

UPPER ADAMS SCHOOL DISTRICT

FINANCIAL REPORT

JUNE 30, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Upper Adams School District
Biglerville, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund and the aggregate remaining fund information of Upper Adams School 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

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe 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 activity, each major fund and the aggregate remaining fund information of Upper Adams School District as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund 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 & Analysis on pages 4 through 13 and the required supplementary information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which 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.

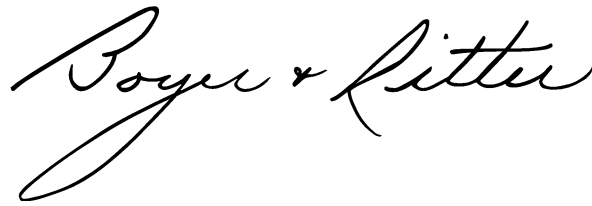
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Upper Adams School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2019, on our consideration of Upper Adams School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 Upper Adams School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Boyer & Ritten". The signature is written in black ink and is centered on the page.

Chambersburg, Pennsylvania
December 19, 2019

**UPPER ADAMS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ended June 30, 2019**

The management discussion and analysis of the Upper Adams School District provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2019. The intent of the discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and notes in conjunction with the discussion and analysis to enhance their understanding of the School District's financial performance.

Overview of the Financial Statements

The Annual Financial Report consists of various financial statements and the notes to those statements. The financial reports consist of District-wide and individual fund statements. The District-wide statements present an aggregate long-term view of the School District's finances. The fund financial statements focus on the short-term financing of the School District's services and what remains for future spending.

District-wide Statements

Statement of Net Position and Statement of Activities

The Statement of Net Position and Statement of Activities reflect all assets and liabilities using the accrual basis of accounting similar to the systems used by most private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash was received or paid. These statements report the School District's net position and changes in net position. This change in net position is important because it identifies whether the financial position of the School District has improved or diminished.

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

Governmental Activities - Most of the School District's programs are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Business-Type Activities - This service is provided on a charge for goods and services basis to recover the expenses of the goods or services provided. The Food Service program is reported as a business activity.

**UPPER ADAMS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ended June 30, 2019**

Fund Financial Statements

Fund financial reports provide detailed information about the School District's funds. Funds are used to separate financial transactions to better monitor specific activities.

Funds at Upper Adams School District include:

- Major Governmental Funds
 - General Fund
 - Capital Projects Fund
 - Capital Reserve Fund
- Proprietary Funds
 - Enterprise Fund - Food Services
- Agency Funds
 - Student Activity Funds

Financial Highlights

- Total governmental activities net position increased by \$1,896,386 for a net in governmental funds of \$-26,035,652 whereas the year prior net position was \$-27,932,038. Governmental activity net change is largely due to the fifth year of UA's pension liability as an asset and liability. The business type activities increased by \$102,679. Moreover, the current year increase in Food Service operations represents a gain in net position for a net position at June 30, 2019, of \$240,821.
- General Fund combined fund balance at June 30, 2019, was \$5,582,986 which represents an assigned fund balance of \$2,582,270; an unassigned fund balance of \$1,477,459; and a restricted non-spendable fund balance of \$1,523,257. Moreover, the unassigned fund balance represents 5.06% of the 2018-2019 General Fund Final Expenditures.
- The total assigned fund balance is 8.85% of the General Fund Final Expenditures. The assigned fund balance are amounts designed for a specific purpose, in accordance with Policy #623. The assigned fund balance breakdown is as follows:
 - Debt \$ 2,001,270
 - PSERS (Retirement) \$ 231,000
 - Medical expenses \$ 350,000
- The restricted non-spendable fund balance of \$1,523,257 is a result of joining Lincoln Benefit Trust effective July 1, 2016. The amount represents funds held in trust for the purpose of health benefits ended June 30, 2019.
- Total governmental fund balances equaled \$12,063,849. The following shows the breakdown by fund:
 - General Fund Balance of \$5,582,986 (unassigned, unrestricted, committed and non-spendable)
 - Capital Projects & Capital Reserve Net Balance of \$6,480,863

**UPPER ADAMS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ended June 30, 2019**

Reporting the School District as a Whole

The perspective of the Statement of Net Position is of the School District as a whole. Table 1 provides a summary of net position for 2019 and 2018, respectively.

**Table 1
Net Position**

	Governmental Activities		Business Types Activities		Totals	
	2019	2018	2019	2018	2019	2018
Total Assets	\$ 40,569,709	\$ 27,879,621	\$ 307,383	\$ 218,868	\$ 40,877,092	\$ 28,098,489
Deferred Outflows of Resources	\$ 5,006,230	\$ 6,232,190	\$ -	\$ -	\$ 5,006,230	\$ 6,232,190
Total Liabilities	\$ 69,081,691	\$ 59,852,849	\$ 66,562	\$ 80,727	\$ 69,148,253	\$ 59,933,576
Deferred Inflows of Resources	\$ 2,529,900	\$ 2,191,000	\$ -	\$ -	\$ 2,529,900	\$ 2,191,000
Net Investment in capital assets	\$ 4,825,666	\$ 3,963,747	\$ 158,703	\$ 154,888	\$ 4,984,369	\$ 4,118,635
Restricted	6,480,863	410,928	-	-	6,480,863	410,928
Unrestricted	(37,342,181)	(32,306,713)	82,118	(16,746)	(37,260,063)	(32,323,459)
Total Net Position	\$ (26,035,652)	\$ (27,932,038)	\$ 240,821	\$ 138,142	\$ (25,794,831)	\$ (27,793,896)

Governmental Activities

On June 30, 2019, the School District had net position from governmental activities of \$-26,035,652; which was an increase of \$1,896,386 or 6.79% during the fiscal year. Total governmental deferred outflows decreased by \$1,225,960, and the governmental liabilities increased by \$9,228,842. Factors that significantly affected net position in the 2018-2019 fiscal year were:

- Fifth year implementation of Pension, PSERS, assets. The liability is required to be recorded in our statement of net position.
- General fund cash and investments increased by \$576,731 from the prior year, while capital project cash and investments (capital project and capital reserve) increased by \$8,235,530. General Fund cash increased minimally compared to the budget. Capital project cash and investments increased due to bond borrowing, GOB General Obligation Bonds 2019 while the ESCO Energy Savings Project began.
- Outstanding debt increased by net of \$8,520,000 as a result of new debt of \$9,995,000 with repayment of principal and interest of \$1,475,000.

UPPER ADAMS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ended June 30, 2019

Table 2 reflects the change in net position for fiscal year 2019 and 2018. The comparison is based on 2018 (prior year) to 2019 (current year). This table takes the information from the Statement of Activities and rearranges it so that readers can see the total revenues for the year.

Table 2
Fiscal Year Ended June 30, 2019
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program Revenues						
Charges for Services	\$ 405,476	\$ 412,734	\$ 370,184	\$ 364,565	\$ 775,660	\$ 777,299
Operating Grants & Contributions	6,773,601	6,340,582	642,117	615,960	7,415,718	6,956,542
Capital Grants & Contributions	-	-	-	-	-	-
General Revenues						
Property Taxes	12,299,047	11,773,173	-	-	12,299,047	11,773,173
Other Taxes	3,086,741	2,875,075	-	-	3,086,741	2,875,075
Grants, Subsidies & Contributions (Unrestricted)	6,732,315	6,534,815	-	-	6,732,315	6,534,815
Other	808,725	(9,976)	28,734	-	837,459	(9,976)
Total Revenues	\$ 30,105,905	\$ 27,926,403	\$ 1,041,035	\$ 980,525	\$ 31,146,940	\$ 28,906,928
Expenses:						
Instruction	\$ 17,320,930	\$ 16,827,248	\$ -	\$ -	\$ 17,320,930	\$ 16,827,248
Instructional Student Support	2,881,501	2,688,205	-	-	2,881,501	2,688,205
Administrative & Financial Support	3,544,910	3,009,931	-	-	3,544,910	3,009,931
Operation & Plant Maintenance	1,677,800	1,647,650	-	-	1,677,800	1,647,650
Pupil Transportation	1,629,572	1,402,317	-	-	1,629,572	1,402,317
Student Activities	735,179	705,221	-	-	735,179	705,221
Interest On Long-Term Debt	419,627	369,351	-	-	419,627	369,351
Food Services	-	-	938,356	955,183	938,356	955,183
Total Expenses	\$ 28,209,519	\$ 26,649,923	\$ 938,356	\$ 955,183	\$ 29,147,875	\$ 27,605,106
Change in Net Position	\$ 1,896,386	\$ 1,276,480	\$ 102,679	\$ 25,342	\$ 1,999,065	\$ 1,301,822

Governmental revenues, excluding business-type activity transfers, increased by 7.8% for 2019 and 3.3% for 2018. In terms of dollars, this increase is \$2,179,502 for 2019 and \$881,972 for 2018, for a total of \$30.1 million in 2019, and \$27.9 million in 2018. Reasons for the increase are primarily attributed to the following changes:

- Current year real estate taxes collected increased by 4.47% or \$525,874 as a result of a 3.3% increase in the millage rate.

Other tax levied revenues increased overall by 7.36% or \$211,666. This category includes earned income, real estate transfer taxes, public utility and delinquent earned income taxes.

**UPPER ADAMS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ended June 30, 2019**

- Grants and subsidies not restricted overall increased by 3.02% otherwise \$197,500 as a result from retirement and social security subsidies. Additionally, the District records the property tax relief payment from the State in this category, which was a decrease of \$22,653 for 2019 and reflected as the Homestead/Farmstead Exclusion on the taxpayer's real estate tax bill.
- Charges for services decreased by 1.76% or \$7,258. These services include revenue received from other school districts for consortium services, mainstreaming children placed in private homes, rental of school facilities and admission revenues.

Property taxes contributed to 40.85% for 2018-2019 and, 42.16% for 2017-2018, for total revenues for governmental activities at Upper Adams School District. Property tax as a percentage of total revenues remains consistent.

Governmental program expenditures increased by 5.85% for 2018-2019 from \$26.6 million to approximately \$28.2 million. The major changes in expenditures can be primarily attributed to the following:

- Total annual wages subjective to PSERS for 2018-2019 increased overall by 6.1% or \$611,856. This is the net change from overall change in contract increases, new hires, retirements and the change in contracted services.
- The PSERS employer contribution rate for employee retirement continually increases, changing from 16.93% in 2013-2014 to 21.40% in 2014-2015 to 25.84% in 2015-2016 to 30.03% in 2016-2017, to 32.57% in 2017-2018, to 33.43% for 2018-2019. Over the last four years: Object code 230 (PSERS expense) reflects an increase in 2018-2019 of 5.33% or \$179,757, for 2017-2018 of 7.26%, or \$228,209, for 2016-2017 increased by 17.84%, or \$475,672, for 2015-2016 increased by 18.08% or \$408,285 compared to 2014-2015 of 22.72% or \$418,014. The perpetual increase, over the four-year period, is 71.23% or \$1,709,937. While salaries remain a factor of the PSERS expense, PSERS percentage increases far surpasses any other increase in operations.
- Total group insurance expenses increased by 12.25% or \$255,284 for both covered bargaining unit and non-covered collective units; which is comprised of medical, dental and vision insurance. Overall the benefit insurance increased in cost and utilization; however with the second full year of joining Lincoln Benefit Trust (LBT) the self-insured market performance resulted in a reduction of Restricted Non-Spendable Fund Balance of \$108,681 for a total Restricted Non-Spendable Fund Balance to \$1,523,257 ended June 30, 2019. In summary, the reduction is a result of medical claims expenses exceeding the funding payments; however, the restricted funds will be used in the rating methodology to continue rate stabilization for future medical claims cost.
- Student tuition costs include: local educational agencies, institutionalized children's programs, bricks and mortar charter schools, cyber charter schools, career and technical centers and private residential rehabilitation centers overall increased by 11.28% or \$182,502, leaving total tuition cost of \$1,800,600 ended June 30, 2019.
- Instructional costs contributed to 71.62% and 73.23%, of total program expenses for governmental activities for Upper Adams School District in fiscal years ended 2019 and 2018.

