

SOUTHMORELAND SCHOOL DISTRICT

~~~~~

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2020**

**SOUTHMORELAND  
SCHOOL DISTRICT**  
SCOTTDALE, PENNSYLVANIA

FINANCIAL STATEMENTS

AND

OTHER INFORMATION REQUIRED BY  
GOVERNMENT AUDITING STANDARDS  
AND UNIFORM GUIDANCE

WITH REPORTS OF  
CERTIFIED PUBLIC ACCOUNTANT

**FOR THE YEAR ENDED  
JUNE 30, 2020**

**SOUTHMORELAND SCHOOL DISTRICT**  
**SCOTSDALE, PENNSYLVANIA**  
**TABLE OF CONTENTS**

|                                                                                                                                                                  | <b><u>PAGE</u></b> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| INDEPENDENT AUDITOR'S REPORT .....                                                                                                                               | i-iii              |
| MANAGEMENT'S DISCUSSION AND ANALYSIS .....                                                                                                                       | iv-xiii            |
| <b>BASIC FINANCIAL STATEMENTS:</b>                                                                                                                               |                    |
| EXHIBIT A – STATEMENT OF NET POSITION .....                                                                                                                      | 1                  |
| EXHIBIT B – STATEMENT OF ACTIVITIES .....                                                                                                                        | 2                  |
| EXHIBIT C – BALANCE SHEET – Governmental Funds .....                                                                                                             | 3                  |
| EXHIBIT D – RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET<br>TO THE STATEMENT OF NET POSITION .....                                                     | 4                  |
| EXHIBIT E - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN<br>IN FUND BALANCES- Governmental Funds .....                                                     | 5                  |
| EXHIBIT F - RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF<br>REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES<br>TO THE STATEMENT OF ACTIVITIES ..... | 6                  |
| EXHIBIT G - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN<br>IN FUND BALANCES, BUDGET AND ACTUAL - Governmental Funds .....                                 | 7                  |
| EXHIBIT H - STATEMENT OF NET POSITION – Proprietary Funds .....                                                                                                  | 8                  |
| EXHIBIT I - STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND<br>NET POSITION – Proprietary Funds .....                                                        | 9                  |
| EXHIBIT J - STATEMENT OF CASH FLOWS – Proprietary Funds.....                                                                                                     | 10                 |
| EXHIBIT K– STATEMENT OF NET POSITION – Fiduciary Funds.....                                                                                                      | 11                 |
| NOTES TO THE FINANCIAL STATEMENTS .....                                                                                                                          | 12-45              |

**SOUTHMORELAND SCHOOL DISTRICT**  
**SCOTSDALE, PENNSYLVANIA**  
**TABLE OF CONTENTS**

**PAGE**

**SUPPLEMENTARY INFORMATION:**

SCHEDULE OF GENERAL FUND REVENUES – FINAL BUDGET AND ACTUAL ..... 46

SCHEDULE OF GENERAL FUND EXPENDITURES – FINAL BUDGET AND ACTUAL..... 47-50

**REQUIRED SUPPLEMENTARY INFORMATION:**

SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION  
LIABILITY – DEFINED BENEFIT PENSION PLAN.....51

SCHEDULE OF SCHOOL DISTRICT'S CONTRACTUALLY REQUIRED CONTRIBUTIONS –  
DEFINED BENEFIT PENSION PLAN.....52

SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB  
LIABILITY – PSERS PLAN.....53

SCHEDULE OF SCHOOL DISTRICT'S CONTRACTUALLY REQUIRED OPEB  
CONTRIBUTIONS – PSERS PLAN.....54

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS -  
DISTRICT POST-RETIREMENT HEALTHCARE PLAN.....55

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....56-58

**INFORMATION REQUIRED BY GOVERNMENTAL AUDITING STANDARDS  
AND THE UNIFORM GUIDANCE:**

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards .....59-60

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control  
over Compliance Required by the Uniform Guidance .....61-62

Supplementary Schedule of Expenditures of Federal Awards .....63

Notes to Schedule of Expenditures of Federal Awards .....64

Schedule of Findings and Questioned Costs .....65

Status of Prior Audit Findings ..... 66

# **Mark C. Turnley**

---

*Certified Public Accountant*

1000 3<sup>rd</sup> Avenue  
New Brighton, PA. 15066  
(724) 384-1081  
FAX (724) 384-8908

**To the Management and Board of Education  
Southmoreland School District**

## **Independent Auditor's Report**

### **Report on Financial Statements**

I have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Southmoreland School District as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Southmoreland School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Southmoreland School District's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

## **Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Southmoreland School District as of June 30, 2020 and the respective changes in financial position and, where applicable, cash flows thereof and the 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 and Analysis on pages iv-xiii and other required supplementary information on pages 51-58, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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.

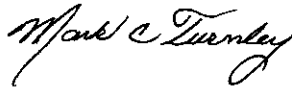
### ***Other Information***

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Southmoreland School District's basic financial statements. The accompanying supplementary information (Schedules 1 and 2) is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying supplementary information (schedule of expenditures of federal awards) is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The supplementary information (Schedules 1 and 2 and the schedule of expenditures of federal awards), is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the supplementary information (Schedules 1 and 2 and the schedule of expenditures of federal awards), is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, I have also issued my report dated March 12, 2021 on my consideration of the Southmoreland School District's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Southmoreland School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Mark C. Turnley".

Mark C. Turnley, CPA

March 12, 2021  
New Brighton, Pennsylvania

**SOUTHMORELAND SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION (RSI)  
FISCAL YEAR ENDING JUNE 30, 2020**

**INTRODUCTION**

The discussion and analysis of the Southmoreland School District's financial performance provides an overall review of the district's financial activities for the fiscal year ended June 30, 2020. This discussion and analysis present the district's financial performance as a whole. The financial statements and the notes to the basic financial statements provide a more detailed look at the finances for the 2019-2020 school year.

The Management Discussion and Analysis (MD&A) is a requirement of the Comprehensive Annual Financial Report (CAFR) conforming to the model adopted by the Governmental Accounting Standards Board (GASB) in Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. GASB 34 requires a comparison of certain information between the current year and the prior year.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2019-20 fiscal year are as follows:

- The District's total governmental and business-type activities liabilities and deferred inflows of resources exceeded total assets and deferred outflows of resources as of June 30, 2020 by \$29,631,351 (net position – deficit). The deficit is mainly the result of the effects of GASB Statement No. 68 '*Accounting and Financial Reporting for Pensions*' on the District's statement of net position. The District is required to recognize their proportionate share of the Pennsylvania School Employees Retirement System (PSERS) overall net pension obligation. For the Southmoreland School District, this liability stands at \$41,748,800 for governmental activities and \$1,291,200 for business-type activities as of June 30, 2020.
- Total revenues were \$49,056,151 for all governmental funds, of which the General Fund accounted for \$30,330,791 of this total. The Debt Service Fund accounted for \$18,716,000 of the governmental fund total basically from the proceeds of the General Obligation Notes Series of 2020 and 2020A. The governmental funds revenue total was an increase of \$19,163,449 from the 2018-2019 fiscal year.
- The School District had 48,445,677 in expenditures for all governmental funds, of which the General Fund accounted for \$29,729,886 of this total. The Debt Service Fund accounted for \$18,715,791 of total expenditures, primarily to refund the District's outstanding General Obligation Bonds Series of 2012 and 2013. Total governmental fund expenditures for the 2019-2020 fiscal year represents an increase of \$18,322,214 from the 2018-2019 fiscal year.
- At the end of the current fiscal year, the fund balance of the General Fund was \$3,255,706. Of this amount, \$718,270 was assigned for tax appeals and cyber charter school tuition increases, while the remaining balance of \$2,537,436 was unassigned and may be used at the District's discretion for general operating purposes. In total, General Fund balance increased \$610,404 from the 2018-2019 fiscal year.



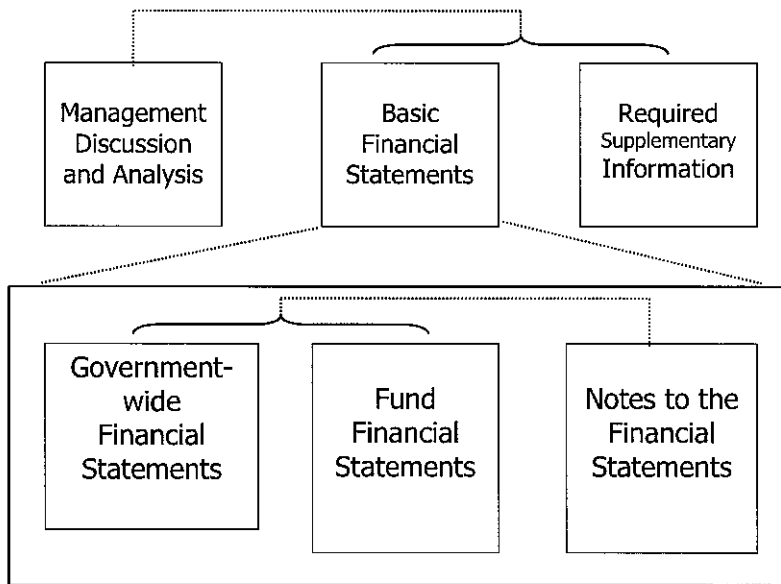
**SOUTHMORELAND SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION (RSI)  
FISCAL YEAR ENDING JUNE 30, 2020**

**USING THE ANNUAL FINANCIAL REPORT (GASB 34)**

The Annual Financial Report consists of this Management Discussion and Analysis and a series of financial statements and notes to those statements. The statements are organized so that the reader can understand Southmoreland School District as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

Figure A-1  
Required components of  
Southmoreland School District's  
Financial Report



**SOUTHMORELAND SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION (RSI)  
FISCAL YEAR ENDING JUNE 30, 2020**

**USING THE ANNUAL FINANCIAL REPORT (GASB 34) (Continued)**

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

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

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

**SOUTHMORELAND SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION (RSI)  
FISCAL YEAR ENDING JUNE 30, 2020**

**OVERVIEW OF FINANCIAL STATEMENTS**

**Government-wide Statements**

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

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

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

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

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

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

**Fund Financial Statements**

The District's fund financial statements, which begin on Page 3, provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be reported separately by state law and by bond requirements.

**Governmental funds** – Most of the District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

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

**SOUTHMORELAND SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION (RSI)  
FISCAL YEAR ENDING JUNE 30, 2020**

**OVERVIEW OF FINANCIAL STATEMENTS (Continued)**

**Fund Financial Statements (Continued)**

**Fiduciary funds** - The District is the trustee, or fiduciary, for some private purpose trust funds and student activity funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Net Position on Page 11. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations.

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

A comparative breakdown of assets, liabilities and net position of the District for the past two fiscal years is as follows:

Table A-1  
Fiscal Year Ended June 30, 2020 and 2019  
Net Position

|                                                                | -----JUNE 30, 2020-----    |                             |                        | JUNE 30, 2019          |
|----------------------------------------------------------------|----------------------------|-----------------------------|------------------------|------------------------|
|                                                                | GOVERNMENTAL<br>ACTIVITIES | BUSINESS-TYPE<br>ACTIVITIES | TOTAL                  | TOTAL                  |
| Current Assets                                                 | \$ 8,108,966               | \$ 499,467                  | \$ 8,608,433           | \$ 8,105,456           |
| Capital Assets                                                 | 30,463,777                 | 245,462                     | 30,709,239             | 32,101,805             |
| Deferred Outflows of Resources                                 | 7,093,797                  | 173,653                     | 7,267,450              | 8,596,140              |
| <b>TOTAL ASSETS AND DEFERRED<br/>OUTFLOWS OF RESOURCES</b>     | <b>\$ 45,666,540</b>       | <b>\$ 918,582</b>           | <b>\$ 46,585,122</b>   | <b>\$ 48,803,401</b>   |
| Current Liabilities                                            | \$ 6,283,838               | \$ 52,079                   | \$ 6,335,917           | \$ 6,422,645           |
| Long-Term Liabilities                                          | 66,243,396                 | 1,398,490                   | 67,641,886             | 70,706,645             |
| Deferred Inflows of Resources                                  | 2,172,340                  | 66,330                      | 2,238,670              | 1,832,976              |
| <b>TOTAL LIABILITIES AND DEFERRED<br/>INFLOWS OF RESOURCES</b> | <b>\$ 74,699,574</b>       | <b>\$ 1,516,899</b>         | <b>\$ 76,216,473</b>   | <b>\$ 78,962,266</b>   |
| Net Investment in Capital Assets                               | \$ 10,093,312              | \$ 245,462                  | \$ 10,338,774          | \$ 10,016,253          |
| Restricted                                                     | 24,014                     | -                           | 24,014                 | 23,944                 |
| Unrestricted (Deficit)                                         | (39,150,360)               | (843,779)                   | (39,994,139)           | (40,199,062)           |
| <b>TOTAL NET POSITION (Deficit)</b>                            | <b>\$ (29,033,034)</b>     | <b>\$ (598,317)</b>         | <b>\$ (29,631,351)</b> | <b>\$ (30,158,865)</b> |

The results of this year's operations as a whole are reported in the Statement of Activities on Page 2. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District's activities that are supported by other general revenues. The two largest general revenues are the Basic Education Subsidy provided by the State of Pennsylvania, and the local taxes assessed to community taxpayers.

**SOUTHMORELAND SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION (RSI)  
FISCAL YEAR ENDING JUNE 30, 2020**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)**

The following Table A-2 takes the information from the Statement of Activities, rearranges it slightly, so you can see our total revenues, expenses, and change to the net position for the past two fiscal years.

Table A-2  
Fiscal Year Ended June 30, 2020 and June 30, 2019  
Changes in Net Position

|                                      | ----- JUNE 30, 2020 -----  |                             |                      | JUNE 30, 2019        |
|--------------------------------------|----------------------------|-----------------------------|----------------------|----------------------|
|                                      | GOVERNMENTAL<br>ACTIVITIES | BUSINESS-TYPE<br>ACTIVITIES | TOTAL                | TOTAL                |
| <b>REVENUES</b>                      |                            |                             |                      |                      |
| <b>Program Revenues:</b>             |                            |                             |                      |                      |
| Charges for Services                 | \$ 96,934                  | \$ 247,041                  | \$ 343,975           | \$ 432,174           |
| Grants and Contributions             | 7,605,888                  | 813,530                     | 8,419,418            | 8,485,094            |
| <b>General Revenues:</b>             |                            |                             |                      |                      |
| Property, Other Taxes                | 11,883,216                 | -                           | 11,883,216           | 11,377,140           |
| Grants, Subsidies and Contributions  | 10,689,053                 | -                           | 10,689,053           | 10,666,915           |
| Investment Earnings                  | 74,108                     | 3,002                       | 77,110               | 119,157              |
| Miscellaneous                        | 81,952                     | 92                          | 82,044               | 69,880               |
| Refund of Prior Year Expense         | 41,667                     | -                           | 41,667               | 159,119              |
| <b>TOTAL REVENUES</b>                | <b>\$ 30,472,818</b>       | <b>\$ 1,063,665</b>         | <b>\$ 31,536,483</b> | <b>\$ 31,309,479</b> |
| <b>EXPENSES</b>                      |                            |                             |                      |                      |
| Instruction                          | \$ 18,740,014              | \$ -                        | \$ 18,740,014        | \$ 19,788,673        |
| Instructional Student Support        | 1,424,238                  | -                           | 1,424,238            | 1,518,841            |
| Administrative and Financial Support | 3,049,812                  | -                           | 3,049,812            | 2,901,134            |
| Operation and Maintenance of Plant   | 2,690,232                  | -                           | 2,690,232            | 2,656,777            |
| Pupil Transportation                 | 2,151,623                  | -                           | 2,151,623            | 2,025,132            |
| Student Activities                   | 731,238                    | -                           | 731,238              | 704,440              |
| Community Services                   | 83,482                     | -                           | 83,482               | 95,949               |
| Interest on Long-term Debt           | 956,032                    | -                           | 956,032              | 894,548              |
| Food Services                        | -                          | 1,182,298                   | 1,182,298            | 1,308,751            |
| <b>TOTAL EXPENSES</b>                | <b>\$ 29,826,671</b>       | <b>\$ 1,182,298</b>         | <b>31,008,969</b>    | <b>\$ 31,894,245</b> |
| <b>CHANGE IN NET POSITION</b>        | <b>\$ 646,147</b>          | <b>\$ (118,633)</b>         | <b>527,514</b> **    | <b>\$ (584,766)</b>  |

\*\* Reflects an improvement of \$1,112,280 from the 2018-2019 fiscal year. See the District Funds section of this report for further explanation of the major variances from the prior year.

