by the federal and state agencies funding program. These budgets are approved on a program by program basis by the federal and state funding agencies.

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. CASH AND INVESTMENTS**

The 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.

Investments with a maturity of one year or less at the time of purchase are recorded at cost or amortized cost. Those with a maturity of greater than one year are reported at fair value. Changes in the fair value of investments are recorded as investment income.

**G. INVENTORY**

Inventories of the governmental funds consist of expendable supplies held for consumption and are recorded as expenditures at the time of purchase. Amounts on hand at year-end are shown on the balance sheet as an asset for informational purposes only and are also reported as part of the nonspendable fund balance as they do not constitute "available spendable resources." These inventories are stated at cost.

Inventories of the proprietary funds are recorded as assets when purchased and expensed when consumed. These inventories are stated at cost. Surplus commodities are stated at standard costs, as determined by the Department of Agriculture. In the financial statements, commodities received are recorded as deferred revenue until consumed.

**H. CAPITAL ASSETS**

Capital assets, which include land, buildings and improvements, and furniture and equipment, are reported in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$1,500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. CAPITAL ASSETS (Continued)**

Depreciation is computed using the straight-line method over the following useful lives:

Description	Useful Life
Land	Not Depreciated
Land Improvement	20 Years
Buildings & Improvements	15-30 Years
Furniture & Equipment	5-15 Years
Vehicles	3-15 Year

**I. COMPENSATED ABSENCES**

Compensated absences are those for which employees receive pay. A liability is recorded through the use of estimates, which apply historical data to current factors. The District maintains records of unused absences and applies current and/or contracted compensation rates to the various types of compensated absences. Sick leave is recorded using the termination payment method, which has no current maximum per employee. The District allows only restricted sabbatical leave and therefore, has no recorded liability in advance of the sabbatical.

**J. RESTRICTED ASSETS**

Restricted assets are cash and cash equivalents whose use is limited by legal requirements such as a bond indenture. Restricted assets are reported only in the District-wide financial statements.

**K. FUND EQUITY**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a restricted purpose.

**L. NET POSITION**

Net position represents the difference between assets and liabilities in the District-wide financial statements. Net assets invested in capital assets consists of capital position, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets.

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**M. FOOD SERVICE FUND- UNALLOCATED COSTS**

Previous to fiscal year 2018, the District did not attempt to allocate "Building-Wide Costs" to the Food Service Fund (no facilities rental expense). Thus, General Fund expenditures (utilities, janitorial services, insurance, etc.) which partially benefit the Food Service Fund were not proportionately recognized. The District currently charges janitorial services to the Fund based on hours worked and electricity based on actual watts.

**N. SUBSEQUENT EVENTS**

In connection with the issuance of its financial statements, the District evaluated subsequent events through May 26, 2020, the date the financials were issued. On January 30, 2020, the World Health Organization declared the novel coronavirus (COVID-19) a Public Health Emergency of International Concern. Later, on March 11, 2020, the World Health Organization made the assessment that COVID-19 was a global health pandemic. Measures taken by general, state, and local officials to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses and government, resulting in an economic slowdown.

The outbreak of COVID-19 has caused disruption in operations for school districts. The Governor of Pennsylvania closed all K-12 Pennsylvania schools for 10 business days effective March 16, 2020, and on April 9, 2020, extended that closure through the remainder of the 2019-2020 academic year.

The global outbreak of COVID-19 continues to rapidly evolve, and the ultimate impact of the pandemic is highly uncertain. While the District expects that the COVID-19 outbreak may adversely impact the District fiscal year 2020 results, the District cannot at this time accurately predict the full extent to which the COVID-19 outbreak will affect the District's finances and operations. Other adverse consequences of COVID-19 or any other similar outbreaks in the future may include a decline in tax revenue and increased operating costs. The District continues to monitor developments and the directives of federal, state and local officials to determine what additional precautions and procedures need to be implemented by the District.

**O. ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles 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.

**P. TAXES RECEIVABLE AND INTERGOVERNMENTAL RECEIVABLES**

Taxes receivable are reported net an allowance for uncollectible balances. Intergovernmental receivables include amounts due from the state and federal governments for various grants and subsidies.

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Q. INTERFUND ACTIVITY**

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds.

Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds.

**R. DEFERRED OUTFLOWS/ INFLOWS OF RESOURCES**

In June 2011, the GASB issued Statement 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."* GASB 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. This change was incorporated in the District's financial statements for the year ended June 30, 2013.

Effective July 1, 2013 the District implemented GASB 65, *"Items Previously Reported as Assets and Liabilities."* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenditure) until then. The District has deferred outflows of resources in its government-wide statement of net position relating to the District's PSERS pension liability and OPEB liability in the governmental activities. The District had no deferred outflows of resources in its governmental funds balance sheet.

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has deferred inflows of resources in its government wide statement of net position relating to the District's PSERS pension liability and the OPEB liability in the governmental activities.

The District has one item that qualifies as deferred inflows of resources in its governmental funds balance sheet, the deferred tax collections. The portion of the net tax receivable estimated to be collectible, which was measurable and available within the 60 days, was recognized as revenue; the balance of the net tax receivable is deferred in the fund financial statements.

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**S. LONG-TERM LIABILITIES**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method in most instances. In the prior years, the District made the decision to recognize the full non-material amount in the financial statements. Debt issuance costs are recognized as an expense in the period incurred.

In the fund financial statements, the face amount of debt issued is reported as other financing sources and the repayment of debt is reported as expenditures. Premiums received on debt issues are reported as other financing sources; discounts on debt issuances are reported as other financing uses during the current period.

**T. DUE TO AND DUE FROM OTHER FUNDS**

Interfund receivables and payables are the result of routine expenses paid from one fund on behalf of or properly chargeable to another fund. All such balances reflected are current and are normally liquidated within a reasonable time period.

In the process of aggregating data for the government-wide statement of net position and statement of activities, amounts reported as interfund activity and balances in the funds were eliminated or reclassified, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

**A. DEPOSITS**

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The deposit policy of the school district adheres to state statutes and prudent business practice. Cash equivalents are defined as short-term, highly liquid investments--that are readily convertible to known amounts of cash and include investments with original maturities of three months or less. Cash and cash equivalents consist of demand deposits at various financial institutions and cash on hand. The market values of deposits are equal to the cost of the deposits.

Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to:  
Deposit in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository.



**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)**

As of June 30, 2019, the District's cash balances for its governmental activities and business-type activities funds were \$7,138,152 and its bank balances were \$7,856,143.

All deposits at June 30, 2019 are insured by the Federal Deposit Insurance Corporation (FDIC) for amounts up to \$250,000. Deposits over this amount are collateralized by a pool of eligible securities established under Act 72 of the 1971 Session of the Pennsylvania General Assembly for the protection of public depositors. The pledged securities in the pool are safe kept at correspondent banks in accounts specifically segregated for this purpose. Act 72 specifies that it is the bank's responsibility to maintain sufficient assets in the pool to collateralize adequately all public deposits greater than the \$250,000 per type of account per entity which is FDIC insured.

**B. INVESTMENTS**

The investment policy of the school district adheres to state statutes and prudent business practices. The investments of the school district consist of certificates of deposit and U.S. Agency Obligations as authorized by the Board. Investments are stated at cost including accrued interest which approximates market value.

*Interest Rate Risk* - The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. It is the practice of the District to limit its interest rate risk by investing in securities with maturity dates under one year.

*Custodial Credit Risk* - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The District has no investments subject to custodial credit risk.

*Credit Risk* - Under Section 4440.1 of the Public School Code of 1949, as amended, the District is permitted to invest its monies as follows:

Obligations of (1) the United States of America or any of its agencies or instrumentalities backed by the faith and credit of the United States of America, (2) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (3) 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.

*Concentration Risk* - The District does not have a policy that would limit the amount it may invest in any one issuer.

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)**

The District has deposits in the Pennsylvania School District Liquid Asset Fund (PSDLAF), the Pennsylvania Treasurer's Invest Program for Local Government, and the Pennsylvania Local Government Investment Trust (PLGIT) as authorized by the Board. PSDLAF was established to enable school districts to pool funds for investment in instruments authorized by Section 440.1 of the Pennsylvania Public School Code of 1949, as amended. Pennsylvania Treasurer's Invest Program for Local Government insures that it will not place deposits with any single issuing institution if the largest participant's pro rata share of such deposits exceeds \$100,000, unless such deposits are secured by (1) Treasurer, federal agencies (collateralized at 102%) or (2) certificates of deposit (collateralized by 120%).

Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PLGIT and PSDLAF act like a money market mutual fund in that its objective is to maintain a stable net asset of \$1 per share, is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit.

In June 2011, the District contributed \$347,118 to the Pennsylvania OPEB Trust. The Trust was established for Local PA Government units to pool their assets for investment to fund retiree benefits other than pensions within the meaning of the Governmental Accounting Standards Board Statements 43 and 45 (OPEB). The District's participation in the Trust is terminable by resolution of the District, subject to the terms, conditions, and restrictions of the Pennsylvania OPEB Trust Agreement and Participation Agreement. The assets of the trust are invested in a mutual fund in the US Bank. At June 30, 2019, the District's share of the trust is \$505,286, and is represented in the Statement of Fiduciary Net Position.

As of June 30, 2019, the District's investment balance by type and maturity were as follows:

	Fair Value Measurement Using 06/30/18	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by fair value level</b>				
PA Treasurer's Invest	\$ 158,733	\$ 158,733	\$ -	\$ -
PSDLAF	31,914	31,914	-	-
OPEB Trust	505,286	505,286	-	-
<b>Total Investments by fair value level</b>	<b>\$ 695,933</b>	<b>\$ 695,933</b>	<b>\$ -</b>	<b>\$ -</b>

As of June 30, 2019, the District had the following deposits (carrying value):

Investment Type	Fair Value	Less than 1 year	Maturities 1-5 years	6-10 years
PA Treasurer's Invest	\$ 158,733	\$ 158,733	\$ -	\$ -
PSDLAF	31,914	31,914	-	-
OPEB	505,286	505,286	-	-
	<b>\$ 695,933</b>	<b>\$ 695,933</b>	<b>\$ -</b>	<b>\$ -</b>

**Shamokin Area School District**  
 Note to the Financial Statements  
 June 30, 2019

**NOTE 3 - INTERGOVERNMENTAL RECEIVABLES:**

Due from other governments consist of amounts due for revenues earned by the District as of June 30, 2019. The following amounts are due from other governmental units:

	<u>Governmental</u>	<u>Proprietary</u>
Federal Programs	\$ 303,200	\$ 53,441
State Programs	1,094,060	2,204
Local Programs	<u>3,879,227</u>	<u>-</u>
Total	\$ 5,276,487	\$ 55,645

**NOTE 4 – INTERFUND TRANSFERS & RECEIVABLES**

	<u>Due to Other Funds</u>	<u>Due from Other Funds</u>
General Fund	\$ 7,955	\$ 163,025
Capital Reserve Fund	-	7,955
Food Service Fund	<u>163,025</u>	<u>-</u>
	<u>\$ 170,980</u>	<u>\$ 170,980</u>

	<u>Transfers to Other Funds</u>	<u>Transfers from Other Funds</u>
General Fund	\$ 172,432	\$ -
Capital Reserve Fund	-	105,316
Food Service Fund	<u>-</u>	<u>67,116</u>
	<u>\$ 172,432</u>	<u>\$ 172,432</u>

**NOTE 5 - CAPITAL ASSETS**

Capital assets at June 30, 2019 consist of all land, buildings, furniture and equipment owned by and which has been titled in the name of the District. Amounts reflected in the government-wide statements are summarized as follows:

**Shamokin Area School District**  
**Note to the Financial Statements**  
June 30, 2019

**NOTE 5 - CAPITAL ASSETS (Continued)**

	Balance, June 30, 2018	Additions	Deletions	Balance, June 30, 2019
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets, not being depreciated				
Land	\$ 10,362,707	\$ -	\$ -	\$ 10,362,707
	<u>10,362,707</u>	<u>-</u>	<u>-</u>	<u>10,362,707</u>
Capital assets, being depreciated				
Buildings and Improvements	30,061,697	14,830	-	30,076,527
Site Improvements	3,010,671	-	-	3,010,671
Furniture & Equipment	10,617,625	96,187	25,750	10,688,062
	<u>43,689,993</u>	<u>111,017</u>	<u>25,750</u>	<u>43,775,260</u>
Less: Accumulated Depreciation				
Buildings and Improvements	20,494,173	445,419	-	20,939,592
Site Improvements	2,457,612	55,747	-	2,513,359
Furniture & Equipment	9,713,979	190,496	25,750	9,878,725
	<u>32,665,764</u>	<u>691,662</u>	<u>25,750</u>	<u>33,331,676</u>
Governmental activities - Capital Assets, net	<u>\$ 21,386,936</u>	<u>\$ (580,645)</u>	<u>\$ -</u>	<u>\$ 20,806,291</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Furniture/Equipment	\$ 735,696	\$ -	\$ -	\$ 735,696
Less: Accumulated Depreciation	677,831	25,005	-	702,836
Business Type Activities -Capital Assets, Net	<u>\$ 57,865</u>	<u>\$ (25,005)</u>	<u>\$ -</u>	<u>\$ 32,860</u>

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

Instruction	\$ 468,700
Instructional Student Support	30,258
Administrative & Financial Support Services	84,926
Operation & Maintenance of Plant Services	63,960
Pupil Transportation	28,642
Student Activities	14,935
Community Services	241.00
Governmental Activities Total	<u>\$ 691,662</u>
Business Type Activities Total	<u>\$ 25,005</u>

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 6 - LONG-TERM LIABILITIES**

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2019:

<b>Governmental activities</b>	<b>Balance July 1, 2018</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2019</b>	<b>Current Portion</b>
Long-term Debt	\$ 6,842,000	\$ -	\$ 431,000	\$ 6,411,000	\$ 436,000
Compensated Absences	370,088	45,858	-	415,946	25,000
Net Pension Liability	42,721,000	-	1,053,000	41,668,000	-
Net OPEB Liability	3,512,780	-	451,611	3,061,169	-
<b>Total</b>	<b>\$ 53,445,868</b>	<b>\$ 45,858</b>	<b>\$ 1,935,611</b>	<b>\$ 51,556,115</b>	<b>\$ 461,000</b>

As of June 30, 2019, the District's long-term debt consisted of the following:

<b>Description</b>	<b>Interest Rate</b>	<b>Amount of Original Issue</b>	<b>Balance June 30, 2018</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2019</b>
General Obligation Note Series A of 2011	5.138%	\$ 4,068,000	\$ 2,712,000	\$ -	\$ 226,000	\$ 2,486,000
General Obligation Bond Series of 2017	1.000%	4,285,000	4,130,000	-	205,000	3,925,000
			<b>\$ 6,842,000</b>	<b>\$ -</b>	<b>\$ 431,000</b>	<b>\$ 6,411,000</b>

**Long-Term Debt Obligations**

*General Obligation Note Series A of 2011*

On November 3, 2011, the District, through the Pennsylvania State Public School Building Authority (Qualified Zone Academy Bonds (QZAB) – Direct Subsidy Bonds) issued a General Obligation Note Series A of 2011 in the amount of \$4,068,000 at a fixed interest rate of 5.138%. The proceeds of the issue are to be used to complete capital renovations and to pay issuance costs. Annual installments, as set forth below, are required to provide for payment of principal and interest through September 2029. Under the QZAB program the District will receive 92.80% reimbursement of interest paid on the Note in the form of a Federal reimbursement. The balance as of June 30, 2019 was \$2,486,000.

*General Obligation Bonds, Series of 2017*

In September 2017, the District issued the General Obligation Bonds, Series of 2017, in the aggregate principal amount of \$4,285,000 at variable interest rates due semi-annually and principal due annually. The proceeds of the bonds were used to currently refund the District's outstanding General Obligation Note, Series of 2015 and for payment of the costs of issuing the Bonds. The balance as of June 30, 2019 was \$3,925,000.

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 6 - LONG-TERM LIABILITIES (Continued)**

An analysis of debt service requirements to maturity on these obligations is as follows:

<b>Years Ending June 30,</b>	<b>Principle</b>	<b>Interest</b>	<b>Total Debt Service</b>
2020	\$ 436,000	\$ 302,540	\$ 738,540
2021	436,000	299,390	735,390
2022	441,000	295,665	736,665
2023	446,000	291,315	737,315
2024	451,000	286,865	737,865
2025 - 2029	2,330,000	1,360,385	3,690,385
2030 - 2034	1,591,000	250,986	1,841,986
2034 - 2035	280,000	4,200	284,200
<b>Totals</b>	<b>\$ 6,411,000</b>	<b>\$ 3,091,346</b>	<b>\$ 9,502,346</b>

**COMPENSATED ABSENCES**

Vacation - District employees who are required to work on a twelve-month schedule are credited with vacation at rates which vary with length of service or job classification. Vacation may be taken or accumulated within certain limits and is paid prior to retirement or termination at the employee's current rate of pay. At June 30, 2019, the estimated liability for compensated absences related to vacation payable was \$102,110.