**UPPER ADAMS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ended June 30, 2019**

The Statement of Activities reflects the cost of program services and the charges for services, sales, grants and contributions offsetting those services.

Table 3, for governmental activities, indicates the total cost of services and net cost of services. The table shows the net cost offset by the other unrestricted grants, subsidies and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

**Table 3
Fiscal Year Ended June 30, 2019
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2019	2018	2019	2018
Functions/Programs				
Instruction	\$ 17,320,930	\$ 16,827,248	\$ 12,839,111	\$ 12,671,580
Instructional Student Support	2,881,501	2,688,205	1,735,514	1,536,406
Administrative	3,544,910	3,009,931	3,157,654	2,656,288
Operation and Maintenance	1,677,800	1,647,650	1,672,221	1,642,001
Pupil Transportation	1,629,572	1,402,317	572,570	415,322
Student Activities	735,179	705,221	633,745	605,659
Interest on Long-Term Debt	419,627	369,351	419,627	369,351
Total Governmental Activities	<u>\$ 28,209,519</u>	<u>\$ 26,649,923</u>	21,030,442	19,896,607
Less:				
Unrestricted Grants and Subsidies			6,732,315	6,534,815
Total Needs from Local Taxes and Other Revenues			<u>\$ 14,298,127</u>	<u>\$ 13,361,792</u>

Nearly 32.01% of the 2018-2019 total cost of services for the governmental activities was funded by charges for services, grants and contributions. The remaining costs were funded by tax revenues and the basic instructional subsidy.

Business-Type Activities

The only business-type activity at Upper Adams School District is the food service operation. The School District provides both breakfast and lunch programs for grades K through 12. This program had operating revenues of \$370,184 and non-operating revenue of \$670,851. The expenses totaled \$938,356 for the 2018-2019 fiscal year. School meal prices for lunch and breakfast were at a .05 increase over prior year. The School District received 64.4% of its revenues from operating grants and contributions from the federal and state reimbursable breakfast and lunch programs. Revenue from state and federal grants increased by \$26,157 due to increase in federal, state and governmental food commodities received. Total operating revenues increased by \$5,619 and expenditures decreased by \$16,827. Total net position incurred and rose by \$102,679 leaving the Food Service ending net position of \$240,821 on June 30, 2019.

**UPPER ADAMS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ended June 30, 2019**

General Fund Budgeting Highlights

General fund highlights for the 2018-2019 fiscal year, total general fund revenue local sources exceeded budget by 4.33% or \$688,503. The four local revenues sources contributing to the increase were Real Estate Taxes, Delinquent Collections, Earned Income and Interest from Investments. The State funded revenue did exceed the budget by 3.30% or \$404,386 particularly attributed to Safe Schools Grant, Pre-K Grant and Retirement reimbursement from the state. Lastly, the District experienced an increase in federal revenue of 22.23% or \$67,116 that is attributed to Title I.

Total general fund expenditures were overall under budget by 1.10% or \$314,122. The budgetary reserve of \$325,000 and prior year assigned fund balance for Capital Reserve in the amount of \$887,619 was transferred during the year and appropriated at end of year. Moreover, the approved budget planned on using \$494,119 of fund balance; when in fact the result was more favorable with the net change in fund balance increasing by \$417,389. Refer to Financial Highlights section for the fund balance appropriations. Function expenditure budget to actual variances are discussed below:

- Regular program expenditures were more than the original budget by 3.34% or \$374,998. This variance is a result of contract negotiations and health benefit reclassifying as prepaid expenses.
- Special Education program expenditures were less than original budget 6.89% or \$280,792, due to health benefit reclassifying as prepaid expense and conservative estimates in Schedule A expenditures when budgeting the Lincoln Intermediate Services.
- Vocational Education program expenditures were less than the original budget by 1.34% or \$9,978 resulting from change in benefits.
- Other Instructional program expenditures exceeded original budget by 90.9% or \$184,913 due to change in benefits and the addition of the PreK program.
- Total Support services were overall less than original budget by 1.42% or \$132,346 with pupil personnel services, instructional support services, administration, operation of maintenance and plant services, business, transportation and other support services. The majority is directly related to the following: the change in staff, change in staffing for pupil health services and less expended in maintenance supplies and repairs.
- Debt Services including principal and interest was less than budget by 18.8% or \$447,568. The favorable budget to actual allowed for the additional debt assignment of fund balance. See financial highlights for the total assigned debt fund balance.
- Athletic program costs were reflected in Student Activities as required by GASB No. 54. Student Activities exceeded original budget by .71% or \$4,651.

**UPPER ADAMS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ended June 30, 2019**

Capital Assets and Debt Administration

At June 30, 2019, the District had \$22,661,704 that represents invested capital assets including land, building and equipment.

Table 4 indicated the breakdown of capital assets net of depreciation for 2019 and 2018.

**Table 4
Capital Assets - Net of Depreciation**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land and land improvements	\$ 668,416	\$ 370,297	\$ -	\$ -	\$ 668,416	\$ 370,297
Construction in Progress	5,112,679	-	-	-	5,112,679	-
Site Improvements	1,136,456	818,161	-	-	1,136,456	818,161
Buildings	14,620,094	16,354,963	-	-	14,620,094	16,354,963
Equipment	1,124,059	1,372,848	158,703	154,888	1,282,762	1,527,736
Total Capital Assets	\$ 22,661,704	\$ 18,916,269	\$ 158,703	\$ 154,888	\$ 22,820,407	\$ 19,071,157

Total Governmental Capital Assets increased by 19.8% or \$3,745,435 as this represents an increase in site improvements and construction in progress over prior year.

Debt Administration

At June 30, 2019, the Upper Adams School District had \$23,048,927 in bonds and capital lease obligations outstanding.

Table 5 summarizes and compares outstanding debt for the 2019, 2018, 2017 and 2016 fiscal years respectively.

**Table 5
Outstanding Debt**

	2019	2018	2017	2016
General Obligation Bonds				
Bond Series A of 2010	\$ -	\$ -	\$ 1,989,204	\$ 1,997,727
Bond Series 2011	-	-	1,710,000	1,885,000
Bond Series 2012	-	-	5,145,000	6,380,000
Bond Series 2015	3,230,000	4,700,000	5,560,000	5,565,000
Bond Series 2017	8,905,000	8,910,000	-	-
Bond Series 2019	9,995,000	-	-	-
Capital Lease Obligations	918,927	1,350,007	1,635,504	1,080,373
Total Outstanding Debt and Capital Lease Obligations	\$ 23,048,927	\$ 14,960,007	\$ 16,039,708	\$ 16,908,100

**UPPER ADAMS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ended June 30, 2019**

Economic Impact and Budget Rate Forecast

The Upper Adams School District has investments at PNC Bank, Adams County National Bank, M&T Bank and the Pennsylvania School District Liquid Asset Fund. The Federal Deposit Insurance Corporation (FDIC) insures the bank account balances and additional protection of investments is guaranteed through Act 72 of 1971 as well. Act 72 requires banks to provide securities as collateral for all public balances on deposit. The Pennsylvania School District Liquid Asset Fund (PSDLAF) provides collateral segregated at a Third Party Institution or guaranteed by the Federal Home Loan Bank Letter of Credit. The PSDLAF collateral is monitored at 102% market value at the close of business daily.

The Public School Employees' Retirement System certified rates of 8.65% for 2011-2012; 12.36% for 2012-2013; 16.93% for 2013-2014, 21.40% for 2014-2015, 25.84% for 2015-2016, 30.03% for 2016-2017, 32.57% for 2017-2018, 33.43% for 2018-2019 and 34.29% for 2019-2020. Future projections are inclined to stay in the range of 33%-38% over the next five years. Preparations of a set aside for future PSERS increases began in 2017 with assignment of fund balance of \$246,000. Planned utilization of \$15,000 occurred in 2018-2019. No additional assignment of fund balance occurred for year ended June 30, 2019. Management will continue to monitor the rate of increase to determine any future changes in the assignment at the close of each fiscal year.

The Commonwealth of Pennsylvania provided an minimal increase in the annual special education subsidy and no change from the Governor budget in basic educational subsidy. Moreover, with minimal increases, continued reductions and the possibility of not having a state approved budget or state fluctuations in state subsidies, PSERS increases, pension liabilities and the possibility of new unfunded mandates are matters of concern for the District.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds - Fund Balance

The focus of the District's governmental funds is to provide information on relatively short-term cash flow and future basic services. Such information is useful in assessing the Upper Adams School District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end, June 30, 2019, the Upper Adams School District governmental funds reports total ending fund balances of \$12,063,849. Fund Balance for Capital Projects is \$5,769,369 and Capital Reserve at \$711,494; both restricted for capital projects.

**UPPER ADAMS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ended June 30, 2019**

GENERAL FUND BUDGETARY HIGHLIGHTS

The Upper Adams School District original budget anticipated revenues at \$28,433,372 and expenditures of \$28,602,491. The actual results for the year were revenues in excess by \$1,160,005 and that expenses were under expended by \$314,122. However, not using the \$325,000 budgetary reserve and with the interfund transfer to capital reserve of \$887,619, the overall change in position increased fund balance by \$417,389. Refer to fund balance appropriations as listed in Financial Highlights.

REQUESTS FOR INFORMATION

The financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the district's finances and to demonstrate the district's accountability. If you have any questions about this report or need additional information, please contact Belinda M. Wallen, Business Administrator/Board Secretary, at (717) 677-7191 Ext 2704, email b.wallen@upperadams.org or by mail at the Upper Adams School District, 161 North Main Street, Biglerville, PA 17307.

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2019

	Governmental Activities	Business-Type Activity	Total
Assets			
Cash and cash equivalents	\$ 4,242,450	\$ 141,191	\$ 4,383,641
Investments	9,300,000	-	9,300,000
Receivables			
Taxes - net of allowance for uncollectibles	1,232,425	-	1,232,425
Federal subsidies	33,844	-	33,844
State subsidies	1,146,861	-	1,146,861
Other	373,118	-	373,118
Internal balances	7,299	(7,299)	-
Prepaid expenses	1,523,257	-	1,523,257
Inventories	-	14,788	14,788
Prepaid bond insurance - net	48,751	-	48,751
Capital Assets			
Land and construction-in-progress	5,781,095	-	5,781,095
Other capital assets - net of depreciation	16,880,609	158,703	17,039,312
Total capital assets	22,661,704	158,703	22,820,407
Total assets	40,569,709	307,383	40,877,092
Deferred Outflows of Resources			
Deferred amounts on refunding debt - net	60,184	-	60,184
Deferred amounts on pension liability	4,743,000	-	4,743,000
Deferred amounts on OPEB liabilities	203,046	-	203,046
Total deferred outflows of resources	5,006,230	-	5,006,230
Total assets and deferred outflows of resources	\$ 45,575,939	\$ 307,383	\$ 45,883,322

See Notes to Financial Statements.