Table A-3 shows the District's eight largest functions - instructional programs, instructional student support, administrative, operation and maintenance of plant, pupil transportation, student activities, community services, long-term debt, as well as each program's net cost (total cost less revenues generated by the activities) for the past two fiscal years. This table also shows the net costs offset by the other unrestricted grants, subsidies and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

**SOUTHMORELAND SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION (RSI)  
FISCAL YEAR ENDING JUNE 30, 2020**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)**

Table A-3  
Fiscal Year Ended June 30, 2020 and June 30, 2019  
Governmental Activities

|                                                            | -----JUNE 30, 2020-----  |                        | -----JUNE 30, 2019-----  |                        |
|------------------------------------------------------------|--------------------------|------------------------|--------------------------|------------------------|
|                                                            | TOTAL COST<br>OF SERVICE | NET COST<br>OF SERVICE | TOTAL COST<br>OF SERVICE | NET COST<br>OF SERVICE |
| <b>EXPENSES</b>                                            |                          |                        |                          |                        |
| Instruction                                                | \$ 18,740,014            | \$ 13,988,983          | \$ 19,788,673            | \$ 15,059,318          |
| Instructional Student Support                              | 1,424,238                | 1,156,555              | 1,518,841                | 1,188,171              |
| Administrative and Financial Support                       | 3,049,812                | 2,715,213              | 2,901,134                | 2,559,524              |
| Operation and Maintenance of Plant                         | 2,690,232                | 2,295,484              | 2,656,777                | 2,373,409              |
| Pupil Transportation                                       | 2,151,623                | 1,084,256              | 2,025,132                | 908,791                |
| Student Activities                                         | 731,238                  | 607,567                | 704,440                  | 597,020                |
| Community Services                                         | 83,482                   | 74,344                 | 95,949                   | 84,526                 |
| Interest on Long-term Debt/Refunds                         | 956,032                  | 201,447                | 894,548                  | 134,297                |
| <b>TOTAL EXPENSES</b>                                      | <b>\$ 29,826,671</b>     | <b>\$ 22,123,849</b>   | <b>\$ 30,585,494</b>     | <b>\$ 22,905,056</b>   |
| <b>Less:</b>                                               |                          |                        |                          |                        |
| Unrestricted Grants, Subsidies                             |                          | 10,689,053             |                          | 10,666,915             |
| <b>TOTAL NEEDS FROM LOCAL TAXES<br/>AND OTHER REVENUES</b> |                          | <b>\$ 11,434,796</b>   |                          | <b>\$ 12,238,141</b>   |

Table A-4 reflects the activities of the Food Service program, the only Business-type activity of the District.

Table A-4  
Fiscal Year ended June 30, 2020 and June 30, 2019  
Business-Type Activities

|                                                                   | ----- JUNE 30, 2020 ----- |                        | ----- JUNE 30, 2019 ----- |                        |
|-------------------------------------------------------------------|---------------------------|------------------------|---------------------------|------------------------|
|                                                                   | TOTAL COST<br>OF SERVICE  | NET COST<br>OF SERVICE | TOTAL COST<br>OF SERVICE  | NET COST<br>OF SERVICE |
| <b>EXPENSES</b>                                                   |                           |                        |                           |                        |
| Food Service                                                      | \$ 1,182,298              | \$ (121,727)           | \$ 1,308,751              | \$ (71,921)            |
| Investment Earnings                                               |                           | 3,002                  |                           | 4,367                  |
| Miscellaneous                                                     |                           | 92                     |                           | 2,256                  |
| <b>TOTAL BUSINESS-TYPE ACTIVITIES<br/>NET INCOME &lt;LOSS&gt;</b> |                           | <b>\$ (118,633)</b>    |                           | <b>\$ (65,298)</b>     |

**SOUTHMORELAND SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION (RSI)  
FISCAL YEAR ENDING JUNE 30, 2020**

**THE DISTRICT FUNDS**

At June 30, 2020, the District's governmental funds reported a combined fund balance of \$3,279,720 compared to \$2,669,246 for the year ended June 30, 2019. The General Fund balance increased by \$610,404. The permanent fund increased by \$70. The following is additional information concerning revenues, expenditures and fund balance.

**REVENUES**

The revenues received into the General Fund during 2019-2020 came from three major sources: local, state, and federal revenues. Of total revenues, local revenues account for 40.9%, state revenues 57.4% and federal revenues only 1.7%.

Local revenues can be grouped in two major categories, tax revenues and non-tax revenues. Local real estate tax accounted for 84.2% of total tax revenues and 79.8% of total local revenues in 2019-2020. Other forms of tax revenue include earned income tax, local service tax, and public utility tax, payments in lieu of taxes, real estate transfer tax and delinquent tax collections. Tax revenue increased in the 2019-2020 fiscal year by approximately \$546,137. Non-tax revenues, including federal monies received through the intermediate unit, athletic admissions and fees, interest earnings, tuition from other PA school districts and other miscellaneous revenues accounted for 5.3% of total local revenues.

Basic education subsidy and retirement subsidy are the two largest sources of state revenue with basic education subsidy providing 56.0% of the total and retirement subsidy providing 13.9% of the total. State revenues accounted for 57.4% of the total revenues, an increase of \$28,375 from 2018-2019.

Federal revenues accounted for just 1.7% of the total revenues, an increase from 2018-2019 of \$23,349.

| <u>FUNCTION</u>         | <u>REVENUES</u>      | <u>INCREASE<br/>(DECREASE)<br/>FROM<br/>PRIOR YEAR<br/>ACTUAL</u> | <u>%<br/>CHANGE</u> | <u>ACTUAL<br/>REVENUES<br/>OVER (UNDER)<br/>2019-2020<br/>BUDGET</u> |
|-------------------------|----------------------|-------------------------------------------------------------------|---------------------|----------------------------------------------------------------------|
| Local Sources           | \$ 12,396,581        | \$ 427,855                                                        | 3.6%                | \$ (235,556)                                                         |
| State Sources           | 17,404,344           | 28,375                                                            | 0.2%                | (298,872)                                                            |
| Federal Sources         | 529,866              | 23,349                                                            | 4.6%                | (7,395)                                                              |
| Other Financing Sources | 9,499                | (31,921)                                                          | -77.1%              | 9,499                                                                |
| <b>TOTAL</b>            | <b>\$ 30,340,290</b> | <b>\$ 447,658</b>                                                 |                     | <b>\$ (532,324)</b>                                                  |

**SOUTHMORELAND SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION (RSI)  
FISCAL YEAR ENDING JUNE 30, 2020**

**THE DISTRICT FUNDS (Continued)**

**EXPENDITURES**

The revenues received during the 2019-2020 fiscal year were used to pay General Fund expenditures of \$29,729,886. These expenditures were categorized into five major functions: instruction, support services, non-instructional operations, construction/improvements, and other financing uses.

The 2019-2020 General Fund expenditures decreased by \$393,577 or 1.3% from the past fiscal year.

| <u>FUNCTION</u>                   | <u>EXPENDITURES</u>         | <u>INCREASE<br/>(DECREASE)<br/>FROM<br/>PRIOR YEAR<br/>ACTUAL</u> | <u>%<br/>CHANGE</u> | <u>ACTUAL<br/>EXPENDITURES<br/>OVER (UNDER)<br/>2019-2020<br/>BUDGET</u> |
|-----------------------------------|-----------------------------|-------------------------------------------------------------------|---------------------|--------------------------------------------------------------------------|
| Instructional Services            | \$ 17,463,167               | \$ (495,591)                                                      | -2.8%               | \$ (612,541)                                                             |
| Support Services                  | 8,629,663                   | 2,686                                                             | 0.0%                | (332,089)                                                                |
| Non-instructional Services        | 754,473                     | (6,645)                                                           | -0.9%               | (170,519)                                                                |
| Construction/Site Improvements    | 99,981                      | 99,981                                                            | 100.0%              | 15,905                                                                   |
| Other Financing Uses/Debt Service | <u>2,782,602</u>            | <u>5,992</u>                                                      | 0.2%                | <u>(43,484)</u>                                                          |
| <b>TOTAL</b>                      | <b><u>\$ 29,729,886</u></b> | <b><u>\$ (393,577)</u></b>                                        |                     | <b><u>\$ (1,142,728)</u></b>                                             |

**GENERAL FUND BUDGET**

During the fiscal year, the Board of School Directors (The Board) authorizes revisions to the original budget (transfers) to accommodate differences from the original budget to the actual expenditures of the District. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided on Page 7 of the financial statements.

The District applies for federal, state, and local grants and these grants cannot always be anticipated exactly during the budget development process.

The Budgetary Reserve includes amounts that may be used for unplanned opportunities and/or unexpected costs for improvements/repairs to the District. These amounts will only be appropriated into expenditure categories if the fiscal results of the current year warrant doing so and the Board approve such transfers.



**SOUTHMORELAND SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION (RSI)  
FISCAL YEAR ENDING JUNE 30, 2020**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

At June 30, 2020, the District had \$30,709,239 invested in a broad range of capital assets, including land, buildings and furniture and equipment, net of depreciation. This amount represents a net decrease (including additions, deletions, and depreciation) of \$1,392,566 from 2018-2019 which is as a result depreciation expense exceeding the cost of new asset additions for the 2019-2020 fiscal year.

**DEBT ADMINISTRATION**

As of July 1, 2019, the District had total outstanding bond principal of \$23,220,000 on its General Obligation Bond Issues. The District made payments against principal during the fiscal year of \$2,043,000. At June 30, 2020 the District had outstanding debt of \$21,177,000.

Other long-term obligations include accrued vacation pay and sick leave for specific employees of the District, as well as retirement incentive, retiree health insurance, and net pension obligations. More detailed information about our long-term liabilities is included in Notes 9, 10, and 11 to the financial statements.

**SIGNIFICANT FINANCIAL ACTIVITY**

During the 2019-2020 fiscal year, the School District had no unusual or extra-ordinary financial activity to report. However, the District continues to work hard at controlling expenses and looking for opportunities to improve educational opportunities for our students and to maintain safe and healthy schools. District enrollment is at approximately 1,885 students.

Other than those issues listed in the MD&A or in the notes to the audited financial statements, there are no facts currently known to the management that would materially impact the financial statements either favorably or unfavorably at this time.

**CONTACTING THE DISTRICT FINANCIAL MANAGEMENT**

The financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances and to show the School District's accountability for the money it receives. If you have questions about this report, or wish to request additional financial information, please contact Mr. James V. Marnell, Business Manager at (724) 887-2046 or by mail at Southmoreland School District, Administrative Office, 100 Scottie Way, Scottdale, PA 15683.

**SOUTHMORELAND SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2020**

**EXHIBIT A**

|                                                                           | Governmental<br>Activities | Business-Type<br>Activities | Total                  |
|---------------------------------------------------------------------------|----------------------------|-----------------------------|------------------------|
| <b>ASSETS</b>                                                             |                            |                             |                        |
| <b>Current Assets:</b>                                                    |                            |                             |                        |
| Cash and Cash Equivalents                                                 | \$ 1,778,257               | \$ 238,721                  | \$ 2,016,978           |
| Investments                                                               | 3,583,368                  | 208,524                     | 3,791,892              |
| Taxes Receivable, net                                                     | 1,227,510                  | -                           | 1,227,510              |
| Internal Balances                                                         | 15,035                     | (15,035)                    | -                      |
| Due From Other Governments                                                | 1,481,849                  | 27,455                      | 1,509,304              |
| Other Receivables                                                         | 22,947                     | 4,227                       | 27,174                 |
| Inventories                                                               | -                          | 35,575                      | 35,575                 |
| <b>Total Current Assets</b>                                               | <b>\$ 8,108,966</b>        | <b>\$ 499,467</b>           | <b>\$ 8,608,433</b>    |
| <b>Noncurrent Assets:</b>                                                 |                            |                             |                        |
| Land                                                                      | \$ 400,450                 | \$ -                        | \$ 400,450             |
| Site Improvements (net)                                                   | 1,493,466                  | -                           | 1,493,466              |
| Building & Building Improvements (net)                                    | 27,875,297                 | -                           | 27,875,297             |
| Furniture & Equipment (net)                                               | 654,947                    | 245,462                     | 900,409                |
| Vehicles (net)                                                            | 39,617                     | -                           | 39,617                 |
| <b>Total Noncurrent Assets</b>                                            | <b>\$ 30,463,777</b>       | <b>\$ 245,462</b>           | <b>\$ 30,709,239</b>   |
| <b>TOTAL ASSETS</b>                                                       | <b>\$ 38,572,743</b>       | <b>\$ 744,929</b>           | <b>\$ 39,317,672</b>   |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                                     |                            |                             |                        |
| Deferred Outflows Related to Pension                                      | \$ 5,387,481               | \$ 166,623                  | \$ 5,554,104           |
| Deferred Outflows Related to OPEB                                         | 777,449                    | 7,030                       | 784,479                |
| Deferred Interest on Advance Refunding                                    | 928,867                    | -                           | 928,867                |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>                               | <b>\$ 7,093,797</b>        | <b>\$ 173,653</b>           | <b>\$ 7,267,450</b>    |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>                    | <b>\$ 45,666,540</b>       | <b>\$ 918,582</b>           | <b>\$ 46,585,122</b>   |
| <b>LIABILITIES</b>                                                        |                            |                             |                        |
| <b>Current Liabilities:</b>                                               |                            |                             |                        |
| Accounts Payable                                                          | \$ 221,607                 | \$ 24                       | \$ 221,631             |
| Bonds Payable - Current Portion                                           | 2,245,000                  | -                           | 2,245,000              |
| Accrued Interest                                                          | 133,448                    | -                           | 133,448                |
| Accrued Salaries and Benefits                                             | 3,326,642                  | -                           | 3,326,642              |
| Payroll Deductions and Withholdings                                       | 33,694                     | -                           | 33,694                 |
| Retirement Incentives - Current Portion                                   | 304,000                    | -                           | 304,000                |
| Unearned Revenue                                                          | 19,447                     | 52,055                      | 71,502                 |
| <b>Total Current Liabilities</b>                                          | <b>\$ 6,283,838</b>        | <b>\$ 52,079</b>            | <b>\$ 6,335,917</b>    |
| <b>Noncurrent Liabilities:</b>                                            |                            |                             |                        |
| Bonds Payable - Long Term Portion                                         | \$ 19,054,332              | \$ -                        | \$ 19,054,332          |
| Net Pension Liability                                                     | 41,748,800                 | 1,291,200                   | 43,040,000             |
| Net OPEB Liability                                                        | 4,196,356                  | 58,710                      | 4,255,066              |
| Retirement Incentives - Long Term Portion                                 | 536,000                    | -                           | 536,000                |
| Accrued Compensated Absences                                              | 707,908                    | 48,580                      | 756,488                |
| <b>Total Noncurrent Liabilities</b>                                       | <b>\$ 66,243,396</b>       | <b>\$ 1,398,490</b>         | <b>\$ 67,641,886</b>   |
| <b>TOTAL LIABILITIES</b>                                                  | <b>\$ 72,527,234</b>       | <b>\$ 1,450,569</b>         | <b>\$ 73,977,803</b>   |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                      |                            |                             |                        |
| Deferred Inflows Related to Pension                                       | \$ 2,070,950               | \$ 64,050                   | \$ 2,135,000           |
| Deferred Inflows Related to OPEB                                          | 101,390                    | 2,280                       | 103,670                |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>                                | <b>\$ 2,172,340</b>        | <b>\$ 66,330</b>            | <b>\$ 2,238,670</b>    |
| <b>NET POSITION</b>                                                       |                            |                             |                        |
| Net Investment in Capital Assets                                          | \$ 10,093,312              | \$ 245,462                  | \$ 10,338,774          |
| Restricted                                                                | 24,014                     | -                           | 24,014                 |
| Unrestricted (Deficit)                                                    | (39,150,360)               | (843,779)                   | (39,994,139)           |
| <b>TOTAL NET POSITION (Deficit)</b>                                       | <b>\$ (29,033,034)</b>     | <b>\$ (598,317)</b>         | <b>\$ (29,631,351)</b> |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b> | <b>\$ 45,666,540</b>       | <b>\$ 918,582</b>           | <b>\$ 46,585,122</b>   |

The accompanying notes are an integral part of these financial statements

**EXHIBIT B**

**SOUTHMORELAND SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2020**

| Functions/Programs                                | Program Revenues     |                         |                                          | Net (Expense) Revenue and<br>Changes in Net Position |                            |                             |                        |
|---------------------------------------------------|----------------------|-------------------------|------------------------------------------|------------------------------------------------------|----------------------------|-----------------------------|------------------------|
|                                                   | Expenses             | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions               | Governmental<br>Activities | Business-Type<br>Activities | Total                  |
| <b>Governmental Activities:</b>                   |                      |                         |                                          |                                                      |                            |                             |                        |
| Instruction                                       | \$ 18,740,014        | \$ -                    | \$ 4,751,031                             | \$ -                                                 | \$ (13,988,983)            |                             | \$ (13,988,983)        |
| Instructional Student Support                     | 1,424,238            | -                       | 267,683                                  | -                                                    | (1,156,555)                |                             | (1,156,555)            |