Sick Leave and Personal Leave - Most District employees are credited with ten sick days and three personal leave days annually. Upon retirement, employees received payment for the unused portion of their sick leave and personal leave based on years of service and on rates specified by contracts or agreements. At June 30, 2019, the estimated liability for compensated absences related to sick and personal leave was \$166,837.

Early Retirement Incentive- The District offers an early retirement incentive to professional employees who retire having at least ten complete years of service with the District and at least thirty complete years as a professional employee in public schools of the Commonwealth of Pennsylvania. At June 30, 2019, the estimated liability for compensated absences related to outstanding early retirement incentives was \$147,000.

The accrued benefit to be provided from unused sick, personal, and vacation days and early retirement incentives was estimated to be \$415,947 as of June 30, 2019, and was reflected in the statement of net position as "compensated absences." This amount reported in the statement of net position represents the amount that would have been committed by the District under the terms of the various collective bargaining agreements computed as if all eligible District employees had retired effective July 1, 2019.

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 7 – PENSION PLAN**

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deduction from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

***General Information about the Pension Plan***

Plan description

PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System 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.

The Administrative staff of PSERS administers the plan. The control and management of PSERS, including the investment of its assets, is vested in the Board of Trustees (Board).

The board consists of 15 members: the Secretary of Education, ex officio; the State Treasurer, ex officio; two Senators; two members of the House of Representatives; the executive secretary of the Pennsylvania School Boards Association, ex officio; two Governor appointees, at least one of whom shall not be a school employee or an officer or employee of the State of Pennsylvania; three who are elected by the active professional members of PSERS from among their number; one who is elected by annuitants from among their number; one who is elected by the active nonprofessional member of PSERS from among their number; and one who is elected by members of Pennsylvania public school boards from among their number. The chairman of the Board is elected by the Board members. Each ex officio member of the Board and each legislative member of the Board may appoint a duly authorized designee to act in their stead.

PSERS was established on July 18, 1917 under the provisions of Pamphlet Law, No. 343. Benefit payments to members and contribution provision by employers and employees are specified in the Pennsylvania Public School Employees' Retirement Code. The Commonwealth General Assembly has the authority to amend the benefit terms of the PSERS by passing a bill in the Senate and House of Representatives and sending the bills to the Governor for approval. PSERS issues a publicly available financial report that can be obtained at [www.psers.state.pa.us](http://www.psers.state.pa.us).

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 7 – PENSION PLAN (Continued)**

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T- E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

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

Contributions

Member Contribution:

Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.



**Shamokin Area School District**  
Note to the Financial Statements  
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**NOTE 7 – PENSION PLAN (Continued)**

Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F Contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contribution

The contribution policy is set by the Code. The Districts' contractually required contribution rate for the fiscal year ended June 30, 2019 was 32.60% 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. Contributions to the pension plan from the District were \$3,897,362 for the year ended June 30, 2019.

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

At June 30, 2019, the District reported a liability of \$41,668,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2017 to June 30, 2018. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it related to the total one-year reported covered payroll. At June 30, 2019, the District's proportion was 0.0868 percent, which was an decrease of 0.0003 percent from its proportion measured as of June 30, 2018.

For the year ended June 30, 2019, the District recognized pension expense of \$714, 210. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

**Shamokin Area School District**  
**Note to the Financial Statements**  
**June 30, 2019**

**NOTE 7 – PENSION PLAN (Continued)**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 335,000	\$ 645,000
Changes in assumptions	776,000	-
Net difference between projected and actual investment earnings	204,000	-
Changes in proportion	463,000	165,000
Difference between employer contributions and proportionate share of total contributions	-	-
Contributions subsequent to the measurement date	3,897,362	-
	<u>\$ 5,675,362</u>	<u>\$ 810,000</u>

\$3,897,362 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as reduction of the net pension liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2019	971,000
2020	300,000
2021	(443,000)
2022	(159,000)
Thereafter	-

**3. Changes in Actuarial Assumptions**

The total pension liability as of June 30, 2018 was determined by rolling forward the system's total pension liability as of June 30, 2017 to June 30, 2018 using the following actuarial assumptions applied to all periods included in the measurement.

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment Return 7.25%, includes inflation at 2.75%.
- Salary growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases
- Mortality rates were 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.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study that was performed for the five-year period ending June 30, 2015.

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 7 – PENSION PLAN (Continued)**

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 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.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Public Equity	20.0%	5.2%
Fixed Income	36.0%	2.2%
Commodities	8.0%	3.2%
Absolute Return	10.0%	3.5%
Risk Parity	10.0%	3.9%
Infrastructure/MLPs	8.0%	5.2%
Real Estate	10.0%	4.2%
Alternative Investments	15.0%	6.7%
Cash	3.0%	0.4%
Financing (LIBOR)	-20%	0.9%
	<u>100.0%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2018.

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 contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total liability.

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 7 – PENSION PLAN (Continued)**

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	<b>1% Decrease 6.25%</b>	<b>Current Discount Rate 7.25%</b>	<b>1% Increase 8.25%</b>
District's Proportionate Share of the Net Pension Liability	\$ 51,651,000	\$ 41,668,000	\$ 33,228,000

Pension plan fiduciary net position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the System's website at [www.psers.state.pa.us](http://www.psers.state.pa.us).

**NOTE 8- OTHER POST-EMPLOYMENT BENEFITS**

**PSERS Healthcare Insurance Premium Assistance Plan**

Other Postemployment Benefits

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Health Insurance Premium Assistance Program

The System provides Premium Assistance which, is a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

Program. As of June 30, 2018 there were no assumed future benefit increases to participating eligible retirees.

**NOTE 8- OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**PSERS Healthcare Insurance Premium Assistance Plan (Continued)**

Premium Assistance Eligibility Criteria

Retirees of the System can participate in the Premium Assistance program 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 HOP or employer-sponsored health insurance program.

Pension Plan description

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System 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. PSERS issues a publicly available financial report that can be obtained at [www.psers.pa.gov](http://www.psers.pa.gov).

Benefits Provided:

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2018, there were no assumed future benefit increases to participating eligible retirees.

Employer Contributions:

The District's contractually required contribution rate for the fiscal year ended June 30, 2019 was 0.085% 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. Contributions to the OPEB plan from the District were \$99,227 for the year ended June 30, 2019.

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 8- OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**PSERS Healthcare Insurance Premium Assistance Plan (Continued)**

***2. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

As of June 30, 2019, the District reported a liability of \$1,810,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2017 to June 30, 2018. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it related to the total one- year reported covered payroll. As of June 30, 2019, the District's proportion was 0.0868 percent, which was an increase of .0001 percent from its proportion measured as of June 30, 2018.

For the year ended June 30, 2019, the District recognized OPEB expense of (\$17,961). As of June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference Between Expected and Actual Experience	\$ 11,000	\$ -
Changes in Assumptions	29,000	69,000
Net Difference Between Projected and Actual Investment Earnings	3,000	-
Changes in Proportion	5,000	3,000
Contributions Subsequent to the Measurement Date	99,227	-
	\$ 147,227	\$ 72,000

\$99,227 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 8- OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**PSERS Healthcare Insurance Premium Assistance Plan (Continued)**

***2. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)***

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 Ended June 30:

2019	\$	(6,000)
2020		(6,000)
2021		(6,000)
2022		(6,000)
2023		(7,000)
Thereafter		(8,000)

The OPEB plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Under the program, as defined in the retirement code employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

***3. Actuarial Assumptions***

Total OPEB Liability as of June 30, 2018, was determined by rolling forward the System's Total OPEB Liability as of June 30, 2017 to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement.

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment Return - 2.98% - S&P 20 Year Municipal Bond Rate.
- Salary growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for 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.

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 8- OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**PSERS Healthcare Insurance Premium Assistance Plan (Continued)**

**3. Actuarial Assumptions (Continued)**

- Participation rate:
  - Eligible retirees will elect to participate Pre age 65 at 50%
  - Eligible retirees will elect to participate Post age 65 at 70%

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study that was performed for the five-year period ending June 30, 2015.

The following assumptions were used to determine the contribution rate.

- The results of the actuarial valuation as of June 30, 2016 determined the employer contribution rate for fiscal year 2018.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

Investments consist primarily of short term assets designed to protect the principal of the plan assets. The expected rate of return on OPEB plan investments was determined using the OPEB asset allocation policy and best estimates of geometric real rates of return for each asset class.