	Governmental Activities	Business-Type Activity	Total
Liabilities			
Accounts payable	\$ 2,425,235	\$ 25,966	\$ 2,451,201
Accrued salaries and benefits	2,516,658	-	2,516,658
Payroll deductions and withholdings	113,973	-	113,973
Accrued interest	105,962	-	105,962
Unearned revenue	137,831	28,596	166,427
Long-term liabilities			
Due within one year	1,503,418	12,000	1,515,418
Due in more than one year	22,543,543	-	22,543,543
Net pension liability	36,916,000	-	36,916,000
OPEB liabilities	2,819,071	-	2,819,071
Total long-term liabilities	63,782,032	12,000	63,794,032
Total liabilities	69,081,691	66,562	69,148,253
Deferred Inflows of Resources			
Deferred amounts on pension liability	2,225,000	-	2,225,000
Deferred amounts on OPEB liabilities	304,900	-	304,900
Total deferred inflows of resources	2,529,900	-	2,529,900
Net Position			
Net investment in capital assets	4,825,666	158,703	4,984,369
Restricted for capital projects	6,480,863	-	6,480,863
Unrestricted	(37,342,181)	82,118	(37,260,063)
Total net position	(26,035,652)	240,821	(25,794,831)
Total liabilities, deferred inflows of resources and net position	\$ 45,575,939	\$ 307,383	\$ 45,883,322

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

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 Activity	Total
Governmental Activities:						
Instructional	\$ 17,320,930	\$ 347,450	\$ 4,134,369	\$ (12,839,111)	\$ -	\$ (12,839,111)
Instructional student support	2,881,501	-	1,145,987	(1,735,514)	-	(1,735,514)
Administration and financial support	3,544,910	-	387,256	(3,157,654)	-	(3,157,654)
Operation and maintenance of plant services	1,677,800	5,579	-	(1,672,221)	-	(1,672,221)
Pupil transportation	1,629,572	-	1,057,002	(572,570)	-	(572,570)
Student activities	735,179	52,447	48,987	(633,745)	-	(633,745)
Interest on long-term debt	419,627	-	-	(419,627)	-	(419,627)
Total governmental activities	28,209,519	405,476	6,773,601	(21,030,442)	-	(21,030,442)
Business-Type Activity:						
Food service	938,356	370,184	642,117	-	73,945	73,945
Total District	<u>\$ 29,147,875</u>	<u>\$ 775,660</u>	<u>\$ 7,415,718</u>	<u>(21,030,442)</u>	<u>73,945</u>	<u>(20,956,497)</u>
General Revenues:						
Property taxes, levied for general purposes, net				12,299,047	-	12,299,047
Public utility, realty transfer, earned income and per capita taxes levied for general purposes, net				3,086,741	-	3,086,741
Grants, subsidies and contributions, not restricted				6,732,315	-	6,732,315
Investment earnings				190,056	-	190,056
Miscellaneous income				142,111	-	142,111
Loss on disposal of capital assets				(102,881)	28,734	(74,147)
Capital lease				579,439	-	579,439
Total general revenues				<u>22,926,828</u>	<u>28,734</u>	<u>22,955,562</u>
Changes in net position				1,896,386	102,679	1,999,065
Net Position - July 1, 2018				(27,932,038)	138,142	(27,793,896)
Net Position - June 30, 2019				<u>\$ (26,035,652)</u>	<u>\$ 240,821</u>	<u>\$ (25,794,831)</u>

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2019

	General	Capital Projects	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 3,495,992	\$ 746,458	\$ 4,242,450
Investments	1,400,000	7,900,000	9,300,000
Receivables			
Taxes - net of allowance for uncollectibles	1,232,425	-	1,232,425
Federal subsidies	33,844	-	33,844
State subsidies	1,146,861	-	1,146,861
Other	373,118	-	373,118
Due from other funds	7,299	-	7,299
Prepaid expenses	1,523,257	-	1,523,257
Total assets	\$ 9,212,796	\$ 8,646,458	\$ 17,859,254
Liabilities, Deferred Inflows and Fund Balances			
Liabilities			
Accounts payable	\$ 259,640	\$ 2,165,595	\$ 2,425,235
Accrued salaries and benefits	2,516,658	-	2,516,658
Payroll deductions and withholdings	113,973	-	113,973
Unearned revenue	137,831	-	137,831
Total liabilities	3,028,102	2,165,595	5,193,697
Deferred Inflows of Resources			
Delinquent property taxes	601,708	-	601,708
Fund Balances			
Nonspendable	1,523,257	-	1,523,257
Restricted for capital projects	-	6,480,863	6,480,863
Assigned	2,582,270	-	2,582,270
Unassigned	1,477,459	-	1,477,459
Total fund balances	5,582,986	6,480,863	12,063,849
Total liabilities, deferred inflows of resources and fund balances	\$ 9,212,796	\$ 8,646,458	\$ 17,859,254

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

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

June 30, 2019

Total fund balances - governmental funds	\$	12,063,849
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, they are not reported as assets in governmental funds. The cost of capital assets is \$50,536,998, and the accumulated depreciation is \$27,875,294.		22,661,704
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore, they are deferred inflows of resources in the funds.		601,708
The difference between the re-acquisition price and the net carrying amount of the old debt is a deferred outflow of resources, which is not reported in the governmental funds.		60,184
Bond-insurance premiums that are paid at bond settlement are expensed in the governmental funds. The amounts attributable to future periods are reflected as prepaid bond insurance.		48,751
Deferred inflows and outflows of resources related to pensions are applicable to future periods, and therefore, they are not reported within the funds.		
Deferred inflows and outflows related to pensions are as follows (see footnotes for details):		
Deferred inflows		(2,225,000)
Deferred outflows		4,743,000
Deferred inflows and outflows of resources related to OPEB are applicable to future periods, and therefore, they are not reported within the funds.		
Deferred inflows and outflows related to OPEB are as follows (see footnotes for details):		
Deferred inflows		(304,900)
Deferred outflows		203,046
Long-term liabilities, including bonds payable, compensated absences, net pension liabilities and other post-employment benefits, are not due and payable in the current period, and therefore, they are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds and notes payable	(22,130,000)	
Bond (premium) discount - net	(556,480)	
Accrued interest	(105,962)	
Capital-lease obligations	(918,927)	
Compensated absences	(441,554)	
Net pension liability	(36,916,000)	
OPEB liabilities	(2,819,071)	(63,887,994)
Total net position - governmental activities	\$	(26,035,652)

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2019

	General	Capital Projects	Total Governmental Funds
Revenues			
Local sources	\$ 16,575,043	\$ 57,918	\$ 16,632,961
State sources	12,649,236	-	12,649,236
Federal sources	369,098	-	369,098
Total revenues	29,593,377	57,918	29,651,295
Expenditures			
Instruction	16,520,706	-	16,520,706
Support services	9,173,833	79,841	9,253,674
Non-instructional services	663,720	-	663,720
Facilities acquisition and construction	-	5,282,744	5,282,744
Debt service	1,930,110	-	1,930,110
Total expenditures	28,288,369	5,362,585	33,650,954
Excess (deficiency) of revenues over expenditures	1,305,008	(5,304,667)	(3,999,659)
Other Financing Sources (Uses)			
Bond proceeds	-	9,995,000	9,995,000
Bond premium (discount)	-	491,983	491,983
Interfund transfers	(887,619)	887,619	-
Total other financing sources (uses)	(887,619)	11,374,602	10,486,983
Net changes in fund balances	417,389	6,069,935	6,487,324
Fund Balances - July 1, 2018	5,165,597	410,928	5,576,525
Fund Balances - June 30, 2019	<u>\$ 5,582,986</u>	<u>\$ 6,480,863</u>	<u>\$ 12,063,849</u>

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES Year Ended June 30, 2019

Net change in fund balances - governmental funds		\$ 6,487,324
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their useful lives as depreciation expense. This is the amount by which capital outlays of \$5,910,477 exceeded depreciation expense of \$1,264,363 in the period.		4,646,114
The net effect of various miscellaneous transactions involving capital assets (ie. sales, trade-ins, and donations) is to decrease net assets.		(900,679)
Because some property taxes will not be collected for several months after the District's fiscal year-ends, they are not considered as "available" revenues in the governmental funds. Delinquent property taxes decreased by this amount this year.		(21,943)
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. The decrease in interest accrued reflected in the Statement of Activities is shown here.		17,667
Governmental funds report district pension and OPEB contributions as expenditures. However, in the Statement of Activities, the cost of pension and OPEB benefits earned net of employee contributions is reported as pension and OPEB expense.		
District pension and OPEB contributions (PSERS)		3,550,000
Cost of benefits earned-net of employee contributions (PSERS)		(3,147,000)
Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, they are not reported as expenditures in governmental funds.		
Change in prepaid bond insurance	25,214	
Change in compensated absences	2,301	
Change in other post-employment benefits (District Plan)	(93,477)	(65,962)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effects of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This is the net effect of these differences in treatment of long-term debt and related items.		
Issuance of long-term debt	(9,995,000)	
Repayment of long-term debt	1,475,000	
Repayment of capital lease obligations	431,080	
Bond (premiums) discounts - net	(579,439)	
Amortization of charges for bond refunding	(16,250)	
Amortization of bond (premiums) discounts - net	15,474	(8,669,135)
Change in net position - governmental activities		\$ 1,896,386

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources				
Real estate taxes	\$ 11,718,014	\$ 11,718,014	\$ 11,861,819	\$ 143,805
Public utility realty tax	15,000	15,000	14,308	(692)
Payments in lieu of taxes	8,100	8,100	12,886	4,786
Per capita taxes	67,450	67,450	68,992	1,542
Earned income taxes	2,633,038	2,633,038	2,805,085	172,047
Local services taxes	60,500	60,500	41,811	(18,689)
Real estate transfer taxes	155,000	155,000	147,741	(7,259)
Delinquent real estate taxes	381,000	381,000	446,286	65,286
Delinquent per capita taxes	-	-	8,806	8,806
Earnings on investments	10,000	10,000	132,138	122,138
Student activities	-	-	52,447	52,447
Intermediary sources	271,437	271,437	343,238	71,801
Rentals	2,000	2,000	5,579	3,579
Donations	65,001	65,001	144,344	79,343
Tuition	450,000	450,000	347,450	(102,550)
Refunds and other miscellaneous revenue	50,000	50,000	142,113	92,113
Total local sources revenue	15,886,540	15,886,540	16,575,043	688,503
State sources				
Basic education	6,588,857	6,588,857	6,587,972	(885)
Tuition for orphans and children placed in private homes	10,000	10,000	10,560	560
Vocational education	70,000	70,000	51,017	(18,983)
Migratory children	-	-	1,160	1,160
Special education	1,030,961	1,030,961	1,035,133	4,172
Transportation	934,681	934,681	1,045,262	110,581
Building reimbursement subsidy	165,387	165,387	-	(165,387)
Health services	33,115	33,115	32,899	(216)
Property tax relief subsidy	816,493	816,493	819,303	2,810
Safe schools	-	-	25,000	25,000
Pre-K Counts Grant	-	-	144,500	144,500
Ready to learn block grant	268,707	268,707	268,707	-
Other state revenue	-	-	1,087	1,087
PA Smart grant	-	-	8,235	8,235

(Continued)

UPPER ADAMS SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND (Continued)**
Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues (Continued)				
State sources (continued)				
Social security reimbursement	465,084	465,084	476,106	11,022
Retirement reimbursement	1,861,565	1,861,565	2,142,295	280,730
Total state sources revenue	12,244,850	12,244,850	12,649,236	404,386
Federal sources				
Title I - Improving the Academic Achievement of the Disadvantaged	200,000	200,000	264,924	64,924
Title II - Preparing, Training & Recruiting High Quality Teachers & Principals	58,050	58,050	52,573	(5,477)
Title III - Language Instruction for LEP	43,932	43,932	34,881	(9,051)
Title IV - Student Support & Academic Enrichment Grants	-	-	16,720	16,720
Total federal sources revenue	301,982	301,982	369,098	67,116
Total revenues	28,433,372	28,433,372	29,593,377	1,160,005
Expenditures				
Instruction				
Regular programs	11,230,848	11,230,848	11,605,846	(374,998)
Special programs	4,075,508	4,075,557	3,794,716	280,841
Vocational education programs	741,936	741,936	731,958	9,978
Other instructional programs	203,273	203,273	388,186	(184,913)
Total instruction	16,251,565	16,251,614	16,520,706	(269,092)
Support Services				
Pupil personnel	567,576	567,576	602,089	(34,513)
Instructional staff	2,359,405	2,359,405	2,230,527	128,878
Administration	2,245,585	2,245,585	2,292,890	(47,305)
Pupil health	297,213	306,144	258,403	47,741
Business	376,281	386,746	353,835	32,911
Operation and maintenance of plant services	1,769,937	1,769,937	1,677,799	92,138
Student transportation services	1,544,120	1,494,120	1,625,257	(131,137)
Central services	133,312	133,312	133,033	279
Other support services	12,750	-	-	-
Total support services	9,306,179	9,262,825	9,173,833	88,992