| Administrative and Financial Support Services     | 3,049,812            | -                       | 334,599                                  | -                                                    | (2,715,213)                |                             | (2,715,213)            |
| Operation and Maintenance of Plant Services       | 2,690,232            | 41,176                  | 353,572                                  | -                                                    | (2,295,484)                |                             | (2,295,484)            |
| Pupil Transportation                              | 2,151,623            | -                       | 1,067,367                                | -                                                    | (1,084,256)                |                             | (1,084,256)            |
| Student Activities                                | 731,238              | 55,758                  | 67,913                                   | -                                                    | (607,567)                  |                             | (607,567)              |
| Community Services                                | 83,482               | -                       | 9,138                                    | -                                                    | (74,344)                   |                             | (74,344)               |
| Interest on Long-Term Debt                        | 956,032              | -                       | -                                        | 754,585                                              | (201,447)                  |                             | (201,447)              |
| <b>Total Governmental Activities</b>              | <b>\$ 29,826,671</b> | <b>\$ 96,934</b>        | <b>\$ 6,851,303</b>                      | <b>\$ 754,585</b>                                    | <b>\$ (22,123,849)</b>     |                             | <b>\$ (22,123,849)</b> |
| <b>Business-Type activities:</b>                  |                      |                         |                                          |                                                      |                            |                             |                        |
| Food Service                                      | \$ 1,182,298         | \$ 247,041              | \$ 813,530                               | \$ -                                                 | \$ -                       | \$ (121,727)                | \$ (121,727)           |
| <b>Total Business-Type Activities</b>             | <b>\$ 1,182,298</b>  | <b>\$ 247,041</b>       | <b>\$ 813,530</b>                        | <b>\$ -</b>                                          | <b>\$ -</b>                | <b>\$ (121,727)</b>         | <b>\$ (121,727)</b>    |
| <b>Total Primary Government</b>                   | <b>\$ 31,008,969</b> | <b>\$ 343,975</b>       | <b>\$ 7,664,833</b>                      | <b>\$ 754,585</b>                                    | <b>\$ (22,123,849)</b>     | <b>\$ (121,727)</b>         | <b>\$ (22,245,576)</b> |
| <b>General Revenues:</b>                          |                      |                         |                                          |                                                      |                            |                             |                        |
| Taxes:                                            |                      |                         |                                          |                                                      |                            |                             |                        |
| Property Taxes, Levied for General Purposes (net) |                      |                         |                                          |                                                      | \$ 10,037,058              | \$ -                        | \$ 10,037,058          |
| Taxes Levied for Specific Purposes                |                      |                         |                                          |                                                      | 1,750,499                  | -                           | 1,750,499              |
| Payment in Lieu of Taxes                          |                      |                         |                                          |                                                      | 95,659                     | -                           | 95,659                 |
| State Property Tax Relief                         |                      |                         |                                          |                                                      | 938,244                    | -                           | 938,244                |
| Basic Subsidy                                     |                      |                         |                                          |                                                      | 9,750,809                  | -                           | 9,750,809              |
| Investment Earnings                               |                      |                         |                                          |                                                      | 74,108                     | 3,002                       | 77,110                 |
| Miscellaneous Revenue                             |                      |                         |                                          |                                                      | 123,619                    | 92                          | 123,711                |
| <b>Total General Revenues</b>                     |                      |                         |                                          |                                                      | <b>\$ 22,769,996</b>       | <b>\$ 3,094</b>             | <b>\$ 22,773,090</b>   |
| <b>Change in Net Position</b>                     |                      |                         |                                          |                                                      | <b>\$ 646,147</b>          | <b>\$ (118,633)</b>         | <b>\$ 527,514</b>      |
| Net Position - July 1, 2019 (Deficit)             |                      |                         |                                          |                                                      | (29,679,181)               | (479,684)                   | (30,158,865)           |
| <b>Net Position — June 30, 2020 (Deficit)</b>     |                      |                         |                                          |                                                      | <b>\$ (29,033,034)</b>     | <b>\$ (598,317)</b>         | <b>\$ (29,631,351)</b> |

The accompanying notes are an integral part of these financial statements

**SOUTHMORELAND SCHOOL DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2020**

**EXHIBIT C**

|                            | <b>GENERAL FUND</b> | <b>PERMANENT FUND</b> | <b>TOTAL GOVERNMENTAL FUNDS</b> |
|----------------------------|---------------------|-----------------------|---------------------------------|
| <b>ASSETS:</b>             |                     |                       |                                 |
| Cash and Cash Equivalents  | \$ 1,774,243        | \$ 4,014              | \$ 1,778,257                    |
| Investments                | 3,563,368           | 20,000                | 3,583,368                       |
| Taxes Receivable, net      | 971,272             | -                     | 971,272                         |
| Due From Other Funds       | 32,685              | -                     | 32,685                          |
| Due From Other Governments | 1,481,849           | -                     | 1,481,849                       |
| Other Receivables          | 8,892               | -                     | 8,892                           |
| <b>TOTAL ASSETS</b>        | <b>\$ 7,832,309</b> | <b>\$ 24,014</b>      | <b>\$ 7,856,323</b>             |

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES**

|                                     |                     |             |                     |
|-------------------------------------|---------------------|-------------|---------------------|
| <b>LIABILITIES:</b>                 |                     |             |                     |
| Accounts Payable                    | \$ 221,607          | \$ -        | \$ 221,607          |
| Accrued Salaries and Benefits       | 3,326,642           | -           | 3,326,642           |
| Payroll Deductions and Withholdings | 33,694              | -           | 33,694              |
| Due To Other Funds                  | 17,650              | -           | 17,650              |
| Unearned Revenue                    | 19,447              | -           | 19,447              |
| <b>TOTAL LIABILITIES</b>            | <b>\$ 3,619,040</b> | <b>\$ -</b> | <b>\$ 3,619,040</b> |

**DEFERRED INFLOWS OF RESOURCES:**

|                                            |                   |             |                   |
|--------------------------------------------|-------------------|-------------|-------------------|
| Delinquent Real Estate Taxes               | \$ 957,563        | \$ -        | \$ 957,563        |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b> | <b>\$ 957,563</b> | <b>\$ -</b> | <b>\$ 957,563</b> |

**FUND BALANCES:**

|                                                                            |                     |                  |                     |
|----------------------------------------------------------------------------|---------------------|------------------|---------------------|
| Restricted                                                                 | -                   | 24,014           | 24,014              |
| Assigned                                                                   | 718,270             | -                | 718,270             |
| Unassigned                                                                 | 2,537,436           | -                | 2,537,436           |
| <b>TOTAL FUND BALANCES</b>                                                 | <b>\$ 3,255,706</b> | <b>\$ 24,014</b> | <b>\$ 3,279,720</b> |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b> | <b>\$ 7,832,309</b> | <b>\$ 24,014</b> | <b>\$ 7,856,323</b> |

The accompanying notes are an integral part of these financial statements

**SOUTHMORELAND SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2020**

**Total Fund Balances - Governmental Funds** **\$ 3,279,720**

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

Capital assets used in governmental activities are not financial resources, and therefore, are not reported as assets in governmental funds. The cost of assets is \$67,382,506, and the accumulated depreciation is \$36,918,729. 30,463,777

Property and wage taxes receivable in the statement of net position, which will not be available soon enough to pay for the current period's expenditures, are deferred and not recognized as revenue in governmental funds. 1,213,801

A loan receivable was reported on the statement of net position as part of other receivables. 14,055

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

|                                                    |             |
|----------------------------------------------------|-------------|
| Deferred outflows of resources related to pensions | 5,387,481   |
| Deferred outflows of resources related to OPEB     | 777,449     |
| Deferred inflows of resources related to pensions  | (2,070,950) |
| Deferred inflows of resources related to OPEB      | (101,390)   |

Long term liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:

|                                        |               |              |
|----------------------------------------|---------------|--------------|
| Bonds Payable                          | \$ 21,177,000 |              |
| Unamortized Bond Discount              | (9,756)       |              |
| Unamortized Bond Premium               | 132,088       |              |
| Deferred Interest on Advance Refunding | (928,867)     |              |
| Accrued Interest on Bonds              | 133,448       |              |
| Retirement Incentives                  | 840,000       |              |
| Net OPEB liability                     | 4,196,356     |              |
| Net Pension Liability                  | 41,748,800    |              |
| Compensated absences                   | 707,908       | (67,996,977) |
|                                        |               |              |

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES (DEFICIT)** **\$ (29,033,034)**

**SOUTHMORELAND SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

|                                                          | <u>GENERAL FUND</u>  | <u>PERMANENT FUND</u> | <u>DEBT SERVICE FUND</u> | <u>TOTAL GOVERNMENTAL FUNDS</u> |
|----------------------------------------------------------|----------------------|-----------------------|--------------------------|---------------------------------|
| <b>REVENUES</b>                                          |                      |                       |                          |                                 |
| Local Sources                                            | \$ 12,396,581        | 70                    | -                        | 12,396,651                      |
| State Sources                                            | 17,404,344           | -                     | -                        | 17,404,344                      |
| Federal Sources                                          | 529,866              | -                     | -                        | 529,866                         |
| <b>Total Revenue</b>                                     | <b>\$ 30,330,791</b> | <b>70</b>             | <b>-</b>                 | <b>\$ 30,330,861</b>            |
| <b>EXPENDITURES</b>                                      |                      |                       |                          |                                 |
| Instruction                                              | \$ 17,463,167        | -                     | -                        | 17,463,167                      |
| Support Services                                         | 8,629,663            | -                     | 78,200                   | 8,707,863                       |
| Noninstructional Services                                | 754,473              | -                     | -                        | 754,473                         |
| Facilities Acquisitions and Improvements                 | 99,981               | -                     | -                        | 99,981                          |
| Debt Service                                             | 2,782,602            | -                     | 18,637,591               | 21,420,193                      |
| <b>Total Expenditures</b>                                | <b>\$ 29,729,886</b> | <b>-</b>              | <b>18,715,791</b>        | <b>\$ 48,445,677</b>            |
| <b>Excess ( Deficiency) of Revenue over Expenditures</b> | <b>\$ 600,905</b>    | <b>70</b>             | <b>\$(18,715,791)</b>    | <b>\$ (18,114,816)</b>          |
| <b>OTHER FINANCING SOURCES (USES)</b>                    |                      |                       |                          |                                 |
| General Obligation Note Proceeds                         | -                    | -                     | 18,716,000               | 18,716,000                      |
| Insurance Recoveries                                     | 9,290                | -                     | -                        | 9,290                           |
| Interfund Transfers                                      | 209                  | -                     | (209)                    | -                               |
| <b>Total Other Financing Sources (Uses)</b>              | <b>\$ 9,499</b>      | <b>-</b>              | <b>\$ 18,715,791</b>     | <b>\$ 18,725,290</b>            |
| <b>NET CHANGE IN FUND BALANCES</b>                       | <b>\$ 610,404</b>    | <b>70</b>             | <b>-</b>                 | <b>\$ 610,474</b>               |
| FUND BALANCE - JULY 1, 2019                              | 2,645,302            | 23,944                | -                        | 2,669,246                       |
| <b>FUND BALANCE - JUNE 30, 2020</b>                      | <b>\$ 3,255,706</b>  | <b>\$ 24,014</b>      | <b>\$ -</b>              | <b>\$ 3,279,720</b>             |

The accompanying notes are an integral part of these financial statements

**SOUTHMORELAND SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** **\$ 610,474**

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 cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$1,457,027) exceeded capital outlays (\$105,353).                                                                                                                                   | (1,351,674)  |
| Repayment of loan principal is a revenue in the governmental funds but the repayment reduces loan receivable in the statement of net assets                                                                                                                                                                                                                                                                                                          | (5,063)      |
| Proceeds from long-term debt obligations are recorded as revenues in the governmental funds. However, in the statement of net position, these proceeds and related bond issue costs are recognized as long-term liabilities and contra-liabilities.                                                                                                                                                                                                  | (18,716,000) |
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.                                                                                                                                                                                                                                                                                             | 20,759,000   |
| Because certain property and wage 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 real estate taxes beyond the "available" period increased by this amount during the 2019-2020 fiscal year.                                                                                                                             | 137,730      |
| 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, however, interest expense is recognized as the interest accrues, regardless of when it is due.                                                          | 33,074       |
| Bond premiums are reported in governmental funds as revenues. However, in the statement of activities, these premiums are capitalized and accreted over the life of the bond issue as credit to interest expense.                                                                                                                                                                                                                                    | 75,504       |
| Bond discount costs are reported in governmental funds as expenditures. However, in the statement of activities, these costs are capitalized and amortized over the life of the note as interest expense.                                                                                                                                                                                                                                            | (182,254)    |
| Deferred interest on bond refundings is recognized in the government-wide financial statements when bonds are refunded and amortized over the life of the bond issue as interest expense.                                                                                                                                                                                                                                                            | (221,163)    |
| Governmental funds report district pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.                                                                                                                                                                                                                                 | (757,475)    |
| In the statement of activities, certain operating expenses - compensated absences, retiree incentives, and health benefits - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (paid). This year, the amount paid exceeded the total amount of compensated absences, incentives and health benefits earned by this amount. | 263,994      |

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** **\$ 646,147**

The accompanying notes are an integral part of these financial statements

**SOUTHMORELAND SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES, BUDGET AND ACTUAL**  
**GOVERNMENTAL FUNDS - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2020**

|                                                               | Budgeted Amounts     |                      | Actual<br>(Budgetary Basis) | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---------------------------------------------------------------|----------------------|----------------------|-----------------------------|---------------------------------------------------------|
|                                                               | Original             | Final                |                             |                                                         |
| <b>REVENUES</b>                                               |                      |                      |                             |                                                         |
| Local Sources                                                 | \$ 12,631,137        | \$ 12,632,137        | \$ 12,396,581               | \$ (235,556)                                            |
| State Sources                                                 | 17,668,216           | 17,703,216           | 17,404,344                  | (298,872)                                               |
| Federal Sources                                               | 537,261              | 537,261              | 529,866                     | (7,395)                                                 |
| <b>Total Revenues</b>                                         | <b>\$ 30,836,614</b> | <b>\$ 30,872,614</b> | <b>\$ 30,330,791</b>        | <b>\$ (541,823)</b>                                     |
| <b>EXPENDITURES</b>                                           |                      |                      |                             |                                                         |
| Regular Programs                                              | \$ 13,306,464        | \$ 13,307,464        | \$ 13,083,392               | \$ 224,072                                              |
| Special Programs                                              | 4,167,564            | 4,167,564            | 3,851,527                   | 316,037                                                 |
| Vocational Programs                                           | 299,812              | 299,812              | 343,024                     | (43,212)                                                |
| Other Instructional Programs                                  | 298,868              | 298,868              | 183,501                     | 115,367                                                 |
| Non Public School Programs                                    | 2,000                | 2,000                | 1,723                       | 277                                                     |
| Pupil Personnel Services                                      | 758,314              | 758,314              | 736,987                     | 21,327                                                  |
| Instructional Staff Services                                  | 187,163              | 222,163              | 205,924                     | 16,239                                                  |