The OPEB plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Under the program, as defined in the retirement code employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

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.



**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 8- OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**PSERS Healthcare Insurance Premium Assistance Plan (Continued)**

**3. Actuarial Assumptions (Continued)**

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

The below was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2018.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	6%	0.03%
U.S. Core Fixed Income	93%	1.20%
Non-US Developed Fixed	1%	0.40%
Total	100%	

**Discount rate**

The discount rate used to measure the Total OPEB Liability was 2.98%. Under the plan's funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of 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 Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a "pay-as-you-go" plan. A discount rate of 3.13% which represents the S&P 20 Year Municipal Bond Rate as of June 30, 2018, was applied to all projected benefit payments to measure the total OPEB liability.

**Sensitivity of the System Net OPEB Liability to Change in Healthcare Cost Trend Rates**

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2018, retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2017, 93,380 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2017, 1,077 members were receiving less than the maximum amount allowed of \$1,200 per year. 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 Healthcare Cost Trends as depicted below.

**Shamokin Area School District**  
 Note to the Financial Statements  
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**NOTE 8- OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**PSERS Healthcare Insurance Premium Assistance Plan (Continued)**

Sensitivity of the System Net OPEB Liability to Change in Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2018, retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2017, 93,380 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2017, 1,077 members were receiving less than the maximum amount allowed of \$1,200 per year. 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 Healthcare Cost Trends as depicted below.

The following presents the System net OPEB liability for June 30, 2018, calculated using current Healthcare cost trends as well as what the System net OPEB liability would be if it health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend</u>	<u>1% Increase</u>
District's Proportionate Share of the Net OPEB Liability	\$ 1,809,000	\$ 1,810,000	\$ 1,810,000

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability, calculated using the discount rate of 2.98%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (1.98%) or 1-percentage-point higher (3.98%) than the current rate:

	<u>1% Decrease 1.98%</u>	<u>Current Discount Rate 2.98%</u>	<u>1% Increase 3.98%</u>
District's Proportionate Share of the Net OPEB Liability	\$ 2,058,000	\$ 1,810,000	\$ 1,604,000

OPEB plan fiduciary net position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the System's website at [www.psers.pa.gov](http://www.psers.pa.gov).

**Shamokin Area School District**  
Note to the Financial Statements  
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**NOTE 8- OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**Single-Employer Defined Benefit OPEB Plan (the "District Plan")**

Plan Description

*Plan Administration.* The District's other post-employment benefits ("**OPEB**") include a single-employer defined benefit plan that is used to provide postretirement healthcare benefits for teachers and certain others who retire under the qualifications of the Pennsylvania School Employee's Retirement System. Plan provisions are established based on bargaining agreements negotiated by the District. The District Plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

*Plan Membership.* As of June 30, 2019, the District Plan's membership consisted of the following:

Active Participants	233
Vested Former Participants	-
Retired Participants	<u>22</u>
Total	255

Annual Payroll of Active Participants:      \$ 11,223,937

*Benefits Provided.* The plan's coverage includes medical prescription drug, and dental & vision coverage for retiree, spouse and dependents. For *Administrators*, the District pays 100% of the premiums until the earlier of 10 years or Medicare age. After 10 years. The member may stay on the plan by paying premiums in full until reaching Medicare age. For *Teachers retired before 6/30/2006*, members use their unused sick day bank until it is extinguished then continues to pay the \$100 and the rate increases for themselves and their spouses, however the they cease to receive dental and vision coverage. For *Teachers retired after 6/30/2006*, the District contributes \$6,000 per year into an HRA account to be used towards medical expenses until the earlier of 5 years or members reaching Medicare age. The member pays any remaining premiums during this period. In addition, a member who retired with 30 to 36 years of PSERS service receives a one-time payment of \$16,000 into an HRA account to be used towards medical expenses. For *Support Staff*, the member must be 100% of the premiums.

*Contributions.* The contribution requirements of the plan members and the District established and may be amended by the School Board of Directors. The plan is funded on a pay-as-you-go basis, i.e. premiums are paid annually to fund the healthcare benefits provided to current retirees, primarily through annual appropriations from the General Fund. Retiree contribution rates and amount vary depending on classification and years of service with the District; they are assumed to increase at the same rate as the Health Care Cost Trend Rate. The contribution requirements of retirees are established and may be amended by the School Board. The costs of administering the OPEB plan are paid by the District.

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 8- OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**Single-Employer Defined Benefit OPEB Plan (the “District Plan”)**

Investments

*Method Used to Value Investments.* Investments in the District Plan are reported at fair value. Investments that do not have an established market value are reported at estimated fair value.

*Investment Policy.* The District Plan’s policy in regard to the allocation of invested assets is established and may be amended by the School Board. It is the policy of the School Board to pursue an investment strategy that reduces risk through prudent diversification of the portfolio across a broad selection of distinct asset classes. The District Plan’s investment policy discourages the use of cash equivalent, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. A schedule of plan investments by asset class and target allocation as of June 30, 2019 is as follows:

*Rate of Return.* The annual money-weighted rate of return on District Plan investments, net of investment expenses, was 2.79%. The money-weighted rate of return expresses investment performance, net of expenses, adjusted for the changing amounts actually invested.

Net OPEB Liability

The components of the net OPEB liability of the District’s Single-Employer Defined Benefit OPEB Plan at June 30, 2019 were as follows:

Total OPEB Liability	\$ 1,756,455
Plan Fiduciary Net Position	<u>505,286</u>
Net OPEB Liability (Asset)	<u><u>\$ 1,251,169</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	28.77%

*Actuarial Assumptions and Other Inputs.* The net OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.00%
Salary Increases	3.50% average, including inflation
Discount Rate	3.13%

**Shamokin Area School District**  
Note to the Financial Statements  
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**NOTE 8- OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**Single-Employer Defined Benefit OPEB Plan (the “District Plan”)**

Healthcare Cost Trend Rate: 6.00% for 2018, and 5.5% in 2019 through 2021, gradually decreasing to an ultimate rate 3.8% by 2075.

The discount rate was based on the S&P Municipal Bond 20 Year High Grade Rate Index as of June 30, 2019.

Mortality rates are assumed using the rates assumed in the PSERS defined benefit pension plan actuarial valuation with projections incorporated based on the Buck Modified 2016 projection scale to reflect mortality improvement.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of census data as of September 2016.

The discount rate is determined following the procedures of Illustration B2 in the GASB 74 implementation guide. The long-term expected rate of return on OPEB plan investments is 6.50% and the municipal bond rate is 2.79% based on the S&P Municipal Bond 20 Year High Grade Rate Index as of June 30, 2019.

The target asset allocation as of June 30, 2019 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity	21.5%
International Equity	10.6%
Real Estate	0.0%
Fixed Income	67.9%
	<u>100.0%</u>

*Discount Rate.* The discount rate used to measure the total net OPEB liability is 3.89% based upon the expected rate of return, net of expected investment expenses. The plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 8- OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**Single-Employer Defined Benefit OPEB Plan (the “District Plan”)**

*Sensitivity of the Net OPEB Liability to Changes in the Discount Rate.*

The following presents the net OPEB liability of the District Plan, as well as what the District’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.89%) or 1-percentage higher (4.89%) than the current discount rate (3.89%):

	<b>1% Decrease 2.89%</b>	<b>Current Discount Rate 3.89%</b>	<b>1% Increase 4.89%</b>
District's Net OPEB Liability	\$ 1,374,128	\$ 1,251,169	\$ 1,134,278

*Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate.*

The following presents the net OPEB liability of the District Plan, as well as what the District’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage lower or one percentage higher than the current healthcare cost trend rates:

	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
District's Net OPEB Liability	\$ 1,094,579	\$ 1,251,169	\$ 1,438,151

**OPEB Expense and Deferred Outflows of Resources Related to OPEB**

For the year ended June 30, 2019, the District recognized OPEB expense of \$27,773. As of June 30, 2019 the District reported deferred outflows related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between Expected and Actual Experience	\$ -	\$ 96,271
Changes in Assumptions	177,483	49,109
Net difference between Projected and Actual Earnings	8,538	4,240
Total	\$ 186,021	\$ 149,620

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 8- OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**Single-Employer Defined Benefit OPEB Plan (the “District Plan”)**

Amounts, other than contributions subsequent to the measurement date, reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>Year Ended June 30:</b>		
2020	\$	6,609
2021		6,609
2022		5,838
2023		3,506
2024		4,566
Thereafter		9,273

**NOTE 9 - TAXES ASSESSED AND DEFERRED REVENUE**

The tax on real estate for public school purposes for the year ended June 30, 2019 was 33.21 mills (\$33.21 per \$1,000) of assessed valuation as levied by the board. Assessed valuations of property are determined by Northumberland County, and the elected tax collectors are responsible for the collection. The following is a listing of the taxes assessed:

<b>Tax Type</b>	<b>Millage/Rate</b>
Real Estate	33.21 mills
Occupation Tax - Act 511	\$200.00 / Person
Per Capita Tax - Act 511	\$5.00 / Person
Per Capita Tax - Section 679	\$5.00 / Person
Total Assessed Valuation	

The following is the tax calendar showing levy date, payment periods and delinquent dates for the above listed taxes:

Levy Date	July 1
Discount (2%) Payment Period	July 1 to August 31
Face Payment Period	September 1 to October 31
Penalty (10%) Payment Period	November 1 to December 31
Delinquent Date	January 1

Real estate taxes remaining unpaid as of December 31 are turned over to independent third parties for collection each January 1. Personal taxes remaining unpaid at that point are turned over to an appointed tax collection agency.