(Continued)

UPPER ADAMS SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND (Continued)
Year Ended June 30, 2019**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Expenditures (Continued)				
Non-instructional Services				
Student activities	659,069	702,374	663,720	38,654
Community services	8,000	8,000	-	8,000
Total non-instructional services	<u>667,069</u>	<u>710,374</u>	<u>663,720</u>	<u>46,654</u>
Debt Service				
Principal	1,982,046	1,982,046	1,597,261	384,785
Interest	395,632	395,632	332,849	62,783
Total debt service	<u>2,377,678</u>	<u>2,377,678</u>	<u>1,930,110</u>	<u>447,568</u>
Total expenditures	<u>28,602,491</u>	<u>28,602,491</u>	<u>28,288,369</u>	<u>314,122</u>
Excess (deficiency) of revenues over expenditures	(169,119)	(169,119)	1,305,008	1,474,127
Other Financing Sources (Uses)				
Interfund transfers	-	-	(887,619)	(887,619)
Budgetary reserve	(325,000)	(325,000)	-	325,000
Total other financing uses	<u>(325,000)</u>	<u>(325,000)</u>	<u>(887,619)</u>	<u>(562,619)</u>
Net change in fund balance	<u>\$ (494,119)</u>	<u>\$ (494,119)</u>	417,389	<u>\$ 911,508</u>
Fund Balance - July 1, 2018			5,165,597	
Fund Balance - June 30, 2019			<u>\$ 5,582,986</u>	

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

**STATEMENT OF NET POSITION -
PROPRIETARY FUND - FOOD SERVICE
June 30, 2019**

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 141,191
Inventories	14,788
Total current assets	<u>155,979</u>
Noncurrent Assets	
Furniture and equipment - net	<u>158,703</u>
Total assets	<u><u>\$ 314,682</u></u>
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 25,966
Contract payable - current portion	12,000
Due to other funds	7,299
Unearned revenue	28,596
Total liabilities	<u>73,861</u>
NET POSITION	
Investment in capital assets	158,703
Unrestricted	82,118
Total net position	<u>240,821</u>
Total liabilities and net position	<u><u>\$ 314,682</u></u>

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION -
PROPRIETARY FUND - FOOD SERVICE
Year Ended June 30, 2019**

Operating Revenues	
Food service revenue	\$ 370,184
Operating Expenses	
Purchased professional and technical service	458,029
Purchased property service	17,117
Other purchased service	13,929
Food and milk	265,443
Supplies	55,997
Donated commodities used	73,597
Equipment - replacement	21,988
Depreciation	24,919
Dues and fees	6,162
Other operating expenditures	1,175
Total operating expenses	938,356
Operating loss	(568,172)
Nonoperating Revenues	
Federal subsidies	536,952
State subsidies	31,568
Value of donated commodities	73,597
Gain on disposal of capital assets	28,734
Total nonoperating revenues	670,851
Change in net position	102,679
Net Position - July 1, 2018	138,142
Net Position - June 30, 2019	\$ 240,821

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUND - FOOD SERVICE Year Ended June 30, 2019

Cash Flows From Operating Activities	
Cash received from meal sales	\$ 373,198
Cash payments to suppliers for goods and services	(855,062)
Net cash used in operating activities	(481,864)
Cash Flows From Noncapital Financing Activities	
Federal subsidies	536,952
State subsidies	31,568
Net cash provided by noncapital financing activities	568,520
Cash Flows From Capital and Related Financing Activities	
Principal paid on financing agreements	(12,000)
Net cash used in capital and related financing activities	(12,000)
Net increase in cash	74,656
Cash:	
July 1, 2018	66,535
June 30, 2019	<u>\$ 141,191</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	\$ (568,172)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	24,919
Value of donated commodities	73,597
Changes in assets and liabilities:	
(Increase) decrease in:	
Receivables	60
Inventories	(1,745)
(Decrease) increase in:	
Accounts payable	2,184
Due to other funds	(8,359)
Unearned revenue	(4,348)
Net cash used in operating activities	\$ (481,864)

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
June 30, 2019

	Student Activity Funds
ASSETS	
Cash and cash equivalents	\$ 139,183
Investments	11,425
Total assets	<u><u>\$ 150,608</u></u>
LIABILITIES	
Due to student groups	<u><u>\$ 150,608</u></u>

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Upper Adams School District (District) operates three elementary schools and one secondary school in Adams County, Pennsylvania. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania. The District operates under a locally elected, nine-member, board form of government.

The financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative, standard setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

A. Reporting Entity

The District's financial statements include the operations of all entities for which the School Board exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Upper Adams School District is the lowest level of government which has oversight responsibility and control over all activities related to public school education in the Commonwealth of Pennsylvania. The District receives funding from local, state and Federal government sources and must comply with the requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" since the School Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. Additionally, the District does not exercise oversight responsibility over any other entities, and consequently, no other entities have been included in the accompanying financial statements.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effects of interfund activity have been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note I. Summary of Significant Accounting Policies (Continued)

B. Government-wide and Fund Financial Statements (Continued)

Separate fund financial statements are provided in the report for all of the governmental, proprietary and fiduciary funds of the District, even though the latter are excluded from the government-wide financial statements. Major, individual governmental funds and the major, individual proprietary fund are reported as separate columns in the fund financial statements. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The District complies with accounting principles generally accepted in the United States of America (GAAP) and applies all relevant Governmental Accounting Standards Board (GASB).

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) is a practical measure of economic resources, and the operating statement includes all transactions and events that increased or decreased net position. Depreciation is charged as an expense against current operations, and accumulated depreciation is reported on the Statement of Net Position.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues from Federal, state and other grants designated for payment of specific District expenditures are recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as unearned revenues until earned. Expenditures generally are recorded when liabilities are incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note I. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

When both restricted and unrestricted (including committed, assigned and unassigned) resources are available for use, it is the District's policy to use resources with the most stringent restrictions first, followed by resources in decreasing order of restriction, as funds are needed.

Governmental funds are those through which most governmental functions of the District are financed. The acquisitions, uses and balances of the District's expendable, financial resources and related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund. Revenues are primarily derived from local property, earned income and per capita taxes; and state and Federal distributions. Many of the more important activities of the District, including instruction, administration of the District, and certain non-instructional services are accounted for in this fund.

The Capital Projects and Capital Reserve Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds).

The District reports the following non-major governmental funds:

The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for bond issuance or refunding, including principal and interest payments and proceeds from issuance or refunding.

Proprietary funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is upon the determination of net income and capital maintenance. The District operates one proprietary fund, the Food Service Fund. This fund is used for all financial transactions related to food service operations. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal, on-going operations. The principal, operating revenue of the District's proprietary fund is food service charges. Operating expenses for the District's proprietary fund include food production costs, supplies, administrative costs and depreciation of capital assets. All revenues or expenses not meeting these classifications are reported as non-operating revenues and expenses.

The District does not attempt to allocate "building-wide costs" to the Food Service Fund. Thus, General Fund expenditures which partially benefit the Food Service Fund (utilities, janitorial services, insurance, etc.) are not proportionately recognized within the Food Service Fund; similarly, the Food Service Fund does not recognize a cost for the building space it occupies (no rental of facilities expense).

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note I. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Fiduciary funds are used to account for assets held by the District in a trustee or agent capacity. There are two major types of fiduciary funds: trust funds established by a formal trust agreement that places restrictions on the use of the fund's assets; and agency funds that account for the resources of another entity for which the District has custodial responsibility. Agency funds account for school activities such as various clubs and class funds. Student activity funds are addressed in Section 511 of the Public School Code. Agency Funds are purely custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency Funds are accounted for using the modified accrual basis of accounting. The District reports on various student activity funds.

D. Budgets and Budgetary Accounting

An operating budget is adopted prior to the beginning of each fiscal year for the General Fund on the 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 the adoption of the District's budget and reporting of its financial statements, specifically:

The District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.

The District is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which the District 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 District.

Notice that public hearings will be held on the proposed, operating budget must be included in the advertisement; such hearings are required to be scheduled at least 10 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 effects of approved, budget amendments.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity

Cash and Cash Equivalents: For purposes of the Statement of Cash Flows presented for the proprietary fund, the District considers all highly-liquid investments with maturities of three months or less when purchased to be cash equivalents.

Investments: Investments are stated at fair value or at amortized costs, depending on the investment type, consistent with generally accepted accounting principles.

Allowance for Estimated Uncollectible Taxes: The allowance for estimated uncollectible taxes is based upon an historical estimate of delinquent taxes that will not be received within one year of the fiscal year-end. Delinquent property taxes in the deferred inflows section are based upon an historical estimate of delinquent taxes expected to be received within one year of the fiscal year-end. The portion of taxes receivable which is expected to be received within 60 days of June 30 is recorded as revenue in the current year. The remaining amount of taxes receivable which is expected to be received within one year from June 30 is recorded as delinquent property taxes. All other amounts in taxes receivable are written off as estimated uncollectible taxes.

Inventories: Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

A physical inventory of the Food Service Fund's food and supplies was taken as of June 30, 2019. The inventory consisted of government donated commodities which were valued at their estimated, fair market values, and purchased commodities and supplies, both of which were valued at cost using the first-in, first-out (FIFO) method. The District has adopted an inventory recordkeeping system which distinguishes between donated and purchased commodities. Accordingly, unearned revenue for donated commodities has been recorded.

Prepaid Expenses: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items (consumption method) in both the government-wide and fund financial statements.

Capital Assets and Depreciation: Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activity column in the government-wide financial statements. Capital assets are defined by the District as assets with initial, individual costs of more than \$5,000 and estimated useful lives in excess of two years, unless the assets are acquired by debt proceeds, in which case the assets must be capitalized. Donated capital assets are recorded at their estimated fair market values at the dates of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest expense incurred during the construction phases of capital assets of business-type activities is included as part of the capitalized values of the assets constructed. Management considers various factors in the capitalization of assets, including the assets' estimated useful lives, costs and the extent to which the assets are parts of larger capital projects. The costs of normal maintenance and repairs that do not add to the values of assets or materially extend assets' lives are not capitalized.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (Continued)

Capital Assets and Depreciation (Continued)

Depreciation of capital assets is provided on the straight-line method over the estimated useful lives of the assets or groups of assets, as determined by management.

Government-Wide Statements: In the government-wide financial statements, depreciation of all exhaustible capital assets is recorded as a direct expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position.

Fund Financial Statements: In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the applicable governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for in the same manner as capital assets which are presented in the government-wide statements.

Deferred Outflows of Resources - Deferred Amounts on Refunding Debt: The District recognizes the difference between the re-acquisition price and the net carrying amount of the old debt as a deferred outflow and recognizes it as a component of interest expense over the remaining life of the old or new debt, whichever is shorter.

Deferred Outflows of Resources - Pensions: The District recognizes the difference between expected and actual experience, changes in assumptions, net difference between projected and actual investment earnings, changes in proportion, the difference between employer contributions and proportionate share of total contributions and the contributions subsequent to the measurement date as deferred outflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

Deferred Outflows of Resources - Other Post-Employment Benefits: The District recognizes changes in assumptions, net difference between projected and actual investment earnings, benefit payments subsequent to the measurement date and contributions subsequent to the measurement date as deferred outflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (Continued)

Long-Term Obligations: In the government-wide financial statements and in the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activity columns in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the lives of the bonds using the effective-interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond insurance is deferred as a prepaid expense and amortized over the lives of the related bonds. Other bond issuance costs are expensed at the time the debt is issued.

In the fund financial statements, governmental-fund types recognize bond premiums and discounts during the current period. The face amount of the debt issued and related premiums are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences: Under the system of financial accounting and reporting for Pennsylvania School Systems, the District accrues certain accumulated employee benefits such as unpaid vacation and sick and personal leave. The calculation of this amount is determined by the appropriate vacation, sick, personal and retirement lump-sum payments which would be available to employees if they were to leave or retire from the District, adjusted for expected turnover rates of employees. Accrued benefit days, multiplied by appropriate salary amounts, are reflected as a long-term liability unless retirements are likely within the upcoming fiscal year. In the governmental funds, the cost of vacation and sick leave is recognized when payments are made to employees. Those costs determined to be current year costs are reflected as a liability of the General Fund.