| Administrative Services                                       | 2,058,571            | 2,058,571            | 1,956,288                   | 102,283                                                 |
| Pupil Health                                                  | 393,346              | 393,346              | 359,953                     | 33,393                                                  |
| Business Services                                             | 443,536              | 443,536              | 406,455                     | 37,081                                                  |
| Operation & Maintenance of Plant Services                     | 2,615,848            | 2,617,949            | 2,518,092                   | 99,857                                                  |
| Student Transportation Services                               | 2,101,421            | 2,101,421            | 2,115,319                   | (13,898)                                                |
| Central Services                                              | 332,376              | 330,275              | 301,354                     | 28,921                                                  |
| Other Support Services                                        | 36,177               | 36,177               | 29,291                      | 6,886                                                   |
| Student Activities                                            | 813,349              | 813,349              | 678,137                     | 135,212                                                 |
| Community Services                                            | 111,643              | 111,643              | 76,336                      | 35,307                                                  |
| Facilities Acquisition and Improvement                        | 84,076               | 84,076               | 99,981                      | (15,905)                                                |
| Debt Service                                                  | 2,776,086            | 2,776,086            | 2,782,602                   | (6,516)                                                 |
| <b>Total Expenditures</b>                                     | <b>\$ 30,786,614</b> | <b>\$ 30,822,614</b> | <b>\$ 29,729,886</b>        | <b>\$ 1,092,728</b>                                     |
| <b>Excess ( Deficiency) of Revenues<br/>over Expenditures</b> | <b>\$ 50,000</b>     | <b>\$ 50,000</b>     | <b>\$ 600,905</b>           | <b>\$ 550,905</b>                                       |
| <b>OTHER FINANCING SOURCES (USES)</b>                         |                      |                      |                             |                                                         |
| Operating Transfers In                                        | \$ -                 | \$ -                 | \$ 209                      | \$ 209                                                  |
| Insurance Recoveries                                          | -                    | -                    | 9,290                       | 9,290                                                   |
| Budgetary Reserve                                             | (50,000)             | (50,000)             | -                           | 50,000                                                  |
| <b>Total Other Financing Sources (Uses)</b>                   | <b>\$ (50,000)</b>   | <b>\$ (50,000)</b>   | <b>\$ 9,499</b>             | <b>\$ 59,499</b>                                        |
| <b>NET CHANGE IN FUND BALANCES</b>                            | <b>\$ -</b>          | <b>\$ -</b>          | <b>\$ 610,404</b>           | <b>\$ 610,404</b>                                       |
| FUND BALANCE - JULY 1, 2019                                   | 2,650,762            | 2,650,762            | 2,645,302                   | (5,460)                                                 |
| <b>FUND BALANCE - JUNE 30, 2020</b>                           | <b>\$ 2,650,762</b>  | <b>\$ 2,650,762</b>  | <b>\$ 3,255,706</b>         | <b>\$ 604,944</b>                                       |

The accompanying notes are an integral part of these financial statements



**SOUTHMORELAND SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2020**

|                                                                               | <b><u>FOOD<br/>SERVICES</u></b> |
|-------------------------------------------------------------------------------|---------------------------------|
| <b>ASSETS</b>                                                                 |                                 |
| <b>Current Assets:</b>                                                        |                                 |
| Cash and Cash Equivalents                                                     | \$ 238,721                      |
| Investments                                                                   | 208,524                         |
| Due from Other Funds                                                          | 17,650                          |
| Due from Other Governments                                                    | 27,455                          |
| Other Receivables                                                             | 4,227                           |
| Inventories                                                                   | 35,575                          |
| <b>TOTAL CURRENT ASSETS</b>                                                   | <b><u>\$ 532,152</u></b>        |
| <b>Noncurrent Assets:</b>                                                     |                                 |
| Furniture and Equipment (net)                                                 | \$ 245,462                      |
| <b>TOTAL NONCURRENT ASSETS</b>                                                | <b><u>\$ 245,462</u></b>        |
| <b>TOTAL ASSETS</b>                                                           | <b><u>\$ 777,614</u></b>        |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                                         |                                 |
| Deferred Outflows Related to Pensions                                         | \$ 166,623                      |
| Deferred Outflows Related to OPEB                                             | 7,030                           |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>                                   | <b><u>\$ 173,653</u></b>        |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>                        | <b><u>\$ 951,267</u></b>        |
| <b>LIABILITIES</b>                                                            |                                 |
| <b>Current Liabilities:</b>                                                   |                                 |
| Due to Other Funds                                                            | \$ 32,685                       |
| Accounts Payable                                                              | 24                              |
| Unearned Revenues                                                             | 52,055                          |
| <b>TOTAL CURRENT LIABILITIES</b>                                              | <b><u>\$ 84,764</u></b>         |
| <b>Noncurrent Liabilities:</b>                                                |                                 |
| Accrued Compensated Absences                                                  | \$ 48,580                       |
| Net Pension Liability                                                         | 1,291,200                       |
| Net OPEB Liability                                                            | 58,710                          |
| <b>TOTAL NONCURRENT LIABILITIES</b>                                           | <b><u>\$ 1,398,490</u></b>      |
| <b>TOTAL LIABILITIES</b>                                                      | <b><u>\$ 1,483,254</u></b>      |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                          |                                 |
| Deferred Inflows Related to Pensions                                          | \$ 64,050                       |
| Deferred Inflows Related to OPEB                                              | 2,280                           |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>                                    | <b><u>\$ 66,330</u></b>         |
| <b>NET POSITION</b>                                                           |                                 |
| Net Investment in Capital Assets                                              | \$ 245,462                      |
| Unrestricted (Deficit)                                                        | (843,779)                       |
| <b>TOTAL NET POSITION (Deficit)</b>                                           | <b><u>\$ (598,317)</u></b>      |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES,<br/>AND NET POSITION</b> | <b><u>\$ 951,267</u></b>        |

The accompanying notes are an integral part of these financial statements

**SOUTHMORELAND SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

|                                                | <b>FOOD SERVICES</b> |
|------------------------------------------------|----------------------|
| <b><u>OPERATING REVENUES</u></b>               |                      |
| Food Services Revenue                          | \$ 247,041           |
| <b>Total Operating Revenues</b>                | <b>\$ 247,041</b>    |
| <b><u>OPERATING EXPENSES</u></b>               |                      |
| Personnel Services - Salaries                  | \$ 411,803           |
| Personnel Services - Employee Benefits         | 294,579              |
| Purchased Professional and Technical Services  | 8,872                |
| Purchased Property Services                    | 9,070                |
| Other Purchased Services                       | 1,357                |
| Supplies                                       | 408,954              |
| Depreciation                                   | 45,662               |
| Other Operating Expenses                       | 2,001                |
| <b>Total Operating Expenses</b>                | <b>\$ 1,182,298</b>  |
| <b>OPERATING INCOME/(LOSS)</b>                 | <b>\$ (935,257)</b>  |
| <b><u>NONOPERATING REVENUES (EXPENSES)</u></b> |                      |
| Earnings on Investments                        | \$ 3,002             |
| Contributions                                  | 92                   |
| State Sources                                  | 108,522              |
| Federal Sources                                | 705,008              |
| <b>Total Nonoperating Revenues (Expenses)</b>  | <b>\$ 816,624</b>    |
| <b>CHANGE IN NET POSITION</b>                  | <b>\$ (118,633)</b>  |
| NET POSITION - JULY 1, 2019 (Deficit)          | (479,684)            |
| <b>NET POSITION - JUNE 30, 2020 (Deficit)</b>  | <b>\$ (598,317)</b>  |

The accompanying notes are an integral part of these financial statements

**SOUTHMORELAND SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

|                                                                                                                     | <b>FOOD<br/>SERVICES</b>   |
|---------------------------------------------------------------------------------------------------------------------|----------------------------|
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>                                                                  |                            |
| Cash Received from Users                                                                                            | \$ 271,016                 |
| Cash Payments to Employees for Salaries and Benefits                                                                | (685,510)                  |
| Cash Payments to Suppliers for Goods and Services                                                                   | (360,854)                  |
| <b>Net Cash (Used for) Operating Activities</b>                                                                     | <b><u>\$ (775,348)</u></b> |
| <b><u>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</u></b>                                                          |                            |
| Acquisition of Equipment                                                                                            | \$ (4,770)                 |
| <b>Net Cash (Used for) Capital Financing Activities</b>                                                             | <b><u>\$ (4,770)</u></b>   |
| <b><u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u></b>                                                      |                            |
| Contributions                                                                                                       | \$ 92                      |
| State Sources                                                                                                       | 110,645                    |
| Federal Sources                                                                                                     | 589,838                    |
| <b>Net Cash Provided by Non-Capital Financing Activities</b>                                                        | <b><u>\$ 700,575</u></b>   |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>                                                                  |                            |
| Earnings on Investments                                                                                             | \$ 3,001                   |
| Deposits from Investment Pool                                                                                       | 99,773                     |
| <b>Net Cash Provided by Investing Activities</b>                                                                    | <b><u>\$ 102,774</u></b>   |
| <b>NET INCREASE &lt;DECREASE&gt; IN CASH AND CASH EQUIVALENTS</b>                                                   | <b>\$ 23,231</b>           |
| CASH AND CASH EQUIVALENTS - JULY 1, 2019                                                                            | <u>215,490</u>             |
| <b>CASH AND CASH EQUIVALENTS - JUNE 30, 2020</b>                                                                    | <b><u>\$ 238,721</u></b>   |
| <b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH<br/>PROVIDED BY (USED FOR) OPERATING ACTIVITIES</u></b> |                            |
| Operating Income (Loss)                                                                                             | \$ (935,257)               |
| <b>ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS)<br/>TO NET CASH (USED FOR) OPERATING ACTIVITIES:</b>            |                            |
| Depreciation                                                                                                        | 45,662                     |
| Donated Commodities                                                                                                 | 87,715                     |
| (Increase) Decrease in Other Receivables                                                                            | (1,769)                    |
| (Increase) Decrease in Inventories                                                                                  | (18,301)                   |
| (Increase) Decrease in Deferred Outflows of Resources                                                               | 34,785                     |
| Increase (Decrease) in Accounts Payable                                                                             | 10,263                     |
| Increase (Decrease) in Advances from Other Funds                                                                    | (5,358)                    |
| Increase (Decrease) in Accrued Compensated Absences                                                                 | 2,785                      |
| Increase (Decrease) in Unearned Revenue                                                                             | 15,467                     |
| Increase (Decrease) in Net Pension Liability                                                                        | (25,110)                   |
| Increase (Decrease) in Net OPEB Liability                                                                           | 1,530                      |
| Increase (Decrease) in Deferred Inflow of Resources                                                                 | 12,240                     |
| <b>Total Adjustments</b>                                                                                            | <b><u>\$ 159,909</u></b>   |
| <b>NET CASH (USED FOR) OPERATING ACTIVITIES</b>                                                                     | <b><u>\$ (775,348)</u></b> |
| <b>NONCASH NONCAPITAL FINANCING ACTIVITIES:</b>                                                                     |                            |
| During the year, the District received \$87,715 of food commodities from the U.S. Department of Agriculture.        |                            |

The accompanying notes are an integral part of these financial statements

**SOUTHMORELAND SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2020**

|                                            | <b><u>STUDENT</u></b><br><b><u>ACTIVITY FUNDS</u></b> |
|--------------------------------------------|-------------------------------------------------------|
| <b>ASSETS</b>                              |                                                       |
| Cash and Cash Equivalents                  | \$ 143,495                                            |
| <b>TOTAL ASSETS</b>                        | <b><u>\$ 143,495</u></b>                              |
| <b>LIABILITIES</b>                         |                                                       |
| Other Current Liabilities (Student Groups) | \$ 143,495                                            |
| <b>TOTAL LIABILITIES</b>                   | <b><u>\$ 143,495</u></b>                              |

The accompanying notes are an integral part of these financial statements

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

The Southmoreland School District was established under the authority of an act of the state legislature that designated a school board as the governing body. The School District serves the surrounding municipalities that include the Borough of Everson and Upper Tyrone Township located in Fayette County, as well as the Borough of Scottdale and East Huntingdon Township located in Westmoreland County. The School District operates under a locally-elected nine-member Board form of government and provides educational services as mandated by the Commonwealth of Pennsylvania and selected federal agencies. The Board of Education has complete authority over the operations and administration of the school district's activities.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the Southmoreland School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. As defined by GASB, component units are legally separate entities that are included in the School District's reporting entity because of the significance of their operating or financial relationships with the School District. Based on the application of these criteria, the Southmoreland School District has no component units.

The School District is associated with two jointly governed organizations (Note 12) and one public entity risk pool (Note 14). These organizations are:

- Jointly Governed Organizations:
  - Central Westmoreland Career and Technology Center
  - Westmoreland Intermediate Unit #7
  
- Public Entity Risk Pool:
  - Westmoreland County Public School Healthcare Consortium

The financial statements of the Southmoreland School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The most significant of the School District's accounting policies are as follows:

**FINANCIAL STATEMENT PRESENTATION**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS** – The statement of net position (Exhibit A) and the statement of activities (Exhibit B) display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. That is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations (Exhibit D and F) with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**FINANCIAL STATEMENT PRESENTATION (Continued)**

The government-wide statement of activities (Exhibit B) presents a comparison between direct expenses and program revenues for the District's business-type activities (food service operations) and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants, subsidies and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which the business-type activity or government function is self-financing or draws from the general revenues of the School District.

**FUND FINANCIAL STATEMENTS** – Fund financial statements report detailed information about the School District. Under GASB Statement No. 34, the focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Major funds represent the District's most important funds and are determined based on percentages of assets, liabilities, revenues, and expenditures/expenses. For the Southmoreland School District, the General Fund is always considered a major fund. Each major fund is presented in a separate column. Non-major funds, if any, would be segregated and presented in a single column. Fiduciary funds are reported by fund type.

**BASIS OF ACCOUNTING AND MEASUREMENT FOCUS**

The basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Government funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses, and changes in fund net position presents increases (revenues) and decreases (expenses) in total net position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year-end.

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**BASIS OF ACCOUNTING AND MEASUREMENT FOCUS (Continued)**

Revenue resulting from non-exchange transactions, in which the School District receives value without directly giving equal value in return, includes property taxes, grants and contributions. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants and contributions are recognized in the fiscal year in which all eligibility requirements have been satisfied. On a modified accrual basis, revenue from non-exchange transactions must also be 'available' before it can be recognized.

The management of the Southmoreland School District has determined that the revenues most susceptible to accrual (measurable and available) at June 30, 2020 under the modified accrual basis are 1) delinquent property taxes held with the Westmoreland and Fayette County Tax Claim Bureaus, 2) federal and state subsidies earned in the fiscal year 2019-2020, and 3) other miscellaneous revenues earned in fiscal year 2019-2020 but received subsequent to June 30, 2020. On the governmental fund financial statements, delinquent real estate taxes receivable that will not be collected within the 'available' period have been reported as 'deferred inflows of resources'.

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. The primary expenditures deemed susceptible to accrual at June 30, 2020 are those for which the Board of Education's intention was to expense these items as budgeted for the 2019-2020 official budget, and for which the District has incurred an obligation, but has not paid as of June 30, 2020.

Allocations of cost such as depreciation, are not recognized in governmental funds but are included as part of expenses in the government-wide statement of activities.

**FUND ACCOUNTING**

The School District uses funds to report on its financial position and the results of its operations during the year. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary and fiduciary. Fund categories are defined as follows:

**Governmental Funds** – Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major and non-major governmental funds:

**MAJOR GOVERNMENTAL FUNDS:**

**GENERAL FUND** - The general fund is used to account for all financial resources not required to be accounted for in some other fund. The general fund balance is available for any purpose provided it is expended according to the Commonwealth of Pennsylvania Public School Code.

**DEBT SERVICE** - - The debt service fund is used to account for the proceeds of the District's two General Obligation Notes – Refunding Series of 2020 and Refunding Series A of 2020.