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 9 - TAXES ASSESSED AND DEFERRED REVENUE (Continued)**

The School District, in accordance with GAAP, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes as determined by the administration. A portion of the net amount estimated to be collectible was measurable and available within the 60 days, was recognized as revenue, and the balance deferred in the fund financial statements. All taxes, net of uncollectible amounts, are recognized in the period for which levied in the government-wide financial statements, regardless of when collected.

The taxes receivable net of allowance of uncollectible are summarized as follows:

Taxes Receivable	\$ 3,883,178
Less Allowance for Uncollectable Accounts	<u>(582,477)</u>
Taxes Receivable, Net	\$ 3,300,701

**NOTE 10 - RISK MANAGEMENT**

This District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains coverage from commercial insurance companies to cover these risks of loss; there have been no significant reductions in coverage from the prior year.

**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

Grants

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

Litigation

Dating back to the year ended June 30, 2013, the District was in progress of its capital renovations on the Elementary School. The plumbing contractor on the project (Yannuzzi, Inc.) had requested a change order in the amount of \$303,750 for costs they incurred working under a directive to complete such work. The Company maintains that the work completed was not included in the scope of the original contract. The District has received a writ of summons from Yanuzzi, Inc, discovery is still in progress. The District's design professional has indicated that the change order is not warranted and has no basis under the contract. Consequently, the District has rejected the change order request. The District has since added "Quad 5" into the suit as a third party; the matter is currently in written discovery. The District is responding by vigorous contest of the case therefore no accrual of liability has been made.



**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 11 - COMMITMENTS AND CONTINGENCIES (Continued)**

During the normal course of business, the District is subject to numerous disputes and claims. At June 30, 2019, there were no items of pending or threatened litigation that management has not accounted for of which they feel would have a material effect on the District's financial condition.

**NOTE 12- RELATED ORGANIZATIONS**

Not included in the School District's financial statements are any Parent-Teacher Associations (PTA), Parent-Teacher Organizations (PTO) and athletic and band booster clubs. These agencies provide services to students and employees of the District, but are separate legal entities having sufficient autonomy in the management of their own affairs to distinguish them as separate from the administrative organization of the District. The District does not account for these entities as component units or joint ventures; it does not maintain an ongoing financial interest or have responsibility for these entities.

**NOTE 13 - NEW PRONOUNCEMENTS**

Due to the coronavirus pandemic, GASB issued GASB No. 95 "Postponement of the Effective Dates of Certain Authoritative Guidance." Statement No. 95 postpones the effective dates of the following GASB Statements and Implementation Guides for one year from their original effective dates to provide relief to governments and other stakeholders in light of the COVID-19 pandemic: Statement 83—reporting periods beginning after June 15, 2019, Statement 84 and Implementation Guide 2019-2—reporting periods beginning after December 15, 2019, Statement 87 and Implementation Guide 2019-3—fiscal years beginning after June 15, 2021, and all reporting periods thereafter, Statement 88—reporting periods beginning after June 15, 2019, Statement 89—reporting periods beginning after December 15, 2020, Statement 90—reporting periods beginning after December 15, 2019, Statement 91—reporting periods beginning after December 15, 2021, Statement 92, paragraphs 6 and 7—fiscal years beginning after June 15, 2021, Statement 92, paragraphs 8, 9, and 12—reporting periods beginning after June 15, 2021, Statement 92, paragraph 10—government acquisitions occurring in reporting periods beginning after June 15, 2021, Statement 93, paragraphs 13 and 14 (relating to lease modifications)—fiscal years beginning after June 15, 2021, and all reporting periods thereafter. The District is evaluating the impact, if any this will have on their financial statements.

**NOTE 14 - NORTHWESTERN ACADEMY**

Situated within the boundaries of the Shamokin Area School District (SASD) lied a residential facility known as Northwestern Academy (Northwestern) which was owned by Northwestern Services, Inc., a private non-profit corporation. Northwestern provided services to adjudicated minors that are placed at Northwestern on a residential basis. Under the PA School Code of 1949 (School Code) Section 1306, Northwestern was an "institution for the care or training of children". As such, the School Code places certain obligations on the District with regard to the education of students placed at the institution.

**Shamokin Area School District**  
Note to the Financial Statements  
June 30, 2019

**NOTE 14 - NORTHWESTERN ACADEMY** (Continued)

The District and Northwestern believed that it is in the best interest of the students residing at Northwestern to receive their education on the grounds of Northwestern.

Effective July 1, 2014, the SASD had "taken over" providing all education services including regular and special education provided at Northwestern. While a contract for the lease rental was being negotiated, the District was paying the monthly lease rental as agreed to in the 2012/2013 lease agreement which calls for an annual base rent of \$1,310,434 to be paid by the SASD to Northwestern. The SASD invoiced the home district for the actual special education costs as incurred by SASD computed on a per diem basis along with the regular education SASD per diem tuition rate plus a per diem lease rental charge. Regular education tuition invoiced to the home district included the regular SASD education per diem tuition rate, plus a per diem lease rental charge.

The SASD was servicing the special and regular education needs of Northwestern with professional staff employed by the SASD and was not utilizing sub-contracted services from neither the Central Susquehanna Intermediate Unit, nor Northwestern Academy. As of June 30, 2016 this facility has closed their doors. Intergovernmental receivables and payables remain outstanding as of June 30, 2019 relating to this entity's operations.

**NOTE 15 – TRUECORE BEHAVIORIAL SOLUTIONS**

TrueCore Behavioral Solutions (TrueCore) began operation at the Northumberland County South Campus in October 2017. Truecore, which announced its decision to not renew its lease subsequent to June 30, 2019, operated a treatment program known as the Coal Township Youth Academy for at-risk males ages 13 to 18 in three buildings on county-owned property near Northumberland County Jail. The property formerly was the home of Northwestern.

As this property is situated within the boundaries of the District, the School Code places certain obligations on the District with regard to the education of students placed at the institution. The District and TrueCore believe that it is in the best interest of the students residing at TrueCore to receive their education on the grounds of TrueCore. The District provided the education services on the property and it invoices the home districts of the students directly for their fees.

**SHAMOKIN AREA SCHOOL DISTRICT  
JUNE 30, 2019**

**Required  
Supplementary  
Information**

**Shamokin Area School District**  
Required Supplementary Information  
June 30, 2019

**Schedule of the District's Proportionate Share of the Net Pension Liability - Last 10 Years**

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
District's proportion of the net pension liability	0.0868%	0.0865%	0.0867%	0.0851%	0.0864%	0.0798%
District's proportionate share of the net pension liability	\$41,668,000	\$42,721,000	\$42,966,000	\$36,862,000	\$34,198,000	\$32,668,000
District's covered-employee payroll	\$11,693,686	\$11,513,198	\$11,234,501	\$10,950,112	\$11,021,963	\$10,236,504
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	356.33%	371.06%	382.45%	336.64%	310.27%	319.13%
Plan fiduciary net position as a percentage of the total pension liability	54.00%	51.84%	50.14%	54.36	57.24%	54.49%

*Amounts were determined as of the cost-sharing plan's June 30, 2018 fiscal year.*

1. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

**Schedule of the District Contributions - Last 10 Years**

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Contractually required contribution	\$ 3,897,362	\$ 3,566,572	\$ 3,390,972	\$ 2,596,218	\$ 2,175,453	\$ 1,563,997
Contributions in relation to the contractually required contribution	(3,897,362)	(3,566,572)	(3,390,972)	(2,596,218)	(2,175,453)	(1,563,997)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$11,693,686	\$11,513,198	\$ 11,234,501	\$ 10,950,112	\$11,021,963	\$10,236,504
Contributions as a percentage of covered-employee payroll	33.33%	30.98%	30.18%	23.71%	19.74%	15.28%

*Amounts are based on actual contributions during the fiscal year.*

1. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

**Shamokin Area School District**  
Required Supplementary Information  
June 30, 2019

**Schedule of the District's Proportionate Share of the Net OPEB Liability**  
**Health Insurance Premium Assistance Plan**  
**Last 10 Years**

	<b>2019</b>	<b>2018</b>
District's proportion of the net OPEB liability	0.0868%	0.0867%
District's proportionate share of the OPEB liability	\$1,810,000	\$1,762,000
District's covered-employee payroll	\$11,693,686	\$11,513,198
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	15.48%	15.30%
Plan fiduciary net position as a percentage of the total pension liability	5.56%	5.73%

The District adopted GASB 75 on a prospective basis; therefore, information is presented for those years only for which information is available.