Other Post-Employment Benefits: In the government-wide financial statements, the District recognizes the costs and liabilities associated with post-employment benefits other than pension compensation. The District participates in two plans, the first is a single employer plan administered by the District. The plan provides retiree health, vision, dental care and prescription drug benefits for eligible, retired employees and their qualified spouses/beneficiaries. The District estimates the cost of providing these benefits through an actuarial valuation.

The District also participates in a governmental cost sharing, multiple-employer other post-employment benefit plan (OPEB) with PSERS for all eligible retirees who qualify and elect to participate. 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.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (Continued)

Other Post-Employment Benefits (Continued):

The balances of the District's OPEB liabilities and related deferred outflows/inflows of resources at June 30, 2019, are as follows:

	Governmental Activities	Business-Type Activity	Total
OPEB Liabilities			
District's Single Employer Plan	\$ 1,216,071	\$ -	\$ 1,216,071
PSERS Cost Sharing Plan	1,603,000	-	1,603,000
Total	<u>\$ 2,819,071</u>	<u>\$ -</u>	<u>\$ 2,819,071</u>
Deferred Outflows of Resources			
District's Single Employer Plan	\$ 77,046	\$ -	\$ 77,046
PSERS Cost Sharing Plan	126,000	-	126,000
Total	<u>\$ 203,046</u>	<u>\$ -</u>	<u>\$ 203,046</u>
Deferred Inflows of Resources			
District's Single Employer Plan	\$ 219,900	\$ -	\$ 219,900
PSERS Cost Sharing Plan	85,000	-	85,000
Total	<u>\$ 304,900</u>	<u>\$ -</u>	<u>\$ 304,900</u>

Additional disclosures related to other post-employment benefits of the District's Single Employer Plan and PSERS Cost Sharing Plan are in Notes 13 and 14, respectively.

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/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 (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (Continued)

Interfund Activity: Advances between funds that are not expected to be repaid are accounted for as transfers. In those cases when repayment is expected, the advances are accounted for through the various due from and due to accounts.

On fund financial statements, short-term interfund loans are classified as interfund balances. These amounts are eliminated in the Statement of Net Position, except for amounts due between governmental and business-type activities, which are presented as internal balances.

Deferred Inflows of Resources - Pensions: The District recognizes its share of the difference between projected earnings and actual investments and the difference between expected and actual experience of their pension plan as deferred inflows of resources. These amounts are amortized over the average remaining services lives of active and inactive members.

Deferred Inflows of Resources - Other Post-Employment Benefits: The District recognizes the changes in assumptions, changes in proportions and the difference between employer contributions and proportionate share of total contributions as deferred inflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

Deferred Inflows of Resources - Delinquent Property Taxes: The District recognizes the property tax revenues when they become available. Available includes those property tax receivables expected to be collected within 60 days after year-end. Those property tax receivables expected to be collected after 60 days after year-end are shown as deferred inflows of resources in the fund financial statements. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Fund Balance: The District's fund balance classifications are defined and described as follows:

Nonspendable: Represents fund balance amounts that cannot be spent because they are not in a spendable form or are contractually required to be maintained intact.

Restricted: Represents fund balance amounts that are constrained for a specific purpose through restrictions of external parties, through constitutional provisions, or by enabling legislation.

Committed: Represents fund balance amounts that can only be used for specific purposes pursuant to the constraints imposed by formal action of the Board of School Directors, the District's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board removes the constraints or changes the specified purpose through the same action it used to commit the funds.

Assigned: Represents fund balance amounts that are constrained by the government's intent to be used for a specific purpose but are neither restricted nor committed. Through Board policy, the Board has delegated the authority to express intent to the District's Business Administrator.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (Continued)

Fund Balance (Continued):

Unassigned: Represents fund balance amounts that have not been restricted, committed, or assigned to specific purposes within the General Fund.

The District has a board policy which prescribes fund balance guidelines. The District will strive to maintain an unassigned, General Fund balance of not less than 1% and not more than 8% of the budgeted expenditures for that fiscal year.

F. Other

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events: In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 19, 2019, the date the financial statements were available to be issued.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments

Section 440.1 of the Public School Code of 1949 as amended and supplemented by Act 10 of 2016 define allowable investments for school districts, which are summarized as follows:

- United States Treasury Bills
- Short-term obligations of the U.S. Government or its agencies or instrumentalities
- Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation (FSLIC) or the National Credit Union Share Insurance Fund (NCUSIF) 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 therefore shall be pledged by the depository
- Obligations of the United States of America or any of its agencies or instrumentalities backed by the full-faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full-faith and credit of the political subdivision
- Shares of an investment companies registered under the Investment Company Act of 1940
- Local Government Investment Pools
- Repurchase agreements with respect to U.S. Treasury bills or obligations, participations or other instruments of or guaranteed by the U.S. or any federal agency, instrumentality or U.S. government-sponsored enterprise
- Obligations, participations or other instruments of any federal agency, instrumentality or U.S. government-sponsored enterprise if the debt obligations are rated at least “A” or its equivalent
- Commercial paper issued by corporations or other business entities organized in accordance with federal or state law, with a maturity not to exceed 270 days
- Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers’ acceptances, if the bankers’ acceptances do not exceed 180 days maturity
- Negotiable certificates of deposit or other evidences of deposit, with a remaining maturity of three years or less

The deposit and investment policies of the District adhere to state statutes and prudent business practices. There were no deposit or investment transactions during the year that violated either state statutes or District policies.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

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 to it. A summary of the District's deposits at June 30, 2019, are as follows:

	Carrying Amount	Bank Balance	Financial Institution
FDIC Insured	\$ 250,000	\$ 250,000	PNC Bank
FDIC Insured	51,052	51,785	Adams County National Bank
Uninsured and uncollateralized by assets maintained in conformity with Act 72	1,911,217	2,180,000	PNC Bank
	<u>\$ 2,212,269</u>	<u>\$ 2,481,785</u>	

Act 72 of 1971, as amended, is an act standardizing the procedures for pledges of assets to secure deposits of public funds with banking institutions pursuant to other laws; establishing a standard rule for the types, amounts and valuations of assets eligible to be used as collateral for deposits of public funds; permitting assets to be pledged against deposits on a pooled basis, and authorizing the appointment of custodians to act as the pledgers of the assets.

Investments

As of June 30, 2019, the District had the following investments:

Investment	Credit Rating	Weighted-Average Maturity	Carrying Value
Pennsylvania School District Liquid Asset Fund - Max Series (PSDLAF-Max Series)	AAAm	70 days	\$ 2,321,979
Full Flex Investment Pool (PSDLAF-Flex)	n/a	9 days	9,300,000
			<u>\$ 11,621,979</u>

Portfolio Assets

Certain external pool investments held by the District, based on portfolio maturity, quality, diversification and liquidity measures, qualify for measurement at amortized cost at both the pool and the participating government levels consistent with GASB Statement No. 79. The District measures those investments, which include PSDLAF-Max Series, at amortized cost.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Portfolio Assets (Continued)

PSDLAF-Max Series - This fund invests in securities such as U.S. treasury obligations; securities issued by the U.S. government, its agencies and instrumentalities; collateralized or government agency LOC-backed bank deposits and repurchase agreements collateralized by such securities and contracted with highly rated counterparties. The pool will hold at least 50% of its assets in securities rated 'A-1+' by Standards & Poor's, with the remainder held in securities rated 'A-1'. The fund is required to maintain a weighted average maturity to reset of no longer than 60 days. PSDLAF-Max Series does not have limitations or restrictions on withdrawals.

PSDLAF Full Flex Pool, as part of the fixed term series at PSDLAF, are fixed term investments collateralized in accordance with Act 72 and invests in assets listed above as permitted under Section 440.1 of the Public School Code of 1949. The Fixed Term Series are fixed term investment vehicles with maturities depending upon the maturity date of each particular Fixed Term Series. All investments in a Fixed Term Series by a Settlor are intended to be deposited for the full term of the particular Fixed Term Series; however, participants in the full flex pool may remove funds without early withdrawal penalty. Whether a Fixed Term Series has only one Settlor or more than one Settlor participating in it, each certificate of deposit in which the monies in such Fixed Term Series are invested is registered in the name of that particular Fixed Term Series. Certificates of deposit used for Fixed Term Series (i) are normally in principal amounts in excess of the FDIC insurance limit of \$250,000, (ii) are collateralized in accordance with law and (iii) the collateral is held by a third-party custodian pursuant to a custody agreement among the Fund, the bank that issues the certificate of deposit and the third-party custodian. In some instances, the collateral consists of an Irrevocable Letter of Credit issued by the applicable Federal Home Loan Bank. At present, The Bank of New York serves as the third-party custodian with respect to all such collateralized certificates of deposit. Permitted Investments (other than certificates of deposit) such as U.S. Treasury or Agency securities in which monies in which a Fixed Term Series are invested are registered in the name or names of the Settlor or Settlers for which the Fixed Term Series was created, and the security is held in custody by a third-party custodian pursuant to a custody agreement between the Investment Adviser and the third-party custodian. At present, U.S. Bank National Association, Minneapolis, Minnesota serves as the third-party custodian with respect to all such securities. The District reports these nonparticipating contracts, as nonnegotiable certificates of deposit with redemption terms that do not consider market rates, using a cost-based measure, provided that the fair value of those contracts is not significantly affected by the impairment of the credit standing of the issuer or other factors consistent with GASB Statement No. 31.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Presently, the investments currently held by the District are valued at amortized cost and are not subject to the fair value categorization disclosures.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Weighted-Average Maturity

The weighted-average maturity (WAM) method expresses investment time horizons, the time when investments become due and payable, in years or months, weighted to reflect the dollar-size of individual investments within an investment type. WAMs are computed for each investment type. The portfolio's WAM is derived by dollar-weighting the WAM for each investment type.

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.

Credit Risk

As indicated above, Section 440.1 of the Public School Code of 1949, as amended, limits the composition of the District's investments, and the District has no investment policy that would further limit its investment choices.

Concentrations of Credit Risk

The District places no limit on the amounts invested in any one issuer. The District's investments in Pennsylvania School District Liquid Asset Fund represent 100% of the District's total investments.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 3. Taxes Receivable, Deferred Inflows of Resources and Unearned Revenue

A summary of the taxes receivable and related accounts at June 30, 2019, are as follows:

	Amount
Taxes receivable	\$ 1,269,909
Allowance for uncollectible taxes	(37,484)
Taxes Receivable - Net	<u>\$ 1,232,425</u>
Taxes to be collected within 60 days	\$ 630,717
Deferred inflows of resources - delinquent property taxes	601,708
Taxes Receivable - Net	<u>\$ 1,232,425</u>
Deferred Inflows of Resources - General Fund	
Delinquent property taxes	<u>\$ 601,708</u>
Unearned Revenue - Food Service Fund	
Student deposits	\$ 12,922
Transition expenses - Chartwells	13,250
Donated commodities	2,424
	<u>\$ 28,596</u>

Note 4. Property Taxes

Based upon assessed valuations provided by the County, the elected, municipal tax collector bills and collects property taxes on behalf of the District. Property taxes are levied on July 1. Taxes are collected at a 2.00% discount until August 31, at their face amount from September 1 until October 31, and include a 10.00% penalty thereafter. Adams County Tax Claim Bureau collects delinquent real estate taxes for the District.

The District's tax rate for all purposes for the year ended June 30, 2019, was 14.943 mills (\$14.943 per \$1,000 assessed valuation) as levied by the Board of School Directors. Refunds on payments of prior-year taxes are classified as other debt-service items under the Commonwealth of Pennsylvania accounting system. Current tax collections for the District were approximately 96.97% of the total tax levy.