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**FUND ACCOUNTING (Continued)**

**NONMAJOR GOVERNMENTAL FUNDS:**

**PERMANENT FUND** - The permanent fund is used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the School District's programs. The permanent fund for the School District consists of the Nell Lynch \$20,000 endowment whose earnings are restricted for student educational field trips.

**Proprietary Funds** - used to account for activities similar to those found in the private sector, where the determination of net income is necessary and useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies within the school district (internal service funds). The School District's major and sole enterprise fund is its Food Service Fund that accounts for the financial transactions related to the food service operations of the District.

**Fiduciary Funds** – Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature and do not involve measuring income or any other results from operations. The District's Agency Fund is comprised of the various student organization activity accounts administered by the District on behalf of the various student organizations.

**BUDGETS**

On June 27, 2019 the Southmoreland School District adopted its fiscal year June 30, 2020 annual budget for the General Fund totaling \$30,836,614 in accordance with the provisions of the Pennsylvania School Code. The budget is prepared utilizing the modified accrual method of accounting. The original and adjusted budgetary amounts are reflected in these financial statements (Exhibit G). All annual appropriations of the General Fund lapse at fiscal year-end.

The School District uses the following procedures in establishing this budgetary data:

- a. Prior to May of the preceding fiscal year, the school district prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the revenues and other sources of funds used to finance these expenditures.
- b. At least 20 days prior to the date set for budget adoption, the budget is made available for public inspection.
- c. A meeting of the Board of Education is then held for the purpose of adopting the proposed budget. The meeting may only be held after 10 days of public notification.
- d. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board of Education.
- e. The budget must be filed with the Commonwealth of Pennsylvania, Department of Education by July 15 of the fiscal year or within 30 days of adoption.
- f. Budgetary transfers are permitted after the first 90 days of the school district's fiscal year.



**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include amounts in demand deposit accounts, and any other highly liquid, short-term investments, with original maturity terms of less than three months.

**INVESTMENTS**

Under Section 440.1 of the Pennsylvania Public School Code of 1949, as amended, and PA Act 10 of 2017, Southmoreland School District is permitted to invest funds consistent with sound business practices in the following types of investments:

- I. Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania, or (c) of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- II. Deposits in savings accounts, time deposits and share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC) to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral, as provided by law, is pledged by the depository.
- III. U.S. government obligations, short-term commercial paper issued by a public corporation, and banker's acceptances.

Investments of the Southmoreland School District include deposits pooled for investment purposes with the Pennsylvania Local Government Investment Trust (PLGIT), and a Certificate of Deposit held with the Scottdale Bank and Trust Company. Investments are reported at fair value and/or amortized cost.

**SHORT-TERM INTERFUND RECEIVABLES/PAYABLES**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as 'due from/to other funds' on the governmental funds balance sheet. For the purposes of the government-wide statement of net position, governmental interfund receivables and payables have been eliminated. Amounts due between governmental activities and business-type activities, if any, are presented as off-setting internal balances on the statement of net position.

**INVENTORIES**

Inventories on the government-wide statement of net position (Exhibit A) and the proprietary fund statement of net position (Exhibit H) are recorded at a combination of actual cost and fair value on a first-in first-out basis. This inventory consists of purchased food and supplies and donated commodities from the U.S. Department of Agriculture as part of the food service program. The School District does not inventory the cost of such items as books and supplies, but rather records these items as expenditures in the governmental funds and an expense in the government-wide statement of activities at the time of purchase.

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**CAPITAL ASSETS AND DEPRECIATION**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets are reported in the governmental activities' column of the government-wide statement of net position. Capital assets used by the proprietary fund are reported in both the business-type activity column of the government-wide statement of net position and on the proprietary fund statement of net position.

All capital assets are recorded at cost (or estimated historical cost). Donated fixed assets are recorded at fair value at the time of receipt. The School District maintains a capitalization threshold of \$1,500. The cost of infrastructure is included as part of site improvements in the government-wide statement of net position. Routine repair and maintenance costs that do not add to the value of the asset or extend its useful life are charged as an expense in the government-wide statement of activities.

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

| <b>CATEGORY</b>                  | <b>GOVERNMENTAL<br/>ACTIVITIES</b> |
|----------------------------------|------------------------------------|
| Site Improvements                | 20 years                           |
| Building & Building Improvements | 40 years                           |
| Furniture & Equipment            | 5-20 years                         |
| Vehicles                         | 8 years                            |

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets purchased by governmental funds are recorded as expenditures in the fund financial statements (Exhibit E). The results of capitalizing fixed assets net of depreciation on the government-wide statement of net position and statement of activities, as opposed to recording these same assets as an expenditure in the fund financial statements (Exhibit E), is reflected in the required reconciliations of fund balance to net position (Exhibit D) and the changes in fund balances to the changes in net position (Exhibit F).

**LONG-TERM DEBT FINANCING COSTS**

Bond and note issue costs are recorded as expenditures in the governmental fund financial statements in the fiscal year paid. The School District incurred note issuance costs totaling \$78,200 during the 2019-2020 fiscal year.

**COMPENSATED ABSENCES**

The School District reports compensated absences in accordance with generally accepted accounting standards. Members of the School District's various collective bargaining agreements, administration, and Superintendent, who meet the required eligibility requirements, are entitled to the following compensation for accumulated unused sick days at termination:

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**COMPENSATED ABSENCES (Continued)**

| <u>GROUP</u>                              | <u>RATE<br/>PER DAY</u> | <u>MAXIMUM<br/>DAYS</u> |
|-------------------------------------------|-------------------------|-------------------------|
| Education Association                     | \$ 60                   | 260                     |
| Secretarial Employees                     | \$ 50                   | 160                     |
| SEIU Local 32BJ (Greater than 6 Hours)    | \$ 50                   | 160                     |
| SEIU Local 32BJ (5-6 Hours)               | \$ 40                   | 160                     |
| SEIU Local 32BJ (Part-time up to 4 Hours) | \$ 30                   | 160                     |
| Administrators                            | \$ 60                   | 260                     |
| Superintendent                            | \$ 75                   | 200                     |

In addition, the school district's administrators and Superintendent are entitled to reimbursement for accumulated unused vacation days, subject to a maximum of 20 and 35 days respectively, at their per diem rate at the time of retirement. Sick leave benefits are accrued as a liability at the time individuals become eligible for retirement in accordance with the terms of the District's collective bargaining agreements. The entire compensated absences liability of \$756,488 is shown as a non-current liability in the government-wide statement of net position. For governmental fund financial statements, compensated absences are recorded as expenditures when paid rather than accrued when earned as the likelihood of payment in the immediate fiscal year with available expendable resources is not assured.

**RETIREMENT INCENTIVE PROGRAM**

The Southmoreland School District established retirement incentive plans over the course of prior fiscal years for eligible members of the Southmoreland Education Association. To qualify, members of the Education Association must have completed at least 15 years of service with the Southmoreland School District and have at least 15 years of service in the Public School Employees' Retirement System (PSERS) with no minimum age requirement.

Applicable retiring members of the Education Association who meet the above criteria qualify for an annual severance payment of \$14,000 for six consecutive years paid directly into an Internal Revenue Service 403(B) plan account. There are prior ERIP plans still outstanding that have several years to complete. The Southmoreland School District's retirement incentive liability as of June 30, 2020 totals \$840,000. The aforementioned retirement incentives are not included as part of the School District's calculation of its net other post-employment benefit (OPEB) liability obligation as discussed in Note 11.

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**PENSIONS**

For the 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. Investment assets are reported at fair value. More information on pension activity is included in Note 10.

**OTHER POSTEMPLOYMENT BENEFITS**

For the 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 (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investment assets are reported at fair value. More information on other postemployment benefits activity is included in Note 11.

**ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. For the business-type activities, these obligations and all similar obligations are reported again on the proprietary fund statement of net position (Exhibit H).

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of compensated absences and retiree health benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, liabilities that mature or come due for payment during the fiscal year are considered to have been paid with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements when due. The District's General Fund is typically used to liquidate long-term liability obligations. The results of recognizing these long-term obligations as liabilities on the government-wide statement of net position and statement of activities, as opposed to recording these same obligations as an expenditure in the fund financial statements (Exhibit E) only when paid, is reflected in the required reconciliations of fund to net position (Exhibit D) and the changes in fund balances to the changes in net position (Exhibit F).

**UNEARNED REVENUE**

Unearned revenue arises when the District receives resources before it has legal claim to them. This occurs when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent balance periods, when both revenue recognition criteria are met, or when the School District has a legal claim to the resources, the unearned revenue liability is removed and revenue is recognized.

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES**

In addition to assets and liabilities, the statement of net position and/or the balance sheet will sometimes report a separate section for deferred outflows and/or inflows of resources. These separate financial statement elements represent a decrease and/or increase in net position that applies to a future period and will not be recognized as an outflow and/or inflow of resources (expense/expenditure or income/revenue) in the current period.

**NET POSITION**

Net position is classified into three categories according to external donor or legal restrictions or availability of assets to satisfy District obligations. Net position is classified as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets net of accumulated depreciation reduced by the outstanding balances of debt that is attributable to the acquisition, construction and improvement of the capital assets, plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted Net Position – This component of net position consists of restricted assets reduced by liabilities and deferred inflows related to those assets. The net position of the District's Permanent Fund totaling \$24,014 are considered restricted as of June 30, 2020.
- Unrestricted – Consists of net position that does not meet the definition of 'restricted' or 'net investment in capital assets'. The District maintained a deficit net position of \$39,994,139 as of June 30, 2020.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the School District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

**FUND EQUITY**

In the Balance Sheet – Governmental Funds (Exhibit C), fund balances are reported in specific categories to make the nature and extent of the constraints placed on any entity's fund balance more transparent in accordance with GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and high levels of government), through constitutional provisions, or by enabling legislation. The District's Permanent Fund totaling \$24,014 is restricted as of June 30, 2020.
- Committed fund balance – amounts constrained to specific purposes by the School District itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the School District takes the same highest-level action to remove or change the constraint.

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**FUND EQUITY (Continued)**

- Assigned fund balance – amounts the School District intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. The District has assigned \$718,270 for possible tax appeals and cyber charter school tuition increases.
  
- Unassigned fund balance – amounts that are available for any purpose

Act 48 of 2003 prohibits school districts from increasing real property taxes beyond the annual index increase permitted by law, unless the school district has adopted a budget for such school year that includes an estimated ending unassigned fund balance which is not more than a specified percentage of the district's total budgeted expenditures. For the Southmoreland School District, estimated ending unassigned fund balance must not exceed 8% of total budgeted expenditures.

The School District establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. The School District's Business Manager has authority to assign fund balance.

When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the District's general policy to spend the committed resources first, followed by assigned amounts and then unassigned amounts.

**ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires the District's management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**OPERATING REVENUES AND EXPENSES**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Southmoreland School District, these revenues are food service charges for lunch and breakfast service. Operating expenses are the necessary costs incurred to provide the aforementioned food service. Non-operating revenues of the District's food service proprietary fund are **1)** investment earnings, **2)** contributions from private sources, and **3)** state and federal subsidies, including donated commodities, received from the U.S. Department of Agriculture. The District did not have non-operating expenses during the fiscal year.

**PENDING GASB PRONOUNCEMENTS**

GASB issued Statement No. 84, '*Fiduciary Activities*'. The primary objective of this Statement is to enhance the consistency and comparability of fiduciary activity reporting by state and local governments. This Statement also is intended to improve the usefulness of fiduciary activity information primarily for assessing the accountability of governments in their roles as fiduciaries. The provisions of this Statement are effective for the School District's June 30, 2021 financial statements.

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**PENDING GASB PRONOUNCEMENTS (Continued)**

GASB issued Statement No. 87, '*Leases*'. The primary objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability (representational faithfulness), and consistency of information about the leasing activities of governments. The provisions of this Statement are effective for the School District's June 30, 2022 financial statements.

GASB issued Statement No. 89, '*Accounting for Interest Cost Incurred before the end of a Construction Period*'. The primary objectives of this Statement are (a) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and, (b) to simplify accounting for certain interest costs. The provisions of this Statement are effective for the School District's June 30, 2022 financial statements.

GASB issued Statement No. 90, '*Majority Equity Interests (an amendment of GASB Statements No. 14 and No. 61)*'. The primary objectives of this Statement are to improve consistency in the measurement and comparability of the financial statement presentation of majority equity interests in legally separate organizations and to improve the relevance of financial statement information for certain component units. The provisions of this Statement are effective for the School District's June 30, 2021 financial statements.

GASB issued Statement No. 91, '*Conduit Debt Obligations*'. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The provisions of this Statement are effective for the School District's June 30, 2023 financial statements.

GASB issued Statement No. 92, '*Omnibus 2020*'. The primary objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of GASB Statement Nos. 73, 74, 84, and 87. In addition, the Statement addresses various topics and includes specific provisions concerning the following:

- Measurement of liabilities (and assets, if any) related to asset retirement obligations (ARO) in a government acquisition
- Reporting by entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments

The provisions of this statement are effective for the School District's June 30, 2022 financial statements.

GASB issued Statement No. 93, '*Replacement of Interbank Offered Rates*'. The primary objectives of this Statement are to address the accounting and financial reporting implications that result from the replacement of an interbank offering rate (IBOR). The provisions of this Statement are effective for the School District's June 30, 2022 financial statements.

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**PENDING GASB PRONOUNCEMENTS (Continued)**

GASB issued Statement No. 94, 'Public-Private and Public-Public Partnerships and Availability Payment Arrangements'. The primary objectives of this Statement are to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs), and provide guidance for accounting and financial reporting for availability payment arrangements (APAs). The provisions of this Statement are effective for the School District's June 30, 2023 financial statements.

The implementation dates of the aforementioned pending GASB Statements have been updated to include the delayed implementation dates as set forth in recently issued (May 2020) GASB Statement No. 95. The effects of implementing these Statements on the School District's financial statements have not yet been determined.

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS**

**CASH DEPOSITS:**

The following represents the bank balance and carrying value for the Southmoreland School District's cash and cash equivalents at June 30, 2020:

|                             | <b>Bank<br/>Balance</b>    | <b>Carrying<br/>Value</b>  |
|-----------------------------|----------------------------|----------------------------|
| General Fund                | \$ 929,213                 | \$ 1,774,243               |
| Permanent Fund              | 4,014                      | 4,014                      |
| Enterprise Fund             | 243,478                    | 238,721                    |
| Agency Funds                | 145,402                    | 143,495                    |
|                             | <u>\$ 1,322,107</u>        | <u>\$ 2,160,473</u>        |
| CD classified as Investment | 20,000                     | 20,000                     |
|                             | <u><b>\$ 1,342,107</b></u> | <u><b>\$ 2,180,473</b></u> |

The difference between the bank balance and carrying value represents year-end reconciling items such as deposits in transit and outstanding checks, and petty cash. The Federal Deposit Insurance Corporation (FDIC) coverage threshold for government accounts is \$250,000 per official custodian. This coverage includes checking and savings accounts, money market deposits accounts, and certificates of deposit.

**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. The District's policy is to invest funds consistent with sound business practices evaluating each investment opportunity in terms of risk, yield, liquidity, and legal restrictions as allowable by law or regulations. As of June 30, 2020, \$922,691 of the District's overall bank balance total is exposed to custodial credit risk as this amount represents uninsured deposits collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the District's name. In accordance with Act Number 72-1971 Session of the Commonwealth of Pennsylvania, the aforementioned deposits, in excess of \$250,000, are collateralized by securities pledged to a pooled public funds account with the Federal Reserve System.



**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**INVESTMENTS:**

The fair value and maturity term of the District's investments as of June 30, 2020 is as follows:

|                      | <b>Fair Value</b> | <b>No Stated<br/>Maturity</b> |
|----------------------|-------------------|-------------------------------|
| <b>Governmental:</b> |                   |                               |
| PLGIT                | \$ 3,563,368      | \$ 3,563,368                  |
| <b>Proprietary:</b>  |                   |                               |
| PLGIT                | \$ 208,524        | \$ 208,524                    |

The purpose of the Pennsylvania Local Government Investment Trust (PLGIT), is to enable governmental units to pool their available funds for investments authorized under the Intergovernmental Cooperation Act of 1972. The funds operate in a manner consistent with the SEC's Rule 2(a) 7 of the Investment Company Act of 1940. The funds use amortized cost to report net position to compute share prices. These funds maintain net asset values of \$1 per share. Accordingly, the fair value of the position in these funds is the same as the value of these shares. Investments held in external investment pools such as PLGIT are not subject to the provisions of fair value measurements as they are recorded at amortized cost and/or cost.