**Schedule of the District's Proportionate Share of the Net OPEB Liability**  
**Health Insurance Premium Assistance Plan**  
**Schedule of the District Contributions - Last 10 Years**

	<b>2019</b>	<b>2018</b>
Contractually required contribution	\$99,227	\$93,266
Contributions in relation to the contractually required contribution	(99,227)	(93,266)
Contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll	\$ 11,693,686	\$ 11,513,198
Contributions as a percentage of covered-employee payroll	0.85%	0.81%

*Amounts are based on actual contributions during the fiscal year.*

The District adopted GASB 75 on a prospective basis; therefore, information is presented for those years only for which information is available.

**Shamokin Area School District**  
Required Supplementary Information  
June 30, 2019

**Schedule of Changes in the Net OPEB Liability and Related Ratios  
District Other Postemployment Benefits Plan**

<b>Fiscal Year Ending</b>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Total OPEB Liability</b>			
Service Cost	\$ 148,598	\$ 123,972	\$ 117,927
Interest	79,558	75,052	74,478
Changes of Benefit Terms	(405,770)	-	-
Differences between Expected and Actual Experience	(102,288)	-	-
Changes of Assumptions	(52,178)	204,787	-
Benefit Payments	(135,806)	(159,340)	(211,017)
Other Changes	-	-	-
Net Change	<u>(467,886)</u>	<u>244,471</u>	<u>(18,612)</u>
Total OPEB Liability - Beginning	2,224,341	1,979,870	1,998,482
Total OPEB Liability - Ending	\$ 1,756,455	\$ 2,224,341	\$ 1,979,870
<b>Plan Fiduciary Net Position</b>			
Contributions - Employer	\$ 135,806	\$ 159,340	\$ 211,017
Contributions - Employee	-	-	-
Net Investment Income	35,944	18,089	26,585
Benefit Payments	(135,806)	(159,340)	(211,017)
Administrative Expense	<u>(4,219)</u>	<u>(4,167)</u>	<u>(3,887)</u>
Net Change	31,725	13,922	22,698
Plan Fiduciary Net Position - Beginning	473,561	459,639	436,941
Plan Fiduciary Net Position - Ending	\$ 505,286	\$ 473,561	\$ 459,639
<b>Net OPEB Liability (Asset)</b>	\$ 1,251,169	\$ 1,750,780	\$ 1,520,231
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	28.77%	21.29%	23.22%
Covered Payroll	\$ 11,223,937	\$ 10,542,847	\$ 10,542,847
Net OPEB Liability as a Percentage of Covered-Employee Payroll	11.15%	16.61%	14.42%

The District adopted GASB 75 on a prospective basis; therefore, information is presented for those years only for which information is available.

**Shamokin Area School District**  
Required Supplementary Information  
June 30, 2019

**Schedule of District Contributions - Last 10 Fiscal Years**  
**District Other Postemployment Benefits Plan**

	Fiscal Years					
	2019	2018	2017	2016	2015	2014
Actuarial determined contributions	\$ 135,806	\$ 159,340	\$ 217,801	217801		
Contributions in relation to the actuarial determined contribution	135,806	159,340	211,017			
Contribution deficiency (excess)	\$ -	\$ -	\$ 6,784	Information for FYE 2016 and earlier is not available		
Covered-employee payroll	\$ 11,223,937	\$ 10,542,847	\$ 10,542,847			
Contribution as a percentage of covered employee payroll	1.21%	1.51%	2.00%			

**Notes to Schedule:**

Valuation date:

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported. Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Closed, level percent of payroll
Asset valuation method	Market value of Assets
Inflation	2.50%
Healthcare cost trend rates	6.0% in 2018 and 5.5% in 2019 through 2021. Decreasing to 5.4% by 2022 to 3.8% in 2075
Salary increases	3.50%
Investment rate of return	6.50%
Retirement age	Age 55 with 25 years of service, or 30 years of service (regardless of age)

**Schedule of Investment Returns - Last 10 Fiscal Years**  
**District Other Postemployment Benefits Plan**

	Fiscal Years					
	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment	2.79%	2.79%	2.48%	Information for FYE 2016 and earlier is not available		

**SHAMOKIN AREA SCHOOL DISTRICT  
JUNE 30, 2019**

**Budget  
to Actual  
Schedule**



**Shamokin Area School District**  
Schedule of Revenues, Expenditures Changes in Fund Balances  
Budget and Actual  
General Fund  
For the Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Local Revenues	\$ 6,656,320	\$ 6,656,320	\$ 6,931,996	\$ 275,676
State Program Revenues	19,756,806	19,756,806	20,233,965	477,159
Federal Program Revenues	1,047,539	1,047,539	1,323,409	275,870
<b>TOTAL REVENUES</b>	<b>27,460,665</b>	<b>27,460,665</b>	<b>28,489,370</b>	<b>1,028,705</b>
<b>EXPENDITURES</b>				
<i>Instruction:</i>				
Regular Programs	14,181,842	14,181,842	13,834,604	347,238
Special Programs	4,779,627	4,779,627	4,732,976	46,651
Vocational Programs	1,716,198	1,716,198	1,440,413	275,785
Other Instructional Programs	1,000,779	1,000,779	419,294	581,485
Nonpublic School Programs	35,000	35,000	26,039	8,961
Community/Junior College Programs	-	-	-	-
Pre-Kindergarten Programs	340,000	340,000	368,016	(28,016)
<i>Support Services:</i>				
Pupil Personnel Services	582,052	582,052	569,775	12,277
Instructional Staff Services	689,808	689,808	774,400	(84,592)
Administrative Services	1,799,882	1,799,882	1,719,880	80,002
Pupil Health	582,484	582,484	593,783	(11,299)
Business Services	820,469	820,469	769,905	50,564
Operation & Maint. of Plant Services	3,125,706	3,125,706	2,734,921	390,785
Student Transportation Services	1,497,827	1,497,827	1,271,202	226,625
Central and Other Support Services	741,492	741,492	688,257	53,235
Other Support Services	-	-	-	-
<i>Operation of Noninstructional Services:</i>				
Food Services	-	-	-	-
Student Activities	688,823	688,823	663,470	25,353
Community Services	16,950	16,950	10,465	6,485
Scholarships and Awards	600	600	243	357
Acquisition, Constr., & Improvements	-	-	-	-
Debt Service	-	-	-	-
Refund of Prior year's revenue	-	-	65	(65)
<b>TOTAL EXPENDITURES</b>	<b>32,599,539</b>	<b>32,599,539</b>	<b>30,617,708</b>	<b>1,981,831</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(5,138,874)</b>	<b>(5,138,874)</b>	<b>(2,128,338)</b>	<b>3,010,536</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Debt Service	-	-	-	-
Insurance Proceeds	-	-	30,574	(30,574)
Interfund Transfers (Out)	-	-	(172,432)	172,432
Sale of Compensation for Loss of Fixed Assets	-	-	2,750	(2,750)
Budgetary Reserve	150,000	150,000	-	150,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>150,000</b>	<b>150,000</b>	<b>(139,108)</b>	<b>(289,108)</b>
<b>Net Change in Fund Balances</b>	<b>\$ (4,988,874)</b>	<b>\$ (4,988,874)</b>	<b>(2,267,446)</b>	<b>\$ 2,721,428</b>

See notes to financial statements  
which are an integral part of this statement.