The District has not entered into any tax abatement agreements as of June 30, 2019.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 5. Interfund Accounts

Individual fund receivable and payable balances at June 30, 2019, are as follows:

	Interfund Receivables	Interfund Payables
Governmental Funds		
General	\$ 7,299	\$ -
Proprietary Fund - Food Service	-	7,299
	<u>\$ 7,299</u>	<u>\$ 7,299</u>

All interfund receivable/payable balances resulted from time lags between the dates that (1) interfund goods and services were provided or reimbursable expenditures occurred, (2) transactions were recorded in the accounting system and (3) payments between funds were made. All balances are expected to be repaid within the following year.

Operating transfers between funds during the fiscal year ended June 30, 2019, are as follows:

	Transfers In	Transfers Out
Governmental Funds		
General	\$ -	\$ 887,619
Capital projects	887,619	-
	<u>\$ 887,619</u>	<u>\$ 887,619</u>

Transfers and payments within the District are substantially for purposes of subsidizing operations, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

Note 6. Food Service Fund Inventories

The composition of Food Service Fund inventories at June 30, 2019, is as follows:

	Amount
Materials and supplies	\$ 2,783
Purchased food	9,581
Donated food	2,424
	<u>\$ 14,788</u>

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Capital Assets

Capital asset activity for the year ended June 30, 2019, was as follows:

	July 1, 2018	Increases	Decreases	June 30, 2019
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 370,297	\$ 298,119	\$ -	\$ 668,416
Construction-in-progress	-	5,112,679	-	5,112,679
Total capital assets, not being depreciated	370,297	5,410,798	-	5,781,095
Capital assets, being depreciated				
Site improvements	2,506,655	499,679	-	3,006,334
Buildings and improvements	38,168,049	-	973,203	37,194,846
Furniture and equipment	7,381,755	-	2,827,032	4,554,723
Total capital assets, being depreciated	48,056,459	499,679	3,800,235	44,755,903
Less accumulated depreciation				
Site improvements	1,688,494	158,740	(22,644)	1,869,878
Buildings and improvements	21,813,086	922,827	161,161	22,574,752
Furniture and equipment	6,008,907	182,796	2,761,039	3,430,664
Total accumulated depreciation	29,510,487	1,264,363	2,899,556	27,875,294
Total capital assets, being depreciated, net	18,545,972	(764,684)	900,679	16,880,609
Governmental Activities, Capital Assets - Net	\$ 18,916,269	\$ 4,646,114	\$ 900,679	\$ 22,661,704
Business-Type Activity				
Machinery and equipment	\$ 767,314	\$ -	\$ 279,143	\$ 488,171
Accumulated depreciation	(612,426)	(24,919)	(307,877)	(329,468)
Business-Type Activity, Capital Assets - Net	\$ 154,888	\$ (24,919)	\$ (28,734)	\$ 158,703

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

	Amount
Governmental Activities	
Instructional	\$ 866,979
Instructional student support	135,724
Administration and financial support	178,907
Pupil transportation	5,424
Student activities	77,329
Total governmental activities	1,264,363
Business-Type Activity	
Food service	24,919
Total School District	\$ 1,289,282

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Accrued Salaries and Benefits

Accrued salaries and benefits at June 30, 2019, consist of the following:

	Amount
Accrued salaries	\$ 1,175,106
Retirement	1,255,022
Social security	86,530
	<u>\$ 2,516,658</u>

Accrued salaries represent teachers' salaries earned during the 2018-2019 school year which will be paid subsequent to June 30, 2019. Accrued retirement represents the Public School Employees' Retirement Board contribution for the second quarters of calendar year 2019, including the portion pertaining to accrued salaries at June 30, 2019. Accrued social security represents the District's liability arising from accrued salaries at June 30, 2019.

Note 9. Long-Term Obligations

During the fiscal year ended June 30, 2019, long-term obligations changed as follows:

	Balances July 1, 2018	Increases	Decreases	Balances June 30, 2019	Due Within One Year
Governmental Activities					
Bonds and notes payable					
Series of 2015	\$ 4,700,000	\$ -	\$ 1,470,000	\$ 3,230,000	\$ 10,000
Series of 2017	8,910,000	-	5,000	8,905,000	1,045,000
Series of 2019	-	9,995,000	-	9,995,000	5,000
	<u>13,610,000</u>	<u>9,995,000</u>	<u>1,475,000</u>	<u>22,130,000</u>	<u>1,060,000</u>
Bond premium (discount) - net	(7,485)	579,439	15,474	556,480	-
Total bonds and notes payable	<u>13,602,515</u>	<u>10,574,439</u>	<u>1,490,474</u>	<u>22,686,480</u>	<u>1,060,000</u>
Capital lease obligations	1,350,007	-	431,080	918,927	443,418
Compensated absences	443,855	-	2,301	441,554	-
	<u>\$ 15,396,377</u>	<u>\$ 10,574,439</u>	<u>\$ 1,923,855</u>	<u>\$ 24,046,961</u>	<u>\$ 1,503,418</u>
Business-Type Activities					
Contracts payable	\$ 24,000	\$ -	\$ 12,000	\$ 12,000	\$ 12,000

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Long-Term Obligations (Continued)

General Obligation Notes - Series of 2015 - On February 13, 2015, the District issued General Obligation Notes in the principal amount of \$5,570,000. The proceeds were used to restructure the outstanding General Obligation Bonds - Series of 2010, provide financing for various capital projects, and to pay the costs of issuing and insuring the notes. The notes bear annual interest rates ranging from 0.50% to 4.00%. Interest is payable semi-annually, on February 15 and August 15, and the notes mature serially in amounts ranging from \$5,000 to \$1,625,000 through February 15, 2024.

General Obligation Bonds - Series of 2017 - On October 24, 2017, the District issued General Obligation Bonds in the principal amount of \$9,135,000. The proceeds were used to restructure and refinance the outstanding General Obligation Bonds - Series A of 2010, General Obligation Notes - Series of 2011, and General Obligation Notes-Series 2012 and to pay the costs of issuing and insuring the bonds. The economic gain on the refunding of 2010-A, 2011 and 2012 issuances was \$91,600. The bonds bear annual interest rates ranging from 0.950% to 2.625%. Interest is payable semi-annually, on February 1 and August 1, and the bonds mature serially in amounts ranging from \$5,000 to \$1,280,000 through February 1, 2029.

General Obligation Bonds - Series of 2019 - On March 6, 2019, the District issued General Obligation Bonds in the principal amount of \$9,995,000. The proceeds were used to provide financing for various capital projects and to pay the costs of issuing and insuring the notes. The notes bear annual interest rates ranging from 1.80% to 5.00%. Interest is payable semi-annually, on February 1 and August 1, and the notes mature serially in amounts ranging from \$5,000 to \$1,035,000 through February 1, 2041.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Long-Term Obligations (Continued)

Contracts Payable - On July 1, 2015, the District obtained financing from Compass Group USA, Inc., by and through its Chartwells Division, in an amount not to exceed \$60,000 to be used to fund certain improvements to the District's food service operations. The obligation requires 57 monthly payments through June 2020.

The District is in compliance with all debt covenants of the outstanding bond issues. Those covenants include the following: the District shall include the annual debt service in its budget for the fiscal year, shall appropriate said debt service from its general revenues, and shall punctually cause the payment of the principal and interest of each of the obligations.

Maturities of long-term debt issues and notes are as follows:

Year Ending June 30,	Governmental Activities			Business- Type Activity
	Principal	Interest	Total	
2020	\$ 1,060,000	\$ 648,103	\$ 1,708,103	\$ 12,000
2021	1,075,000	672,893	1,747,893	-
2022	1,110,000	652,275	1,762,275	-
2023	1,635,000	630,075	2,265,075	-
2024	1,175,000	595,750	1,770,750	-
2025-2029	6,130,000	2,591,648	8,721,648	-
2030-2034	3,570,000	1,861,650	5,431,650	-
2035-2039	4,355,000	1,083,725	5,438,725	-
2040-2041	2,020,000	152,750	2,172,750	-
	<u>\$ 22,130,000</u>	<u>\$ 8,888,869</u>	<u>\$ 31,018,869</u>	<u>\$ 12,000</u>

All debt-service payments for general obligation notes and bonds are funded by the General Fund. As required by the Pennsylvania Department of Education Financial and Accounting Reporting Manual, debt issuance costs are reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as Support Services expenditures.

Compensated Absences - Under the terms of the District's employment policies, employees are reimbursed for accrued vacation upon retirement or other termination of employment. The reimbursement rate is established by the employment contracts and varies by employee classification. In addition, employees are granted sick and personal days per school year, and any unused days can be carried over to future years. Upon retirement from the District, employees are reimbursed for accumulated sick and personal days in amounts equal to the number of unused days multiplied by amounts established by employment contracts. Certain employees are also offered options regarding retirement incentives as prescribed in the contracts if certain conditions are met. The total liability for accrued vacation, sick and personal leave and retirement incentives has been reflected in the Statement of Net Position.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Capital Lease Obligations

The District has entered into lease agreements as lessee for financing the acquisition of energy-performance and computer equipment. These lease agreements qualify as capital leases for accounting purposes, and therefore, they have been recorded as such.

The assets acquired through the capital leases are as follows:

	Amount
Buildings and improvements	\$ 1,379,095
Furniture and equipment	1,592,604
Less accumulated depreciation	(1,728,467)
	<u>\$ 1,243,232</u>

The present value of future minimum lease payments as of June 30, 2019, is as follows:

Years Ending June 30,	Amount
2020	\$ 464,691
2021	207,226
2022	158,221
2023	135,082
Total minimum lease payments	<u>965,220</u>
Less: amount representing interest	(46,293)
Present value of minimum lease payments	<u>\$ 918,927</u>

Note 11. Fund Balance Designations

The District has designated certain portions of the General Fund balance as follows:

Description of assigned	Amount
General Fund	
Future debt service	\$ 2,001,270
PSERS	231,000
Medical assignment	350,000
	<u>\$ 2,582,270</u>

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. Defined-Benefit Pension Plan

Plan Description

PSERS (System) 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. PSERS issues a publicly available financial report that can be obtained at www.psers.pa.gov.

Benefits Provided

PSERS provides retirement, disability and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after 10 years of service.

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

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

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. Defined-Benefit Pension Plan (Continued)

Contributions

Member Contributions:

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.

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 Contributions:

The District's contractually required contribution rate for the fiscal year ended June 30, 2019, was 33.43% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The 33.43% rate is comprised of a contribution rate of 32.60% for pension benefits and 0.83% for healthcare-insurance premium assistance (OPEB benefits).

The District is required to pay the entire contribution and will be reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income aid ratio (as defined in Act 29 of 1994), which is at least one half of the total District's rate. The District's contributions to the Plan, relating to pension benefits, for the year ended June 30, 2019, were \$3,462,017, and is equal to the required contribution for the year. For the year ended June 30, 2019, the District recognized gross retirement subsidy revenue from the Commonwealth in the amount of \$2,142,295.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. Defined-Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

At June 30, 2019, the District reported a liability of \$36,916,000 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 relates to the total one-year reported covered payroll. At June 30, 2019, the District's proportion was 0.0769%, which was an decrease of 0.0013% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2019, the District recognized pension expense of \$3,077,000. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources in the governmental and business-type activities:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 297,000	\$ 571,000
Changes in assumptions	688,000	-
Changes in proportions	26,000	1,654,000
Net difference between projected and actual investment earnings	181,000	-
Difference between employer contributions and proportionate share of total contributions	89,000	-
Contributions subsequent to the measurement date	3,462,000	-
	<u>\$ 4,743,000</u>	<u>\$ 2,225,000</u>

\$3,462,000 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,	Total
2020	\$ (24,000)
2021	(234,000)
2022	(552,000)
2023	(137,000)
2024	3,000
	<u>\$ (944,000)</u>

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. Defined-Benefit Pension Plan (Continued)

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 measurements:

- 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 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.

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 ended June 30, 2015.