**Custodial Credit Risk:**

For an investment, custodial credit risk is the risk that in the event of the counterparty, the School District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The District's investments in PLGIT, which have the characteristics of open-end mutual funds, are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The School District does not have a policy that would limit its investment choices to those with certain credit ratings.

**Interest Rate Risk:**

The School District has no 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:**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The School District has no formal policy, in addition to the requirements of the Pennsylvania School Code that limits its investment choices based on credit ratings by nationally recognized rating organizations. As of June 30, 2020, PLGIT were rated AAAM by the Standard & Poors nationally recognized statistical rating organization.

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 3 - PROPERTY TAXES**

The Southmoreland School District levies property taxes July 15th of each fiscal year. For School District properties located in Westmoreland County, the tax millage assessment for the 2019-2020 fiscal year was 81.3247 mills, which represents \$81.3247 of revenue for every \$1,000 of assessed property value. For School District properties located in Fayette County, the tax millage assessment for the 2019-2020 fiscal year was 15.2992 mills, which represents \$15.2992 of revenue for every \$1,000 of assessed property value. Taxpayers are entitled to a 2% discount if taxes are paid prior to September 30th. Collections after November 30th are assessed a 10% penalty. Unpaid taxes are submitted to the Westmoreland and Fayette County Tax Claim Bureaus for collection. Tax collectors are required under Act 169 of the Commonwealth of Pennsylvania to submit a reconciliation of their tax duplicate to the District by January 15<sup>th</sup> of the year following levy.

Taxes receivable includes delinquent property taxes of \$963,959. For purposes of the governmental fund financial statements, \$957,563 of the above property taxes receivable, although measurable, does not meet the available criteria to finance current fiscal year operations. Accordingly, this amount is equally off-set as a credit to deferred inflows of resources in the fund financial statements.

The effect of recognizing property tax revenue when taxes are levied, as opposed to when they are received using the 'measurable and available' criteria under the modified accrual basis of accounting, is reflected in the required reconciliations of fund balance to net position (Exhibit D) and the changes in fund balances to the changes in net position (Exhibit F).

Taxes receivable are comprised of the following at June 30, 2020:

|                                 | <b>GOVERNMENTAL<br/>ACTIVITIES<br/>(EXHIBIT A)</b> | <b>GOVERNMENTAL<br/>FUNDS<br/>(EXHIBIT C)</b> |
|---------------------------------|----------------------------------------------------|-----------------------------------------------|
| Delinquent Property Taxes (Net) | \$ 963,959                                         | \$ 963,959                                    |
| Earned Income Tax               | 263,551                                            | 7,313                                         |
|                                 | <b>\$ 1,227,510</b>                                | <b>\$ 971,272</b>                             |

**NOTE 4 – DUE FROM OTHER GOVERNMENTS**

The amount of 'due from other governments', as reflected on the government-wide statement of net position and the governmental funds balance sheet, and the proprietary fund statement of net position, are comprised of the following:

|                                | <b>GOVERNMENTAL<br/>ACTIVITIES/FUNDS</b> | <b>BUSINESS<br/>TYPE<br/>ACTIVITIES</b> |
|--------------------------------|------------------------------------------|-----------------------------------------|
| Federal Grant Programs         | \$ 53,926                                | \$ 27,455                               |
| State Grant Programs           | 1,067,192                                | -                                       |
| Westmoreland Intermediate Unit | 360,731                                  | -                                       |
|                                | <b>\$ 1,481,849</b>                      | <b>\$ 27,455</b>                        |

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 5 – OTHER RECEIVABLES**

The amount of 'other receivables', as reflected on the government-wide statement of net position, the governmental funds balance sheet, and the proprietary fund statement of net position represents 1) refunds of expenditures for the 2018-2019 and 2019-2020 school years totaling \$8,892, and 2) loan receivable to reimburse the District for tuition credits paid to a former employee totaling \$14,055.

**NOTE 6 – UNEARNED REVENUES**

Unearned revenues, as reflected on the government-wide statement of net position, governmental funds balance sheet, and the proprietary fund statement of net position, are comprised of the following:

|                               | <b>GOVERNMENTAL<br/>ACTIVITIES/FUNDS</b> | <b>BUSINESS<br/>TYPE<br/>ACTIVITIES</b> |
|-------------------------------|------------------------------------------|-----------------------------------------|
| Federal Grants                | \$ 9,342                                 | \$ -                                    |
| Local Grants                  | 10,105                                   | -                                       |
| Student Account Balances      | -                                        | 22,450                                  |
| Donated Commodities Inventory | -                                        | 29,605                                  |
|                               | <b>\$ 19,447</b>                         | <b>\$ 52,055</b>                        |

**NOTE 7 – INTER-FUND OBLIGATIONS AND TRANSFERS**

Inter-fund receivables and payables as reflected on the governmental funds balance sheet (Exhibit C) and the proprietary fund statement of net position (Exhibit H) are as follows:

|                   | <b>RECEIVABLE</b> | <b>PAYABLE</b>   |
|-------------------|-------------------|------------------|
| General Fund      | \$ 32,685         | \$ 17,650        |
| Food Service Fund | 17,650            | 32,685           |
|                   | <b>\$ 50,335</b>  | <b>\$ 50,335</b> |

Inter-fund receivables and payables as reflected on the governmental funds balance sheet (Exhibit C) are operating funds due to the General Fund from the District's Food Service Fund and monies due the Food Service Fund from the General Fund for subsidies deposited to the General Fund account. These inter-fund obligations have been eliminated in the government-wide statement of net position. At June 30, 2020 the Food Service Fund owed the General Fund a net amount of \$15,035. During the fiscal year 2019-2020 a transfer in the amount of \$209 was made from the Debt Service Fund to the General Fund.

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 8 - CAPITAL ASSETS**

A summary of the governmental fixed asset activity for the 2019-2020 fiscal year was as follows:

|                                                        | <u>Balance<br/>7/1/2019</u> | <u>Additions</u>      | <u>Deletions</u> | <u>Balance<br/>6/30/2020</u> |
|--------------------------------------------------------|-----------------------------|-----------------------|------------------|------------------------------|
| <b>Governmental Activities</b>                         |                             |                       |                  |                              |
| Land                                                   | \$ 400,450                  | \$ -                  | \$ -             | \$ 400,450                   |
| Site Improvements                                      | 3,968,170                   | -                     | -                | 3,968,170                    |
| Building and Improvements                              | 55,222,248                  | -                     | -                | 55,222,248                   |
| Furniture and Equipment                                | 7,406,616                   | 105,353               | -                | 7,511,969                    |
| Vehicles                                               | 279,669                     | -                     | -                | 279,669                      |
|                                                        | <u>\$ 67,277,153</u>        | <u>\$ 105,353</u>     | <u>\$ -</u>      | <u>\$ 67,382,506</u>         |
| <b>Less: Accumulated depreciation</b>                  |                             |                       |                  |                              |
| Site Improvements                                      | \$ (2,332,371)              | \$ (142,333)          | -                | \$ (2,474,704)               |
| Building and Improvements                              | (26,178,462)                | (1,168,489)           | -                | (27,346,951)                 |
| Furniture and Equipment                                | (6,718,585)                 | (138,437)             | -                | (6,857,022)                  |
| Vehicles                                               | (232,284)                   | (7,768)               | -                | (240,052)                    |
|                                                        | <u>\$ (35,461,702)</u>      | <u>\$ (1,457,027)</u> | <u>\$ -</u>      | <u>\$ (36,918,729)</u>       |
| <b>Governmental Activities<br/>Capital Assets, Net</b> | <u>\$ 31,815,451</u>        | <u>\$ (1,351,674)</u> | <u>\$ -</u>      | <u>\$ 30,463,777</u>         |

A summary of the business-type fixed asset activity for the 2019-2020 fiscal year was as follows:

|                                                         | <u>Balance<br/>7/1/2019</u> | <u>Additions</u>   | <u>Deletions</u> | <u>Balance<br/>6/30/2020</u> |
|---------------------------------------------------------|-----------------------------|--------------------|------------------|------------------------------|
| <b>Business-Type Activities</b>                         |                             |                    |                  |                              |
| Furniture and Equipment                                 | \$ 1,338,070                | \$ 4,770           | \$ -             | \$ 1,342,840                 |
| Less: Accumulated Depreciation                          | (1,051,716)                 | (45,662)           | -                | (1,097,378)                  |
| <b>Business-Type Activities<br/>Capital Assets, Net</b> | <u>\$ 286,354</u>           | <u>\$ (40,892)</u> | <u>\$ -</u>      | <u>\$ 245,462</u>            |

Depreciation expense was charged to governmental functions as follows:

|                                               |                     |
|-----------------------------------------------|---------------------|
| Instruction                                   | \$ 1,027,171        |
| Instructional Student Support                 | 76,640              |
| Administrative and Financial Support Services | 168,147             |
| Operation and Maintenance of Plant Services   | 119,036             |
| Transportation                                | 27,312              |
| Student Activities                            | 34,129              |
| Community Services                            | 4,592               |
|                                               | <u>\$ 1,457,027</u> |

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 9 - LONG-TERM LIABILITIES**

**GENERAL OBLIGATION BONDS – REFUNDING SERIES OF 2013**

In February of 2013, the Southmoreland School District issued General Obligation Bonds, Refunding Series of 2013 in the amount of \$9,995,000 to 1) advance refund a portion of the District's outstanding General Obligation Bonds, Series of 2005 and, 2) pay the costs of issuing the Bonds. The Bonds were issued in denominations of \$5,000 with interest payable on April 1 and October 1 each year through maturity. Interest rates range between .375% and 2.7% with the Bonds scheduled to mature on April 1, 2029. The Bonds provide for early redemption options for the school district as more fully described in the detailed Official Statement. On January 27, 2020 the District refunded \$8,935,000 of the outstanding debt through the issuance of General Obligation Note – Refunding Series of 2020A. The remaining balance outstanding at June 30, 2020 was \$120,000 which will mature on April 1, 2021.

**GENERAL OBLIGATION BONDS – REFUNDING SERIES B OF 2014**

In April of 2014, the Southmoreland School District issued General Obligation Bonds, Refunding Series B of 2014 in the amount of \$6,320,000. The purpose of the Series B bond issue was to 1) advance refund the outstanding portion of the District's General Obligation Bonds, Series of 2005, 2) to provide funds for a portion of the District's capital improvement projects and, 3) pay the costs of issuing the bonds. The Bonds were issued in denominations of \$5,000 with interest payable on April 1 and October 1 each year through maturity. Interest rates on the Series B Bonds range between .35% and 4.00% with the Bonds scheduled to mature on April 1, 2022.

**DEFAULT PROVISIONS – GENERAL OBLIGATION BONDS**

In the event of failure of the School District to pay or cause to be paid the interest on or principal of the Bonds, as the same becomes due and payable, the holders of the Bonds shall be entitled to certain remedies provided by the Local Government Unit Debt Act. Among the remedies, if the failure to pay shall continue for 30 days, holders of the Bonds shall have the right to recover the amount due by bringing an action in assumpsit in the Court of Common Pleas of Westmoreland County. The Act provides any judgement shall have an appropriate priority upon the funds next coming into the treasury of the School District. The Act also provides that upon a default of at least 30 days, holders of at least 25 percent of the Bonds may appoint a trustee to represent them. The Act provides certain other remedies in the event of default, and further qualifies the remedies described.

A summary of the Southmoreland School District's general obligation bonds outstanding at June 30, 2020 is as follows:

| <b>Year End<br/>June 30,</b> | <b>2013<br/>Principal</b> | <b>2014B<br/>Principal</b> | <b>Total<br/>Interest</b> | <b>Total</b>               |
|------------------------------|---------------------------|----------------------------|---------------------------|----------------------------|
| 2021                         | \$ 120,000                | \$ 1,915,000               | \$ 108,400                | \$ 2,143,400               |
| 2022                         | -                         | 735,000                    | 29,400                    | \$ 764,400                 |
|                              | <b><u>\$ 120,000</u></b>  | <b><u>\$ 2,650,000</u></b> | <b><u>\$ 137,800</u></b>  | <b><u>\$ 2,907,800</u></b> |

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 9 - LONG-TERM LIABILITIES (Continued)**

In connection with the District's various General Obligation Bond Issues the District entered into irrevocable trust agreements to purchase U.S. Government Securities in an amount sufficient to fully service the defeased General Obligation Bond Issue debt as they mature or are called. For financial reporting purposes, these debt obligations are considered defeased and therefore removed as a liability from the District's financial statements. The difference between the District's defeased debt and the reacquisition price (amounts deposited with escrow agent for refunding purposes) is considered 'deferred interest' and is being amortized over the life of the new bond issues. The remaining amount of deferred interest on refunding totaling \$928,867 is reflected as 'deferred outflows of resources' on the government-wide statement of net position. Total amortization for the 2019 - 2020 fiscal year was \$221,163 and was charged to the 'Interest on Long-Term Debt' expense category in the statement of activities.

The School District paid bond discount costs in connection with its various outstanding general obligation bond issues totaling \$360,591. These costs are being amortized on a straight-line basis over the life of the bond issues. The un-amortized amount of bond discount totaling \$9,756 is reflected as a component of 'Bonds Payable – Long-Term Portion (Net)' in the governmental activities' column on the government-wide statement of net position. Amortization expense on bond discount for the year ended June 30, 2020 was \$182,254. This amount was charged to the 'Interest on Long-Term Debt' expense category in the statement of activities.

The School District's various general obligation bond issues were issued at premiums totaling \$597,696. These premiums are being accreted as a component of interest expense on a straight-line basis over the life of the bond issues. The un-accreted amount of bond premiums totaling \$132,088 is reflected as a component of 'Bonds Payable – Long-Term Portion (Net)' in the governmental activities' column on the government-wide statement of net position. Premium accretion for the year ended June 30, 2020 was \$75,504. This amount was credited to the 'Interest on Long-Term Debt' expense category in the statement of activities.

**DIRECT BORROWINGS:**

**GENERAL OBLIGATION NOTE – REFUNDING SERIES OF 2020**

On January 9, 2020, the Southmoreland School District issued General Obligation Note – Refunding Series of 2020 to the Branch Banking & Trust Company (BB&T) totaling \$9,675,000. The note was used to currently refund the School District's outstanding General Obligation Bonds, Refunding Series of 2012, and to pay the costs of issuing the Note. The interest rate on the note is 2.39% payable on April 1 and October 1 each year through maturity. The note is scheduled to mature on April 1, 2027 and provides for redemption prior to maturity as detailed in the general obligation note agreement.

**GENERAL OBLIGATION NOTE – REFUNDING SERIES OF 2020 A**

On January 27, 2020, the Southmoreland School District issued General Obligation Note – Refunding Series of 2020A to the Webster Public Finance Corporation totaling \$9,041,000. The note was used to currently refund a portion of the School District's outstanding General Obligation Bonds, Refunding Series of 2013, and to pay the costs of issuing the Note. The interest rate on the note is 2.228% payable on April 1 and October 1 each year through maturity. The note is scheduled to mature on April 1, 2029 and provides for redemption prior to maturity as detailed in the general obligation note agreement.

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 9 - LONG-TERM LIABILITIES (Continued)**

**DIRECT BORROWINGS: (Continued)**

**DEFAULT PROVISIONS – GENERAL OBLIGATION NOTES**

The School District irrevocably pledges its full faith, credit and available taxing power for payment of the Notes. In the event of default as defined in Section 11 of the Loan Agreements between the School District and Branch Banking & Trust Company (BB&T) and Webster Public Finance Corporation, at the option of either BB&T and Webster Public Finance Corporation, the Notes will bear interest at the default rate from the date of occurrence of the event of default, and BB&T and/or Webster Public Finance Corporation may exercise from time to time any other rights and remedies available under the loan documents, the Local Government Unit Debt Act, and/or any other laws.