**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**

Members of the School Board  
Shamokin Area School District  
Coal Township, Pennsylvania

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Shamokin Area School District (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 26, 2020.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule and Findings and Questioned Cost, which we consider to be material weaknesses. We consider deficiency 2019-001 described in the accompanying Schedule of Findings and Questioned Costs, to be a material weakness.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***The Shamokin Area School District's Response to Findings***

The District's response to the deficiency identified in our audit is described in the accompanying Management's Corrective Action Plan. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Klacik & Associates, P.C.*

Shamokin, Pennsylvania  
May 26, 2020

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

Members of the School Board  
Shamokin Area School District  
Coal Township, Pennsylvania

**Report on Compliance for Each Major Federal Program**

We have audited Shamokin Area School District's (the 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 each of the District's major federal programs for the year ended June 30, 2019. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

## Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

## Report on Internal Control over Compliance

Management of the 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 District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 were not identified.

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

*Klacik & Associates, P.C.*

Shamokin, Pennsylvania  
May 26, 2020

**Shamokin Area School District**  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2019

GRANT/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH GRANTOR'S NUMBER	PROGRAM OR AWARD AMOUNT	GRANT PERIOD BEGINNING/ ENDING DATES	TOTAL RECEIVED	ACCRUED OR (DEFERRED) REVENUE AT 6/30/18	REVENUE RECOGNIZED	FEDERAL EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT 6/30/19
<b>U.S. DEPARTMENT OF EDUCATION</b>									
Passed through Pennsylvania Department of Education:									
Title I Grants to Local Educational Agencies	84.010	013-190380	\$ 843,380	7/1/18 - 9/30/20	\$ 671,688	\$ -	\$ 762,963	\$ 762,963	\$ 91,275
Title I Grants to Local Educational Agencies	84.010	013-180380	827,129	7/1/17 - 9/30/19	165,426	51,973	113,453	113,453	-
Title I Subtotal					837,114	51,973	876,416	876,416	91,275
Title VI - Rural Education	84.358	007-180380	41,412	1/2/18 - 9/30/19	27,608	(13,804)	41,412	41,412	-
Title II Improving Teacher Quality	84.367	020-190380	122,972	7/1/17 - 9/30/19	44,647	-	8,353	8,353	(36,294)
Title II Improving Teacher Quality	84.367	020-180380	124,633	7/1/17 - 9/30/19	74,461	8,784	65,677	65,677	-
Title II Improving Teacher Quality Subtotal					119,108	8,784	74,030	74,030	(36,294)
Title IV Student Support and Academic Enrichment	84.424	144-190380	18,539.00	7/18/17 - 9/30/19	38,167	-	59,371	59,371	21,204
Passed through Central Susquehanna Intermediate Unit:									
Special Education - Grants to States (IDEA, Part B)	84.027	N/A	494,989	7/1/18 - 6/30/19	342,143	-	494,989	494,989	152,846
Special Education - Grants to States (IDEA, Part B)	84.027	N/A	484,146	7/1/17 - 6/30/18	142,949	142,949	-	-	-
Special Education - (IDEA, Part B) Subtotal					485,092	142,949	494,989	494,989	152,846
Special Education - Grants to States (IDEA, Preschool)	84.173	N/A	4,480	7/1/18 - 6/30/19	4,480	-	4,480	4,480	-
Special Education - (IDEA, Preschool) Subtotal					4,480	-	4,480	4,480	-
IDEA Cluster Subtotal					489,572	142,949	499,469	499,469	152,846
TOTAL U.S. DEPARTMENT OF EDUCATION					1,511,569	189,902	1,550,698	1,550,698	229,031
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>									
Passed through Pennsylvania Department of Human Services:									
Medical Assistance Program (ACCESS Title XIX)									
Administration Reimbursement (MAC)	93.778	N/A	N/A	7/1/17 - 6/30/18	-	-	17,502	17,502	17,502
Medical Assistance Program (ACCESS Title XIX)									
Administration Reimbursement (MAC)	93.778	N/A	N/A	7/1/17 - 6/30/18	23,235	23,235	-	-	-
Medical Assistance Program (ACCESS Title XIX)									
Administration Reimbursement (MAC)	93.778	N/A	N/A	7/1/16 - 6/30/17	-	4,171	-	-	4,171
Medical Assistance Program (ACCESS Title XIX) Subtotal					23,235	27,406	17,502	17,502	21,673
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					23,235	27,406	17,502	17,502	21,673

See notes to Schedule of Expenditures of Federal Awards  
which are an integral part of this statement.

**Shamokin Area School District**  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2019

GRANT/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH GRANTOR'S NUMBER	PROGRAM OR AWARD AMOUNT	GRANT PERIOD BEGINNING/ ENDING DATES	TOTAL RECEIVED	ACCRUED OR (DEFERRED) REVENUE AT 6/30/18	REVENUE RECOGNIZED	FEDERAL EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT 6/30/19
<b>U.S. DEPARTMENT OF AGRICULTURE</b>									
Passed through Pennsylvania Department of Education:									
Fresh Fruit and Vegetables Program	10.582	116-49-650-3	N/A	7/1/18 - 6/30/19	\$ 26,822	\$ -	\$ 29,899	\$ 29,899	\$ 3,077
Fresh Fruit and Vegetables Program	10.582	116-49-650-3	N/A	7/1/17 - 6/30/18	5,391	5,391	-	-	-
Fresh Fruit and Vegetables Program Subtotal					32,213	5,391	29,899	29,899	3,077
School Breakfast Program (SBP)	10.553	116-49-650-3	N/A	7/1/18 - 6/30/19	244,222	-	257,022	257,022	12,800
School Breakfast Program (SBP)	10.553	116-49-650-3	N/A	7/1/17 - 6/30/18	38,920	38,920	-	-	-
School Breakfast Program (SBP) Subtotal					283,142	38,920	257,022	257,022	12,800
National School Lunch Program (NSLP)	10.555	116-49-650-3	N/A	7/1/18 - 6/30/19	828,009	-	865,572	865,572	37,563
National School Lunch Program (NSLP)	10.555	116-49-650-3	N/A	7/1/17 - 6/30/18	121,618	121,618	-	-	-
National School Lunch Program (NSLP) Subtotal					949,627	121,618	865,572	865,572	37,563
Passed through Pennsylvania Department of Agriculture: Value of USDA Commodities	10.555	2-02-49-650	N/A	7/1/18 - 6/30/19	95,287	(16,703)	93,942	93,942	(18,048)
					(D.)	(D.)	(C.)	(C.)	(D.)
Child Nutrition Cluster Subtotal					1,328,056	143,835	1,216,536	1,216,536	32,315
TOTAL U.S. DEPARTMENT OF AGRICULTURE					1,360,269	149,226	1,246,435	1,246,435	35,392
TOTAL FEDERAL AWARDS					\$ 2,895,073	\$ 366,534	\$ 2,814,635	\$ 2,814,635	\$ 286,096

**Code Legend**

- (A.) Total amount of commodities received  
(B.) Beginning inventory at July 1, 2018  
(C.) Total amount of commodities used  
(D.) Ending inventory at June 30, 2019

Footnote 1: Federal sources included in the face of the financial statements, such as Medical Assistance Reimbursement for Administrative Claiming Program, are not required to be reported on the Schedule of Expenditures of Federal Awards.

Footnote 2: IDEA Cluster per the advisement of PDE to management has been included in local sources of revenue in the amount \$499,469

**Shamokin Area School District**  
Notes to the Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2019

**1. BASIS OF PRESENTATION AND ACCOUNTING**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Shamokin Area School District under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

The accompanying Schedule has been presented on the accrual basis of accounting. Expenditures are recorded, accordingly, when incurred rather than when paid.

The District has received noncash assistance during the year ended June 30, 2019 which is included in the Schedule of Expenditures of Federal Awards.

**2. CATEGORIZATION OF EXPENDITURES**

The accompanying Schedule reflects Federal expenditures for all programs which were active during the year. The categorization of expenditures included in the accompanying Schedule is based on the Catalog of Federal Domestic Assistance (CFDA). The accompanying Schedule of Expenditures of Federal Awards reflects CFDA changes issued through August 2019.

**3. ADDITIONAL INFORMATION**

The School District did not have any sub-recipients or pass through and funds to sub-recipients. The School District elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**4. IDENTIFICATION OF MAJOR PROGRAMS**

As shown on the accompanying *Schedule of Findings and Questioned Costs*, the dollar threshold used to distinguish between type A and type B programs were seven hundred and fifty thousand (\$750,000) dollars. The District had the following major programs which were audited:

Major Program	CFDA No.	Federal Expenditures
Title I	84.010	\$ 876,416
Special Education (IDEA) Cluster	84.027, 84.173	499,469
Total		<u>\$ 1,375,885</u>
Percentage of total federal awards expended		48.88%



**Shamokin Area School District**  
Notes to the Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2019

**5. MEDICAL ASSISTANCE**

Access reimbursement received under CFDA #93.778, Revenue Code 8810 are classified as fee-for-service revenues and are not recognized as federal awards for the purpose of the Schedule of Expenditures of Federal Awards.