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

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

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. Defined-Benefit Pension Plan (Continued)

Actuarial Assumptions (Continued)

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%	0.9%
	<u>100.0%</u>	

The above was the PSERS 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 pension liability.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. Defined-Benefit 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 District's proportionate share of the net pension liability, calculated using the discount rate of 7.25%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower (6.25%) or one-percentage point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	\$ 45,760,000	\$ 36,916,000	\$ 29,438,000

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.pa.gov.

Plan Payables

At June 30, 2019, the District has payables to the PSERS pension plan of \$1,223,862 which is comprised of staff payroll accruals and the quarterly PSERS liability for second quarter 2019 retirement contributions.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 13. Other Post-Employment Benefits - Single Employer District Plan

Plan Description, Benefit Terms and Funding Policy

The District provides retiree medical, prescription drug, dental and vision benefits to eligible retirees and their spouses. This is a single-employer, defined-benefit plan administered by the District. The District funds OPEB on a pay-as-you go basis, and there is no obligation to make contributions in advance of when insurance premiums or claims are due for payment. The District does not maintain or accumulate any assets within a trust in accordance with paragraph 4 of GASB Statement No. 75. The plan description and benefit terms provided by the plan are summarized in the chart below:

Funding Policy:

Group	Eligibility	Coverage and Premium Sharing	Duration
I. Administrators			
A) Former Superintendent	N/A - already retired	Coverage: Medical, Prescription Drug, Dental, and Vision Premium Sharing: Member may elect medical, prescription drug, dental, and vision coverage by contributing 50% of the premiums. Spouse may also elect dental and vision coverage by contributing 50% of the premiums. Dependents: Spouses included	Coverage ends at Medicare age. Spousal coverage ends at Medicare age, regardless of Member age.
B) All Other Administrators	Early or normal retirement through PSERS with the final five years of service with UASD and at least age 50, or Act 110/43	Coverage: Medical, Prescription Drug, Dental, and Vision Premium Sharing: If the member retires through PSERS and the member's final five years are with UASD, the District will pay a percentage of the single medical, prescription drug, dental and vision premiums based on the chart below. The spouse may elect coverage by paying the full premiums. 5-10 years of District service = 35% District pays 10-15 years of District service = 40% District pays 15-20 years of District service = 45% District pays 20-25 years of District service = 50% District pays 25-30 years of District service = 55% District pays 30-35 years of District service = 60% District pays 35 or more years of District service = 65% District pays Note: Members have the option of converting unused sick leave to an additional percentage of District paid benefits upon retirement. Upon the death of a retiree, the spouse is eligible to receive the retiree's share of payments that the retiree would have received until the retiree would have reached Medicare age. If the member is not eligible for the subsidized benefit but is eligible for Act 110/43, the member and spouse may elect medical, prescription drug and dental coverage by paying full premiums. Dependents: Spouses included Special contract: One retiree is contributing 48% of the premium coverage until Medicare age.	Same as IA

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 13. Other Post-Employment Benefits - Single Employer District Plan (Continued)

Funding Policy (Continued)

II. Teachers	Early retirement through PSERS with the final 20 years of service with UASD and at least age 55, or Act 110/43	Coverage: Medical, Prescription Drug, and Dental Premium Sharing: The member and spouse may elect medical, prescription drug and dental coverage by paying the full premiums. Dependents: Spouses included Grandfathered retirees: For those who retired before 6/30/2012 at least age 55 with the final 15 years of service with UASD, the District pays 40% of the single medical and prescription drug premiums. Subsidized coverage ceases upon Medicare age.	Same as IA
III. Support Staff	Act 110/43	Same as II	Same as IA

Employees Covered by Benefit Terms

For the year ended June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	10
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	192
	<u>202</u>

OPEB Liabilities, OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

At June 30, 2019, the District reported a liability of \$1,216,071 for the total OPEB liability. The total OPEB liability was measured as of July 1, 2018 and was determined by an actuarial valuation as of July 1, 2018. The OPEB liability is composed of the following:

Total OPEB Liability, beginning	<u>\$ 1,378,204</u>
Changes for the year	
Service cost	97,341
Interest	45,088
Differences between expected and actual experience	(189,204)
Changes in assumptions	(50,687)
Estimated benefit payments	(64,671)
Net changes	<u>(162,133)</u>
Total OPEB liability, ending	<u>\$ 1,216,071</u>

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 13. Other Post-Employment Benefits - Single Employer District Plan (Continued)

OPEB Liabilities, OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)

For the year ended June 30, 2019, the District recognized OPEB expenses of \$126,809. At 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
Differences between expected and actual experience	\$ -	\$ 173,437
Changes of assumptions	43,714	46,463
Benefit payments subsequent to the measurement date	33,332	-
	<u>\$ 77,046</u>	<u>\$ 219,900</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$33,332 resulting from District benefit payments subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Years ending June 30,	Total
2020	\$ (15,620)
2021	(15,620)
2022	(15,620)
2023	(15,620)
2024	(15,620)
Thereafter	(98,086)
	<u>\$ (176,186)</u>

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 13. Other Post-Employment Benefits - Single Employer District Plan (Continued)

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

- Inflation - 2.50%
- Salary Increases - 2.5% cost of living adjustment, 1% real wage growth and for teachers and administrators a merit increase which varies by age from 2.75 to 0%.
- Investment rate of return - 2.98%. Based on S&P Municipal Bond 20-year High Grade Rate Index at July 1, 2018.
- Health care cost trend rate - 6.0% in 2018, and 5.5% in 2019-2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Actuarial value of assets - Equal to the market value of assets

Mortality rates are separate and assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation.

Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.

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

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

	1% Decrease	Current	1% Increase
	1.98%	Discount Rate 2.98%	3.98%
Total OPEB liability	\$ 1,304,004	\$ 1,216,071	\$ 1,132,225

The discount rate used to measure the total OPEB liability decreased from 3.13% as of July 1, 2017 to 2.98% as of July 1, 2018.

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

The following presents the total OPEB liability of the District calculated using the health care cost trend rates of (6.0% decreasing to 3.8%), as well as what the total OPEB liability would be if it were calculated using a health care cost trend rates that are one-percentage-point lower or one-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current	1% Increase
		Trend Rate	
Total OPEB liability	\$ 1,081,621	\$ 1,216,071	\$ 1,373,616

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 14. Other Post-Employment Benefits - PSERS Plan

System Administration

The administrative staff of the Pennsylvania Public School Employees' Retirement System (PSERS or the System) administers a defined benefit pension plan, and two postemployment healthcare programs, the Health Insurance Premium Assistance Program (Premium Assistance) and the Health Options Program (HOP) for its retirees. The System is a governmental cost-sharing, multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania (Commonwealth). 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 HOP is a PSERS sponsored voluntary health insurance program for the sole benefit of PSERS retirees, spouses of retirees and survivor annuitants and their dependents who participate in HOP. The HOP is funded exclusively by the premiums paid by its participants for the benefit coverage they elect.

The control and management of the System, including the investment of its assets is vested in the Board of Trustees (Board). The Commonwealth's General Assembly has the authority to amend the benefit terms of the System by passing bills in the Senate and House of Representatives and sending them to the Governor for approval.

Plan Description and Benefits Provided - 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 Program. As of June 30, 2018, there were no assumed future benefit increases to participating eligible retirees.

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.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 14. Other Post-Employment Benefits - PSERS Plan (Continued)

Employer Contributions

The Districts' contractually required contribution rate for the fiscal year ended June 30, 2019, was 0.83% 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 \$88,143 for the year ended June 30, 2019.

OPEB Liabilities, OPEB Expense and Deferred Outflows/Inflows of Resources and Related to OPEB

At June 30, 2019, the District reported a liability of \$1,603,000 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 relates to the total one-year reported covered payroll. At June 30, 2019, the District's proportion was 0.0769%, which was a decrease of 0.0013% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2019, the District recognized OPEB expense of \$70,000. At 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
Difference between expected and actual experience	\$ 10,000	\$ -
Changes in assumptions	25,000	61,000
Changes in proportion	-	25,000
Net difference between projected and actual investment earnings	3,000	-
Difference between employer contributions and proportionate share of total contributions	-	(1,000)
Contributions subsequent to the measurement date	88,000	-
	<u>\$ 126,000</u>	<u>\$ 85,000</u>

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 14. Other Post-Employment Benefits - PSERS Plan (Continued)

OPEB Liabilities, OPEB Expense and Deferred Outflows/Inflows of Resources and Related to OPEB (Continued)

\$88,000 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 ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years ending June 30,	Total
2020	\$ (10,000)
2021	(10,000)
2022	(10,000)
2023	(10,000)
2024	(10,000)
Thereafter	3,000
	<u>\$ (47,000)</u>

Actuarial Assumptions

The 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.
- 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 ended June 30, 2015.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 14. Other Post-Employment Benefits - PSERS Plan (Continued)

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

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.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	5.9%	0.3%
US Core Fixed Income	92.8%	1.2%
Non-US Developed Fixed	1.3%	0.4%
	<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 of June 30, 2018.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 14. Other Post-Employment Benefits - PSERS Plan (Continued)

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

Changes in Actuarial Assumptions

The discount rate used to measure the total OPEB liability decreased from 3.13% as of June 30, 2017 to 2.98% as of June 30, 2018.

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

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

	1% Decrease 1.98%	Current Discount Rate 2.98%	1% Increase 3.98%
District's proportionate share of the net OPEB liability	\$ 1,823,000	\$ 1,603,000	\$ 1,421,000

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the 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 per year. 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 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 population and has a minimal impact on the Healthcare Cost Trends as depicted below.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 14. Other Post-Employment Benefits - PSERS Plan (Continued)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates (Continued)

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

	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 1,603,000	\$ 1,603,000	\$ 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.

Plan Payables

At June 30, 2019, the District has payables to the OPEB plan of \$31,160.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 15. Joint Ventures

Cumberland/Perry Area Vocational-Technical School (CPAVTS):

CPAVTS provides vocational technical training and education to participating students of the member districts. The District is one of 13 member school districts participating in the operation of CPAVTS. CPAVTS is operated, administered and managed by a joint-operating committee consisting of board members from the member school districts. Member districts are responsible for funding the major portion of CPAVTS' operating budget. The District's share of annual operating costs for CPAVTS is based on the number of students attending the school from the District and is reflected as instructional expenditures of the District's General Fund. For the year ended June 30, 2019, the District paid \$151,432 for its estimated share of the operating budget. Complete financial information for CPAVTS can be obtained from the Administrative Office at 110 Old Willow Mill Road, Mechanicsburg, PA 17050.

Lincoln Intermediate Unit (LIU):

The LIU Board of Directors consists of 13 members from the 25 member school districts in Adams, Franklin and York counties. The LIU Board members are school district board members who are elected by the public and are appointed to the LIU Board by the member districts' Boards of School Directors. Currently, Upper Adams School District is not responsible for appointing one of these members. The LIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. Upper Adams School District contracts with LIU for special education services for District students, instructional services and certain internal service functions. The direct and indirect amounts paid for these services during the year ended June 30, 2019, approximated \$558,821. Complete financial information for LIU can be obtained from the Administrative Office at 65 Billerbeck Street, New Oxford, PA 17350.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 16. Lincoln Benefit Trust

In July 2016, the District joined the Lincoln Benefit Trust, a public entity risk pool currently operating as a claim servicing pool for member school districts and the intermediate unit. In joining the Lincoln Benefit Trust, the District agreed that membership was a means to address medical and health services for all employees with the understanding the District is exposed to risk of loss related to employee health care for claims incurred up to \$125,000. Moreover, claims incurred for \$125,001-\$300,000 are paid from a stop-loss pool fund on a shared risk basis. Claims incurred for \$300,001-\$500,000 are paid from a stop-loss insurance policy purchased by the Trust. Stop-loss insurance is purchased through an insurance carrier for \$500,000 and above per individual. The District pays all of the premiums from the General Fund. At June 30, 2019, the District's funding for claims exceeded the payments to date; accordingly, the District has a prepaid balance of \$1,523,257 with Lincoln Benefit Trust, which is recorded in the General Fund as an asset. The District has recorded a non-spendable fund balance for this amount.