A summary of the Southmoreland School District's general obligation notes outstanding at June 30, 2020 is as follows:

| Year End<br>June 30, | 2020<br>Principal   | 2020A<br>Principal  | Total<br>Interest   | Total                |
|----------------------|---------------------|---------------------|---------------------|----------------------|
| 2021                 | \$ 199,000          | \$ 11,000           | \$ 425,394          | \$ 635,394           |
| 2022                 | 204,000             | 1,386,000           | 420,393             | 2,010,393            |
| 2023                 | 168,000             | 2,256,000           | 384,638             | 2,808,638            |
| 2024                 | 1,118,000           | 1,361,000           | 330,358             | 2,809,358            |
| 2025                 | 2,520,000           | 16,000              | 273,315             | 2,809,315            |
| 2026-2029            | 5,227,000           | 3,941,000           | 477,356             | 9,645,356            |
|                      | <b>\$ 9,436,000</b> | <b>\$ 8,971,000</b> | <b>\$ 2,311,454</b> | <b>\$ 20,718,454</b> |

The following represents the changes in the District's long-term liabilities during the 2019-2020 fiscal year:

|                                                 | Balance<br>7/1/2019  | Additions            | Reductions           | Balance<br>6/30/2020 | Due Within<br>One Year |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|------------------------|
| General Obligation Bonds                        | \$ 23,220,000        | \$ -                 | \$ 20,450,000        | \$ 2,770,000         | \$ 2,035,000           |
| Direct Borrowings - General<br>Obligation Notes | -                    | 18,716,000           | 309,000              | 18,407,000           | 210,000                |
| Compensated Absences                            | 766,184              | -                    | 9,696                | 756,488              | -                      |
| Retirement Incentives                           | 1,144,000            | -                    | 304,000              | 840,000              | 304,000                |
| Net Pension Liability                           | 43,877,000           | -                    | 837,000              | 43,040,000           | -                      |
| Total OPEB Liability                            | 4,097,879            | 157,187              | -                    | 4,255,066            | -                      |
|                                                 | <b>\$ 73,105,063</b> | <b>\$ 18,873,187</b> | <b>\$ 21,909,696</b> | <b>\$ 70,068,554</b> | <b>\$ 2,549,000</b>    |

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 10 – PENSION PLAN**

**PSERS**

The Southmoreland School District participates in the Public School Employees' Retirement System (PSERS). PSERS is a component unit of the Commonwealth of Pennsylvania. A brief description of the plan, and summary of the plan's provisions, are as follows:

**Plan Description**

PSERS is a governmental cost-sharing multiple-employer defined-benefit 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.state.pa.us](http://www.psers.state.pa.us).

**Benefits Provided**

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with a least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than ninety-two with a minimum of thirty-five years of service.

Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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



**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 10 – PENSION PLAN (Continued)**

**Contribution Rates**

**Member Contributions** - Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.5% (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 6.25% (Membership Class T-C) or at 7.5% (Membership Class T-D) of the members qualifying compensation.

Members who joined the System after June 30, 2001 and before June 1, 2011, contribute at 7.5% (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 10.30% (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 years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.30%.

**Employer Contributions** – Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2020, the rate of employer's contribution was 33.45% (33.36% employer pension rate and .09% Act 5 defined contribution rate) of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the employer were \$4,075,104 for the year ended June 30, 2020.

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

At June 30, 2020, the School District reported a liability of \$43,040,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2018 to June 30, 2019. The School 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 measurement date), the School District's proportion was .0920% which was an increase of .0006% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the School District recognized pension expense of \$4,871,254. At June 30, 2020, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 10 – PENSION PLAN (Continued)**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

|                                                                 | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|-----------------------------------------------------------------|-------------------------------------------|------------------------------------------|
| Difference between expected and actual experience               | \$ 237,000                                | \$ 1,427,000                             |
| Changes in assumptions                                          | 411,000                                   | -                                        |
| Net difference between projected and actual investment earnings | -                                         | 123,000                                  |
| Changes in proportions                                          | 831,000                                   | 585,000                                  |
| Contributions subsequent to the measurement date                | 4,075,104                                 | -                                        |
|                                                                 | <u>\$ 5,554,104</u>                       | <u>\$ 2,135,000</u>                      |

The \$4,075,104 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

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

| <u>Measurement<br/>Date<br/>Year ended<br/>June 30,</u> | <u>Reporting<br/>Date<br/>Year ended<br/>June 30,</u> | <u>Amount</u> |
|---------------------------------------------------------|-------------------------------------------------------|---------------|
| 2020                                                    | 2021                                                  | \$ 141,000    |
| 2021                                                    | 2022                                                  | (511,000)     |
| 2022                                                    | 2023                                                  | (362,000)     |
| 2023                                                    | 2024                                                  | 76,000        |

**Actuarial Assumptions**

The total pension liability as of June 30, 2019 was determined by rolling forward the System's total pension liability as of the June 30, 2018 to June 30, 2019 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.25%, includes inflation at 2.75%
- Salary growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases
- Mortality rates were 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, 2019 valuation were based on the results of an actuarial experience study that was performed for the five-year period ending June 30, 2015.

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 10 – PENSION PLAN (Continued)**

**Investment Asset Allocation**

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

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

| <u>Asset Class</u>      | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-------------------------|--------------------------|-----------------------------------------------|
| Global public equity    | 20.0%                    | 5.60%                                         |
| Fixed Income            | 36.0%                    | 1.90%                                         |
| Commodities             | 8.0%                     | 2.70%                                         |
| Absolute return         | 10.0%                    | 3.40%                                         |
| Risk parity             | 10.0%                    | 4.10%                                         |
| Infrastructure/MLP's    | 8.0%                     | 5.50%                                         |
| Real estate             | 10.0%                    | 4.10%                                         |
| Alternative investments | 15.0%                    | 7.40%                                         |
| Cash                    | 3.0%                     | 0.30%                                         |
| Financing (LIBOR)       | -20.0%                   | 0.70%                                         |
|                         | <u>100%</u>              |                                               |

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2019.

**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

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

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

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 10 – PENSION PLAN (Continued)**

**Sensitivity of the School’s proportionate share of the net pension liability to changes in the discount rate (Continued)**

|                                                                       | <b>1%<br/>Decrease</b> | <b>Current<br/>Discount<br/>Rate</b> | <b>1%<br/>Increase</b> |
|-----------------------------------------------------------------------|------------------------|--------------------------------------|------------------------|
|                                                                       | <b>6.25%</b>           | <b>7.25%</b>                         | <b>8.25%</b>           |
| School District’s proportionate share of<br>the net pension liability | <b>\$ 53,611,000</b>   | <b>\$ 43,040,000</b>                 | <b>\$ 34,089,000</b>   |

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

**NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION**

**PSERS – HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM**

**General Information about the Health Insurance Premium Assistance Program**

PSERS 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.

**Premium Assistance Eligibility Criteria**

Retirees of the System (PSERS) 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

**Plan Description**

Southmoreland School District employees participate in the PSERS – Health Insurance Premium Assistance program, which is a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. 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.state.pa.us](http://www.psers.state.pa.us).

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

**PSERS – HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM (Continued)**

**Benefits Provided**

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance eligible retirees must obtain their health insurance coverage through either their school employer or PSER's Health Options Program. As of June 30, 2019, there were no assumed future benefit increases to participating eligible retirees.

**Contributions**

The District's contractually required contribution for the fiscal year ended June 30, 2020 was 0.84% 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. During the 2019-2020 fiscal year, the Southmoreland School District contributed \$102,334 to the premium assistance program.

**OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

At June 30, 2020, the District reported a liability of \$1,957,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, 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, 2018 to June 30, 2019. 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 measurement date), the School District's proportion was .0920% which was an increase of .0006% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, Southmoreland School District recognized OPEB expense of \$103,305. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|                                                             | <b>Deferred Outflows<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
|-------------------------------------------------------------|-------------------------------------------|------------------------------------------|
| Difference between expected and actual experience           | \$ 11,000                                 | \$ 58,000                                |
| Difference between projected and actual investment earnings | 3,000                                     | -                                        |
| Changes in proportions                                      | 53,000                                    | 18,000                                   |
| Changes in assumptions                                      | 65,000                                    | -                                        |
| Contributions subsequent to the measurement date            | 102,334                                   | -                                        |
|                                                             | <b>\$ 234,334</b>                         | <b>\$ 76,000</b>                         |

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

**PSERS – HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM (Continued)**

**OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)**

The \$102,334 reported as deferred outflows of resources related to OPEB resulted from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the measurement year ended June 30, 2020.

Other amounts reported as deferred inflows/outflows of resources related to OPEB will be recognized in OPEB expense as follows:

| <b>Date</b>       | <b>Date</b>       | <b>Amortization</b> |
|-------------------|-------------------|---------------------|
| <b>Year ended</b> | <b>Year ended</b> | <b>Amount</b>       |
| <b>June 30,</b>   | <b>June 30,</b>   | <b>Amount</b>       |
| 2020              | 2021              | \$ 9,000            |
| 2021              | 2022              | 9,000               |
| 2022              | 2023              | 9,000               |
| 2023              | 2024              | 8,000               |
| 2024              | 2025              | 12,000              |
| Thereafter        | Thereafter        | 9,000               |

**Actuarial assumptions**

The Total OPEB liability as of June 30, 2019, was determined by rolling forward the System's Total OPEB Liability as of June 30, 2018 to June 30, 2019 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial Cost Method – Entry Age Normal – level % of pay
- Investment Return – 2.79% based on the S&P 20 Year Municipal Bond Rate.
- Salary Increases – 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%

**Investment Asset Allocation**

Investments consist primarily of short-term assets designed to protect the principal of 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.

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

**PSERS – HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM (Continued)**

**Investment Asset Allocation (Continued)**

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.

| <u>Asset Class</u>     | <u>Target<br/>Allocation</u> | <u>Long-Term<br/>Expected Real<br/>Rate of Return</u> |
|------------------------|------------------------------|-------------------------------------------------------|
| Cash                   | 13.2%                        | 0.20%                                                 |
| U.S. Core Fixed Income | 83.1%                        | 1.00%                                                 |
| Non-US Developed Fixed | 3.7%                         | 0.00%                                                 |
|                        | 100%                         |                                                       |

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2019.

**Discount Rate**

The discount rate used to measure the Total OPEB Liability was 2.79%. 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 2.79% which represents the S&P 20-year Municipal Bond Rate at June 30, 2019, was applied to all projected benefit payments to measure the total OPEB liability.

**Sensitivity of the Net OPEB liability to changes in the Discount Rate**

The following presents the net OPEB liability, calculated using the discount rate of 2.79%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (1.79%) or 1-percentage-point higher (3.79%) than the current rate:

|                    | <u>1%<br/>Decrease<br/>1.79%</u> | <u>Current Discount<br/>Rate<br/>2.79%</u> | <u>1%<br/>Increase<br/>3.79%</u> |
|--------------------|----------------------------------|--------------------------------------------|----------------------------------|
| Net OPEB Liability | <u>\$ 2,229,000</u>              | <u>\$ 1,957,000</u>                        | <u>\$ 1,731,000</u>              |

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

**PSERS – HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM (Continued)**

**Sensitivity 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, 2019, retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2019, 93,339 retirees were receiving the maximum amount allowed of \$1,200 per year and 780 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on Healthcare Cost Trends as depicted below.

The following presents the net OPEB liability of the District as of the June 30 2019 measurement date, calculated using current Healthcare cost trends as well as what the District net OPEB liability would be if its health cost trends were 1-percentage point lower or 1-percentage-point higher than the current healthcare cost trend rate:

|                    | 1%<br>Decrease | Current<br>Trend<br>Rates | 1%<br>Increase |
|--------------------|----------------|---------------------------|----------------|
| Net OPEB Liability | \$ 1,956,000   | \$ 1,957,000              | \$ 1,957,000   |

**OPEB plan fiduciary net position**

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

**DISTRICT – POST-RETIREMENT HEALTHCARE BENEFIT PLAN**

**Plan Description**

The Southmoreland School District provides post-employment medical benefits to eligible Administrators, Secretaries, the District's Business Manager, and the District Superintendent as follows:

- Administrators and Business Manager – Medical benefits are provided for a period of 6 years regardless of age. To be eligible, participants must have 1) reached age 62 and/or be employed by the School District for the last 8 years, or employed at least 25 years in a retirement system, with the last 8 years at the School District. The School District will pay the rate in effect at the date of retirement and the retiree is responsible for any increased costs.



**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

**DISTRICT – POST-RETIREMENT HEALTHCARE BENEFIT PLAN (Continued)**

**Plan Description (Continued)**

- Secretaries – Eligible participants receive a continuation of medical benefits coverage that was in effect at retirement for a period of 6 years regardless of age. To be eligible, participants must meet one of the following four criteria – 1) reached age 60, employed for a minimum of 10 continuous years, and employed by the School District for 20 years, and 20 years in PSERS, 2) reached age 55 and employed within PSERS for 25 years, 3) employed at least 30 years with the School District, or 4) employed at least 10 consecutive years with the School District and 30 years within PSERS. The School District will be responsible for payment of the insurance premium during the first three years of retirement, with the retiree still paying the copay in effect for active employees. After the third year, the rate is set for the next three years at the current rate and the retiree will be responsible for paying and increases in premiums.

The single-employer retiree benefit plan ('the Plan') was established by the authority of the Southmoreland School District Board of Education. The plan is unfunded and does not issue a publicly available financial report. These benefits are accounted for in accordance with GASB Statement No. 75, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions.

**Funding Policy**

The contribution requirements of plan members and the School District are as stated above. The plan is funded on a pay-as-you-go basis, i.e., premiums are paid to fund the health care benefits provided to current retirees. There are no assets that have been segregated and restricted to provide for retiree medical benefits. During the 2019 - 2020 fiscal year, the Southmoreland School District contributed \$80,520 for seven (7) participants.

**Participant Data**

Employees covered by benefit terms as of the July 1, 2019 actuarial valuation were as follows:

|           | <b>PARTICIPANT<br/>DATA</b> |
|-----------|-----------------------------|
| Actives   | 139                         |
| Inactives | 15                          |
| Total     | 154                         |

**Changes in the Total OPEB Liability**

The District's total OPEB liability of \$2,298,066 was measured as of July 1, 2019, and was determined by an actuarial valuation performed as of July 1, 2019. As the District's OPEB Plan is unfunded, the total OPEB liability is equal to the net OPEB liability.

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

**DISTRICT – POST-RETIREMENT HEALTHCARE BENEFIT PLAN (Continued)**

**Changes in the Total OPEB Liability (Continued)**

|                                                    |  |                            |
|----------------------------------------------------|--|----------------------------|
| <b>Balance at July 1, 2019</b>                     |  | \$ 2,191,879               |
| <b>Changes for the year:</b>                       |  |                            |
| Service cost                                       |  | 108,415                    |
| Interest                                           |  | 84,826                     |
| Changes of benefit terms                           |  | -                          |
| Differences between expected and actual experience |  | 75,740                     |
| Changes in assumptions or other inputs *           |  | 27,409                     |
| Benefit payments                                   |  | <u>(190,203)</u>           |
| Net Changes                                        |  | 106,187                    |
| <b>Balance at June 30, 2020</b>                    |  | <b><u>\$ 2,298,066</u></b> |

**Actuarial Assumptions**

- Cost Method – Entry Age Normal as a Level Percentage of Pay.
- Discount Rate – 3.50% based on the Bond Buyers 20-Bond Index.
- Salary Increases – 2.50%.
- Inflation Rate – 3.00%
- Healthcare Trend – 2020-2021 fiscal year 6.75% decreasing on a graduated basis to 4.5% for fiscal years 2029-2030 and later.
- Disability – None assumed.
- Plan Participation of Future Retirees: It is assumed that 100% of eligible Administrators and Support Staff, and 50% of eligible Teachers will participate in the retiree medical program.
- Percent of Future Retirees Who Will Elect to Cover a Spouse at Retirement - 50% of eligible Administrators and Support Staff, and 25% of eligible Teachers.
- Age Difference in Spouses: Females are assumed to be 3 years younger than males.