**Shamokin Area School District**  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2019

**Section I – Summary of Auditor’s Results**

Financial Statements

Type of auditor’s report issued: UNMODIFIED

Internal control over financial reporting:  
Material weakness(es) identified?   X   yes        no

Significant deficiency(ies)?   X   yes        none reported

Noncompliance material to financial statements noted?        yes   X   no

Federal Awards

Internal control over major programs:  
Material weakness(es) identified?        yes   X   no

Significant deficiency(ies)?        yes   X   none reported

Type of auditor’s report issued on compliance for the major programs: UNMODIFIED

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010 84.027, 84.173	Title I Special Education IDEA Cluster

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

Auditee qualified as low-risk auditee?        yes   X   no

**Shamokin Area School District**  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2019

**Section II – Financial Statement Findings**

**A. Material Weakness in Internal Control**

**Finding 2019-001 Financial Statement Adjustments and Presentation**

**Criteria:** An integral component of an entity's internal control over financial reporting is to reconcile and prepare all the standard and non-standard entries as part of the year-end closing process.

AU-C Section 265 entitled Communicating Internal Control Related Matters in an Audit, issued by the American Institute of Certified Public Accountants (AICPA) considers the need for significant adjusting journal entries and assistance when preparing the financial statements to be indicative of an internal control deficiency. Without assistance, the potential exists of the District's financial statements not conforming to generally accepted accounting principles (GAAP).

**Condition:** Audit adjustments were required to be posted to the District's general ledger to properly reflect its financial position and financial activity for the year under audit. Additionally, the CSIU system was not closed out properly in the prior period. As this was not identified prior to the audit engagement, the beginning balances were not accurate until the system close was corrected. Although much of the information for the adjustments was provided by the District, some had not been analyzed and reconciled as adjustments and posted. The fact that these procedures were required in order for the financial statements to be properly stated constitutes a deficiency in the District's financial reporting processes.

The District was unable to provide final financial statements for PDE's Annual Financial Report (AFR) and entity wide statements without guidance from the auditor. In connection with the audit of the District's financial statements, management has requested that we assist in the drafting of the financial statements, required supplementary information, and related footnote disclosures. No population was tested; finding is based upon understanding and review of the internal control system.

**Cause:** While the District's internal accounting personnel have the ability to interpret and understand its financial statements, both fund and entity wide, they do not have sufficient experience in preparing those financials in accordance with GAAP.

**Shamokin Area School District**  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2019

**Section II – Financial Statement Findings (Continued)**

Finding 2019-001 Financial Statement Adjustments and Presentation (Continued)

**Effect:** The District's financial position and financial activity as of and for the year ended June 30, 2019, was not properly stated until the adjustments were posted to the general ledger. There is a greater opportunity for error in financial reporting as the District's management has determined it is more cost-beneficial to utilize services of auditors to assist in drafting financial statements, as opposed to hiring a professional accountant trained in such matters.

**Questioned Costs:** Unknown

**Recommendation:** Although progress has been made, the District should evaluate whether it is beneficial to reconcile and post the additional entries required as part of the year-end closing process and not as audit adjustments. Year-end closing procedures should be adopted by the District to ensure all activity and entries are recorded prior to the audit engagement. The District should also implement final procedures for system close after audited financial statements are available.

**Prior Year Finding:** Yes, see Finding 2018-001

**Auditee Response  
and Corrective**

**Action Plan:** See attached response.

**Shamokin Area School District**  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2019

**Section II – Financial Statement Findings (Continued)**

A. Significant Deficiency in Internal Control

Finding 2019-002 Failure to Maintain Bank Reconciliations

**Criteria:** The District must perform accurate monthly bank reconciliations to ensure cash balances are properly reflected.

**Condition:** Accurate and complete bank reconciliations could not be provided timely for the General Fund bank account. The District utilized the CSIU system and internally generated reconciliation ledgers to perform bank reconciliations, but did not resolve discovered discrepancies until time of audit.

**Cause:** Failure to properly maintain bank reconciliations. This was due to the District office personnel not being comfortable with performing bank reconciliations where multiple accounts were involved. Oversight and corrective action was not performed until after period of audit engagement.

**Effect:** There is no assurance that errors or fraud will be detected and corrected on a timely basis.

**Questioned Costs:** Unknown

**Recommendation:** The District should ensure that all bank reconciliations are being performed accurately each month for all accounts.

**Prior Year Finding:** No

**Auditee Response  
and Corrective**

**Action Plan:** See attached response.

**Shamokin Area School District**  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2019

**Section II – Financial Statement Findings (Continued)**

B. Compliance Findings

There were no compliance findings related to the financial statement audit required to be reported.

**Section III – Federal Award Findings and Questioned Costs**

A. Significant Deficiency(ies) in Internal Control

There were no findings relating to the Federal awards as required to be reported in accordance with Section 2 CFR 200.516(a) of the Uniform Guidance.

B. Compliance Findings

There were no findings relating to the Federal awards as required to be reported in accordance with Section 2 CFR 200.516(a) of the Uniform Guidance.

# SHAMOKIN AREA SCHOOL DISTRICT

2000 WEST STATE STREET  
COAL TOWNSHIP, PA 17866

(570) 648-5752  
FAX: (570) 648-2592

Chris J. Venna  
Superintendent

Karen A. Colangelo  
Business Manager

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Shamokin Area School District

For Year Ended June 30, 2019

Material Weakness in Internal Control  
Finding 2019-001 Financial Statement Adjustments and Presentation

Corrective Action Response

Management Response

The School District has determined at this time that it is not beneficial to reconcile and prepare all of the material standard and non-standard entries as required as part of the year-end closing process due to staffing limitations and materiality of the entries. The School District has made progress in this area and their goal will be to evaluate on an ongoing basis the reasons for this finding to determine whether it is beneficial to reconcile and record all of the required material journal entries prior to the audit, and to determine whether the cost of correcting the deficiency would exceed the benefits derived from doing so.

Individual Response

The School District has determined at this time that it is not beneficial to reconcile and prepare all of the material standard and non-standard entries as required as part of the year-end closing process due to staffing limitations and materiality of the entries. The School District has made progress in this area and their goal will be to evaluate on an ongoing basis the reasons for this finding to determine whether it is beneficial to reconcile and record all of the required material journal entries prior to the audit, and to determine whether the cost of correcting the deficiency would exceed the benefits derived from doing so.

Timeline: on-going

Respectfully submitted,

Karen Colangelo  
Business Manager

# SHAMOKIN AREA SCHOOL DISTRICT

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Shamokin Area School District

For Year Ended June 30, 2019

Material Weakness in Internal Control

Finding 2019-002 Failure to Maintain Bank Reconciliations

Corrective Action Response

Management Response

The School District had experienced staff turn over during 2018-19 school year. Due to the changes in personnel, accurate and complete bank reconciliations were not provided in a timely manner. The District office personnel was not able to maintain accurate records to perform bank reconciliations. The School District has determined at this time to put in place additional procedures to ensure timely recording of accurate data and completion of bank reconciliations. In addition, personnel changes have been made in the Business Office.

Individual Response

The School District had experienced staff turn over during 2018-19 school year. Due to the changes in personnel, accurate and complete bank reconciliations were not provided in a timely manner. The District office personnel was not able to maintain accurate records to perform bank reconciliations. The School District has determined at this time to put in place additional procedures to ensure timely recording of accurate data and completion of bank reconciliations. In addition, personnel changes have been made in the Business Office.

Timeline: On-going

Respectfully submitted,

Karen Colangelo  
Business Manager



**Shamokin Area School District**  
Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2019

**Finding 2018-001      INTERNAL CONTROL DEFICIENCY OVER ADJUSTING ENTRIES  
AND PRESENTATION OF THE FINANCIAL STATEMENTS –  
MATERIAL WEAKNESS**

**Condition:**            The District did not perform year end adjusting entries prior to the audit engagement, nor were they able to provide final financial statements for PDE's Annual Financial Report (AFR) and entity wide statements without guidance from the auditor. No population was tested; finding is based upon understanding and review of the internal control system.

**Recommendation:**   Year-end closing procedures should be adopted by the District to ensure all activity and entries are recorded prior to the audit engagement.

**Conclusion:**            Finding unresolved. See finding 2019-001.