The following is a summary of the financial information of the Lincoln Benefit Trust as of June 30, 2019:

	Amount
Net assets available for benefits	\$ 94,631,519
Accumulated plan benefits	\$ 6,079,000

The accumulated plan benefits represent estimated claims incurred, but not reported to the Plan Administrator at June 30, 2019. It is reasonably possible that actual benefit claims for all participating members will differ from the estimated amount and the difference may be material to the District's financial position taken as a whole.

Note 17. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; and natural disasters. Significant losses are covered by commercial insurance for all major programs. For insured programs, there have been no significant reductions in settlement coverage. Settlement amounts have not exceeded insurance coverage for the current or three prior years. During the year ended June 30, 2019, the District did not incur any significant losses that were not covered by insurance.

The District elects to be self-insured for unemployment. The District is paying unemployment claims from the General Fund.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 18. Contingencies

Grant Program Involvement - In the normal course of operations, the District participates in various Federal or state grant/loan programs. The grant/loan programs are often subject to additional audits by agents of the granting or lending agencies, the purpose of which is to ensure compliance with the specific conditions of the grants or loans. Any liabilities for reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although management believes the amount, if any, would not be material.

Note 19. Significant Commitments

As of June 30, 2019, the District has entered into a significant commitment with McClure Company, Inc., for the Guaranteed Energy Savings Project. The balance remaining on the project as of June 30, 2019, is \$4,728,754.

Note 20. Subsequent Events

On September 3, 2019, the District awarded bids for Upper Adams Intermediate School - Additions & Renovations project for the base bid price of \$8,907,200.

On November 19, 2019, the District issued General Obligation Bonds, Series A of 2019 in the principal amount of \$14,375,000. The proceeds will be used to provide funds for and toward various capital projects and to pay the costs of issuing and insuring the notes. The notes bear annual interest rates ranging from 1.35% to 4.00%. Interest is payable semi-annually, on February 1 and August 1, and the notes mature serially in amounts ranging from \$20,000 to \$2,160,000 through February 1, 2043.

REQUIRED SUPPLEMENTARY INFORMATION

UPPER ADAMS SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY**

Year Ended June 30,

	2019	2018	2017	2016	2015
District's proportion of the net pension liability	0.0769%	0.0782%	0.0783%	0.0840%	0.0861%
District's proportionate share of the net pension liability	<u>\$ 36,916,000</u>	<u>\$ 38,622,000</u>	<u>\$ 38,803,000</u>	<u>\$ 36,385,000</u>	<u>\$ 34,079,000</u>
District's covered payroll	<u>\$ 10,355,668</u>	<u>\$ 10,417,308</u>	<u>\$ 10,135,695</u>	<u>\$ 10,810,045</u>	<u>\$ 10,981,061</u>
District's proportionate share of the net pension liability as a percentage of its covered payroll	356.48%	370.75%	382.84%	336.59%	310.34%
Plan fiduciary net position as a percentage of the total pension liability	54.00%	51.84%	50.14%	54.36%	57.24%

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, only information for those years for which information is available is shown.

UPPER ADAMS SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS

Year Ended June 30,

	2019	2018	2017	2016	2015
Contractually required contribution	\$ 3,462,017	\$ 3,285,417	\$ 3,047,731	\$ 2,579,839	\$ 2,169,789
Contributions in relation to the contractually required contribution	(3,462,017)	(3,285,417)	(3,047,731)	(2,579,839)	(2,169,789)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 10,590,262	\$ 10,355,668	\$ 10,430,699	\$ 10,131,928	\$ 10,809,787
Contributions as a percentage of covered payroll	32.69%	31.73%	29.22%	25.46%	20.07%

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, only information for those years for which information is available is shown.

UPPER ADAMS SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN OPEB LIABILITY AND RELATED RATIOS -

DISTRICT'S SINGLE EMPLOYER PLAN

Year Ended June 30,

	2019	2018
Total OPEB Liability		
Service cost	\$ 97,341	\$ 93,725
Interest	45,088	32,960
Differences between expected and actual experience	(189,204)	-
Changes in assumptions	(50,687)	52,456
Benefit payments	(64,671)	(67,446)
Net changes in total OPEB liability	(162,133)	111,695
Total OPEB Liability - Beginning	1,378,204	1,266,509
Total OPEB Liability - Ending	<u>\$ 1,216,071</u>	<u>\$ 1,378,204</u>
District's covered payroll	<u>\$ 10,350,738</u>	<u>\$ 10,309,312</u>
Total OPEB liability as a percentage of covered payroll	11.75%	13.37%

Notes to Schedule:

Changes in Assumptions: The discount rate changed from 3.13% to 2.98%. The trend assumption was updated. The election assumption for Administrators not eligible for enhanced benefits and Teachers was lowered from 65% to 60%.

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, only information for those years for which information is available is shown.

UPPER ADAMS SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY - PSERS COST SHARING PLAN
Year Ended June 30,

	2019	2018
District's proportion of the net OPEB liability	0.0769%	0.0782%
District's proportionate share of the net OPEB liability	<u>\$ 1,603,000</u>	<u>\$ 1,593,000</u>
District's covered payroll	<u>\$ 10,355,668</u>	<u>\$ 10,417,308</u>
District's proportionate share of net OPEB liability as a percentage of its covered payroll	15.48%	15.29%
Plan fiduciary net position as a percentage of the total OPEB liability	5.56%	5.73%

UPPER ADAMS SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS -
PSERS COST SHARING PLAN
Year Ended June 30,**

	2019	2018
Contractually required contribution	\$ 88,143	\$ 85,914
Contributions in relation to the contractually required contribution	(88,143)	(85,914)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	<u>\$ 10,590,262</u>	<u>\$ 10,355,668</u>
Contributions as a percentage of covered payroll	0.83%	0.83%

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, only information for those years for which information is available is shown.

SUPPLEMENTARY INFORMATION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of School Directors
Upper Adams School District
Biglerville, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activity, each major fund and the aggregate remaining fund information of Upper Adams School District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Upper Adams School District's basic financial statements, and have issued our report thereon dated December 19, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Upper Adams School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Upper Adams School 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink, reading "Boyer & Ritter". The signature is written in a cursive, flowing style with a large, sweeping loop at the end.

Chambersburg, Pennsylvania
December 19, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE AS REQUIRED BY THE UNIFORM GUIDANCE**

Board of School Directors
Upper Adams School District
Biglerville, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Upper Adams School District's compliance with the types of compliance requirements described in the 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. Upper Adams School District's major Federal programs are identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe 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 Upper Adams School District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of Upper Adams School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Upper Adams School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on 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 Upper Adams School District's internal control over compliance.

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

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

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

A handwritten signature in cursive script, reading "Boyer & Fitter". The signature is written in black ink and is positioned centrally on the page.

Chambersburg, Pennsylvania
December 19, 2019

UPPER ADAMS SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Section I -- Summary of Independent Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weaknesses identified? ☐ Yes ☒ No
- Significant deficiencies identified? ☐ Yes ☒ None Reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major federal programs:

- Material weaknesses identified? ☐ Yes ☒ No
- Significant deficiencies identified? ☐ Yes ☒ None Reported

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

- Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? ☐ Yes ☒ No

Identification of major federal programs:

CFDA Numbers	Name of Federal Program or Cluster
84.010	Title I - Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and type B programs

\$750,000

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

UPPER ADAMS SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Section II -- Financial Statement Findings

A. Significant Deficiencies in Internal Control

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

B. Compliance Findings

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

Section III -- Federal Award Findings and Questioned Costs

A. Significant Deficiencies 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.

UPPER ADAMS SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2019

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Grant Period	Program or Annual Award	Total Received (Refunded) for the Year	Accrued (Deferred) Revenue at 7/1/2018	Federal Revenues Recognized	Federal Expenditures Recognized	Accrued (Deferred) Revenue at 6/30/2019	Amount Passed Through to Subrecipients
U. S. Department of Education										
Passed through the PA Department of Education										
Title I-Grants to Local Educational Agencies	84.010	013-180447	2017-2018	\$ 231,267	\$ 96,997	\$ 96,997	\$ -	\$ -	\$ -	\$ -
Title I-Grants to Local Educational Agencies	84.010	013-190447	2018-2019	\$ 264,924	231,415	-	264,924	264,924	33,509	-
					328,412	96,997	264,924	264,924	33,509	-
Title II-Supporting Effective Instruction State Grants	84.367	020-180447	2017-2018	\$ 49,686	13,672	13,672	-	-	-	-
Title II-Supporting Effective Instruction State Grants	84.367	020-190447	2018-2019	\$ 52,573	53,432	-	52,573	52,573	(859)	-
					67,104	13,672	52,573	52,573	(859)	-
Title III-English Language Acquisition State Grants	84.365	010-180447	2017-2018	\$ 36,557	13,056	13,056	-	-	-	-
Title III-English Language Acquisition State Grants	84.365	010-190447	2018-2019	\$ 34,881	34,881	-	34,881	34,881	-	-
					47,937	13,056	34,881	34,881	-	-
Title IV-Student Support and Academic Enrichment	84.424	144-180447	2017-2018	\$ 10,000	2,857	2,857	-	-	-	-
Title IV-Student Support and Academic Enrichment	84.424	144-190447	2018-2019	\$ 16,720	15,526	-	16,720	16,720	1,194	-
					18,383	2,857	16,720	16,720	1,194	-
Total passed through the PA Department of Education					461,836	126,582	369,098	369,098	33,844	-
Passed through Lincoln Intermediate Unit #12										
Special Education Cluster										
Special Education Grants to States	84.027	062-180012	2018-2019	\$ 296,975	296,975	-	296,975	296,975	-	-
Special Education Preschool Grants	84.173	N/A	2018-2019	\$ 2,736	2,736	-	2,736	2,736	-	-
Total Special Education Cluster					299,711	-	299,711	299,711	-	-
Total passed through Lincoln Intermediate Unit #12					299,711	-	299,711	299,711	-	-
Total U. S. Department of Education					761,547	126,582	668,809	668,809	33,844	-

(Continued)

UPPER ADAMS SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

Year Ended June 30, 2019

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Grant Period	Program or Annual Award	Total Received (Refunded) for the Year	Accrued (Deferred) Revenue at 7/1/2018	Federal Revenues Recognized	Federal Expenditures Recognized	Accrued (Deferred) Revenue at 6/30/2019	Amount Passed Through to Subrecipients
U. S. Department of Agriculture										
Passed through PA Department of Education										
National School Lunch Program *	10.555	N/A	2018-2019	N/A	435,850	-	435,850	435,850	-	-
School Breakfast Program *	10.553	N/A	2018-2019	N/A	101,102	-	101,102	101,102	-	-
Total passed through the PA Department of Education					536,952	-	536,952	536,952	-	-
Passed through the PA Department of Agriculture										
National School Lunch Program -Food Donation *	10.555	N/A	2018-2019	N/A	73,132	(2,889)	73,597	73,597	(2,424)	-
Total U. S. Department of Agriculture					610,084	(2,889)	610,549	610,549	(2,424)	-
Total Expenditures of Federal Awards					<u>\$ 1,371,631</u>	<u>\$ 123,693</u>	<u>\$ 1,279,358</u>	<u>\$ 1,279,358</u>	<u>\$ 31,420</u>	<u>\$ -</u>
* Programs in the Child Nutrition Cluster										
National School Lunch Program	\$ 435,850									
School Breakfast Program	101,102									
National School Lunch Program - Food Donation	73,597									
	<u>\$ 610,549</u>									

See Notes to Schedule of Expenditures of Federal Awards.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the Federal award activity of Upper Adams 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 Upper Adams School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of Upper Adams School District.

Note 2. Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Revenue is recognized when earned and expenses are recognized when incurred. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity numbers are presented where available.

Note 3. Indirect Cost Rate

The District has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

UPPER ADAMS SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
Year Ended June 30, 2019

There were no prior year's audit findings.