- Mortality Rates – RPH-2014 Total Dataset Mortality Table projected using the Scale MP-2018.

**OPEB Expense for the Fiscal Year Ended June 30, 2020**

|                                                    |           | <b><u>AMOUNT</u></b>  |
|----------------------------------------------------|-----------|-----------------------|
| Service cost                                       | \$        | 108,415               |
| Interest                                           |           | 84,826                |
| Changes of benefit terms                           |           | -                     |
| Differences between expected and actual experience |           | 15,423                |
| Changes of assumptions or other inputs             |           | 15,304                |
| Benefit payments                                   |           | -                     |
| <b>OPEB Expense</b>                                | <b>\$</b> | <b><u>223,968</u></b> |

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

**DISTRICT – POST-RETIREMENT HEALTHCARE BENEFIT PLAN (Continued)**

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

For the year ended June 30, 2020, Southmoreland School District recognized OPEB expense of \$132,438. At June 30, 2020, the District report deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|                                                       | <b>Deferred Outflows<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
|-------------------------------------------------------|-------------------------------------------|------------------------------------------|
| Differences between expected<br>and actual experience | \$ 180,476                                | \$ -                                     |
| Changes of assumptions or other inputs                | 197,619                                   | 27,670                                   |
| Benefit payments after measurement date               | 172,050                                   | -                                        |
|                                                       | <b>\$ 550,145</b>                         | <b>\$ 27,670</b>                         |

The \$172,050 reported as deferred outflows of resources related to OPEB resulted from District benefit payments subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the measurement year ended June 30, 2020.

Other amounts reported as deferred inflows/outflows of resources related to OPEB will be recognized in OPEB expense as follows:

| <b>Year ended<br/>June 30,</b> | <b>Amortization<br/>Amount</b> |
|--------------------------------|--------------------------------|
| 2021                           | \$ 30,727                      |
| 2022                           | 30,727                         |
| 2023                           | 30,727                         |
| 2024                           | 30,727                         |
| 2025                           | 30,727                         |
| 2026 and beyond                | 196,790                        |

**Sensitivity of the total OPEB liability to changes in the Discount Rate**

The following is the Total OPEB Liability to the District, as well as the Total OPEB Liability using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

|                      | <b>1%<br/>Decrease<br/>2.50%</b> | <b>Current<br/>Discount<br/>Rate<br/>3.50%</b> | <b>1%<br/>Increase<br/>4.50%</b> |
|----------------------|----------------------------------|------------------------------------------------|----------------------------------|
| Total OPEB Liability | <b>\$ 2,376,499</b>              | <b>\$ 2,298,066</b>                            | <b>\$ 2,184,753</b>              |

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

**DISTRICT – POST-RETIREMENT HEALTHCARE BENEFIT PLAN (Continued)**

**Sensitivity of the total OPEB liability to changes in the Healthcare Cost Trend Rates**

The following is the Total OPEB Liability to the District, as well as the Total OPEB Liability using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

|                      | <b>1%</b>           | <b>Current</b>      | <b>1%</b>           |
|----------------------|---------------------|---------------------|---------------------|
|                      | <b>Decrease</b>     | <b>Trend</b>        | <b>Increase</b>     |
|                      | <b>Rates</b>        | <b>Rates</b>        | <b>Rates</b>        |
| Total OPEB Liability | <b>\$ 2,121,409</b> | <b>\$ 2,298,066</b> | <b>\$ 2,499,444</b> |

**NOTE 12 – JOINTLY GOVERNED ORGANIZATIONS**

**CENTRAL WESTMORELAND CAREER AND TECHNOLOGY CENTER**

The Southmoreland School District, in conjunction with nine other School Districts, funds the operating and capital budget of the Central Westmoreland Career and Technology Center. The Technology Center is designed to teach students trade related professions. Each district's share of tuition is based on the percentage of the district's enrollment to the total enrollment at the Central Westmoreland Career and Technology Center. The School District paid \$343,234 to the Career and Technology Center during the 2019-2020 fiscal year. A representative from each district's school board sits on the board of the Technology Center. Financial information can be obtained by contacting the Technology Center's business office at 240 Arona Road, New Stanton, Pa. 15672.

**WESTMORELAND INTERMEDIATE UNIT #7**

The Southmoreland School District participates with 16 other School Districts and 3 Vocational-Technical schools located in Westmoreland County in the Westmoreland County Intermediate Unit #7. The Intermediate Unit was established in 1971 by Act 102 of the Commonwealth of Pennsylvania to function as a regional educational service agency for 17 school districts, as well as nonpublic schools and other institutions, located within Westmoreland County. The Intermediate Unit provides services relative to curriculum development, continuing education, educational planning, instructional materials, pupil personnel, state and federal agency liaison and managerial oversight. Financial information can be obtained by contacting the Intermediate Unit's business office at 102 Equity Drive, Greensburg, Pa. 15601.

**NOTE 13 – OPERATING LEASES**

In December of 2016, the Southmoreland School District entered into a lease agreement with Xerox Financial Services, LLC for multi-function copier equipment. The terms of the lease call for the monthly payment of \$10,588.39 for a period of 48 months scheduled to expire in January of 2021. During the 2019 -2020 fiscal year, the District paid approximately \$127,061 in lease payments for copier equipment.

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 13 – OPERATING LEASES (Continued)**

In August of 2019, the Southmoreland School District entered into a lease agreement with Secap Finance for mailing equipment. The terms of the lease call for the monthly payment of \$494.55 for a period of 63 months scheduled to expire in November of 2024. During the 2019 - 2020 fiscal year, the District paid approximately \$2,917 in lease payments for mailing equipment.

The remaining minimum lease rental payments due on this equipment as of June 30, 2020 are:

| <u>YEAR ENDED</u> | <u>AMOUNT</u>     |
|-------------------|-------------------|
| 6/30/2021         | \$ 80,054         |
| 6/30/2022         | 5,935             |
| 6/30/2023         | 5,935             |
| 6/30/2024         | 5,935             |
| 6/30/2025         | 2,473             |
|                   | <u>\$ 100,332</u> |

**NOTE 14 - RISK MANAGEMENT**

**GENERAL INSURANCE**

The Southmoreland School District is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

**HEALTH INSURANCE**

The Southmoreland School District is one of twenty members of the Westmoreland County Public School Healthcare Consortium, a public entity risk pool designed to administer health and medical insurance risks on a pooled basis. The school district paid an annual premium (\$2,793,918 for 2019-2020) in monthly installments to the Consortium for its health and medical insurance coverage, which is subject to an annual settlement based on claims experience. As the Consortium is self-insured, rates are established with the objective of satisfying estimated claims and other costs, as well as maintaining working capital requirements.

Participating school districts are permitted to withdraw from the Consortium under terms specified in the agreement. Withdrawing participants are entitled to, or responsible for, a proportionate share of the Consortium's net position, as determined on the fiscal year-end date after withdrawal. As of June 30, 2020, the District's share of the Consortium's undesignated fund balance was \$299,575.

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 15 – CONTINGENCIES**

The Southmoreland School District's state and federally funded programs are subject to program compliance audits by various governmental agencies. The audit scopes of these program compliance audits are different than the scope of financial audits performed by an outside, independent certified public accounting firm. In February of 2021, the District received the results of a Performance Audit conducted by the Commonwealth of Pennsylvania Department of the Auditor General covering the period July 1, 2015 through June 30, 2019. The results of this audit identified three findings related to 1) contracted bus drivers, 2) inaccurate transportation data reported to PDE, and 3) the development of a required disaster response and emergency preparedness plan. The District is required to prepare and file a corrective action plan with Auditor General by April 23, 2021, with the recommendations required to be adopted by August 5, 2021. The District is potentially liable for any expenditure disallowed by the results of these program compliance audits. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

**NOTE 16 – LEGAL MATTERS**

The Southmoreland School District, in the normal course of operations, is party to various legal matters normally associated with school districts such as real estate tax assessment appeals, personnel wage and benefits, student education and athletics, construction projects, and other miscellaneous legal matters. With regard to real estate tax assessment appeals, these matters are currently at various stages of the legal process and legal counsel for the School District has recommended that a reserve of approximately \$51,000 for the 2019-2020 fiscal year, and \$83,000 for the 2020-2021 fiscal year, be set aside in the event the School District would receive an adverse legal decision with regard to these matters.

**NOTE 17 – SUBSEQUENT EVENTS**

In December of 2021, the District obtained Court approval to sell the Ruffsdale School Building with land to East Huntingdon Township. The District finalized the sale with the Township in January of 2021 for \$150,000.

Early in 2020, a new strain of the coronavirus (COVID-19) spread through China as well as other countries including the United States. The impact of the virus varies from region to region and from day to day, and any significant additional spreading of the virus could adversely affect the School District's business. The outbreak of the COVID-19 virus is likely to have a further negative impact in 2020-2021 on the global and local economy and, in the future, might impact the School District's financial results in 2020-2021 and beyond. Given the dynamic nature of this outbreak, however, the extent to which the COVID-19 virus impacts the School District's results will depend on future developments, which remain highly uncertain and cannot be predicted at this time. The District has been awarded COVID related funding totaling approximately \$1,894,888 from the Elementary and Secondary School Emergency Relief Fund (ESSER Fund and ESSER II Fund).

Management has determined that there are no events subsequent to June 30, 2020 through the March 12, 2021 date of the 'Independent Auditor's Report' date, which is the date the financial statements were available to be issued, that require additional disclosure in the financial statements.

**OTHER  
SUPPLEMENTARY  
INFORMATION**

**SOUTHMORELAND SCHOOL DISTRICT**  
**SCHEDULE OF GENERAL FUND REVENUES - FINAL BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2020**

|                                            | FINAL<br>BUDGET      | ACTUAL               | VARIANCE WITH<br>FINAL BUDGET<br>POSITIVE<br>(NEGATIVE) |
|--------------------------------------------|----------------------|----------------------|---------------------------------------------------------|
| <b>LOCAL SOURCES</b>                       |                      |                      |                                                         |
| Real Estate - Current                      | \$ 9,357,400         | \$ 9,304,039         | \$ (53,361)                                             |
| Real Estate - Interim                      | 108,400              | 24,192               | (84,208)                                                |
| Public Utility Tax                         | 11,005               | 9,912                | (1,093)                                                 |
| Payments in lieu of Taxes                  | 96,082               | 95,659               | (423)                                                   |
| Current 511 - LST                          | 45,000               | 42,734               | (2,266)                                                 |
| Wage Taxes                                 | 1,465,800            | 1,500,156            | 34,356                                                  |
| RE Transfer Tax                            | 169,251              | 178,408              | 9,157                                                   |
| Delinquent Real Estate Taxes               | 670,500              | 563,299              | (107,201)                                               |
| Delinquent Wage Taxes                      | 67,435               | 27,088               | (40,347)                                                |
| Interest                                   | 107,000              | 73,365               | (33,635)                                                |
| Admissions/Student Activity                | 32,800               | 44,082               | 11,282                                                  |
| Pay to Participate Fees                    | 15,000               | 11,676               | (3,324)                                                 |
| Federal Revenue Received From Other LEA    | 385                  | -                    | (385)                                                   |
| IDEA                                       | 365,688              | 360,732              | (4,956)                                                 |
| Rental                                     | 22,000               | 41,176               | 19,176                                                  |
| Contributions & Donations                  | 59,670               | 58,603               | (1,067)                                                 |
| Refund Prior Year Expense                  | 25,000               | 47,402               | 22,402                                                  |
| Other Revenues                             | 13,721               | 14,058               | 337                                                     |
| <b>TOTAL REVENUES FROM LOCAL SOURCES</b>   | <b>\$ 12,632,137</b> | <b>\$ 12,396,581</b> | <b>\$ (235,556)</b>                                     |
| <b>STATE SOURCES</b>                       |                      |                      |                                                         |
| Basic Subsidy                              | \$ 9,750,827         | \$ 9,750,809         | \$ (18)                                                 |
| Social Security                            | 496,115              | 481,449              | (14,666)                                                |
| Tuition - Orphans                          | 135,990              | 47,682               | (88,308)                                                |
| Special Education                          | 1,479,653            | 1,463,797            | (15,856)                                                |
| S.D. Transportation                        | 1,044,557            | 994,540              | (50,017)                                                |
| N.P. Transportation                        | 18,095               | 18,480               | 385                                                     |
| Plancon Projects                           | 760,107              | 754,585              | (5,522)                                                 |
| Health Services                            | 33,939               | 34,057               | 118                                                     |
| Property Tax Relief                        | 938,244              | 938,244              | -                                                       |
| Safe School Grant                          | 116,700              | 116,700              | -                                                       |
| Ready to Learn                             | 357,264              | 357,264              | -                                                       |
| PA Smart Grant                             | 35,000               | 28,823               | (6,177)                                                 |
| Retirement                                 | 2,536,725            | 2,417,914            | (118,811)                                               |
| <b>TOTAL REVENUES FROM STATE SOURCES</b>   | <b>\$ 17,703,216</b> | <b>\$ 17,404,344</b> | <b>\$ (298,872)</b>                                     |
| <b>FEDERAL SOURCES</b>                     |                      |                      |                                                         |
| Title I                                    | \$ 433,923           | \$ 417,210           | \$ (16,713)                                             |
| Title II                                   | 70,922               | 70,124               | (798)                                                   |
| Title IV                                   | 32,416               | 42,532               | 10,116                                                  |
| <b>TOTAL REVENUES FROM FEDERAL SOURCES</b> | <b>\$ 537,261</b>    | <b>\$ 529,866</b>    | <b>\$ (7,395)</b>                                       |
| <b>OTHER FINANCING SOURCES</b>             |                      |                      |                                                         |
| Insurance Recoveries                       | \$ -                 | \$ 9,290             | \$ 9,290                                                |
| Interfund Transfers                        | -                    | 209                  | 209                                                     |
| <b>TOTAL OTHER FINANCING SOURCES</b>       | <b>\$ -</b>          | <b>\$ 9,499</b>      | <b>\$ 9,499</b>                                         |
| <b>TOTAL REVENUES</b>                      | <b>\$ 30,872,614</b> | <b>\$ 30,340,290</b> | <b>\$ (532,324)</b>                                     |

The accompanying notes are an integral part of these financial statements



**SCHEDULE 2**

**SOUTHMORELAND SCHOOL DISTRICT  
SCHEDULE OF GENERAL FUND EXPENDITURES - FINAL BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2020**

| <b>INSTRUCTION</b>                         | <b>FINAL<br/>BUDGET</b> | <b>ACTUAL</b>        | <b>VARIANCE WITH<br/>FINAL BUDGET<br/>POSITIVE<br/>(NEGATIVE)</b> |
|--------------------------------------------|-------------------------|----------------------|-------------------------------------------------------------------|
| <b>Regular Programs</b>                    |                         |                      |                                                                   |
| Personnel Services - Salaries              | \$ 7,331,625            | \$ 7,269,840         | \$ 61,785                                                         |
| Personnel Services - Employee Benefits     | 4,358,853               | 4,418,439            | (59,586)                                                          |
| Purchased Professional/Tech Services       | 348,785                 | 255,829              | 92,956                                                            |
| Purchased Property Services                | 92,710                  | 79,405               | 13,305                                                            |
| Other Purchased Services                   | 471,890                 | 696,304              | (224,414)                                                         |
| Supplies                                   | 699,315                 | 362,050              | 337,265                                                           |
| Property                                   | 1,125                   | -                    | 1,125                                                             |
| Other Objects                              | 3,161                   | 1,525                | 1,636                                                             |
| <b>Total Regular Programs</b>              | <b>\$ 13,307,464</b>    | <b>\$ 13,083,392</b> | <b>\$ 224,072</b>                                                 |
| <b>Special Programs</b>                    |                         |                      |                                                                   |
| Personnel Services - Salaries              | \$ 1,499,466            | \$ 1,476,913         | \$ 22,553                                                         |
| Personnel Services - Employee Benefits     | 899,239                 | 955,712              | (56,473)                                                          |
| Purchased Professional/Tech Services       | 933,250                 | 642,431              | 290,819                                                           |
| Other Purchased Services                   | 817,400                 | 766,684              | 50,716                                                            |
| Supplies                                   | 13,054                  | 9,062                | 3,992                                                             |
| Other Objects                              | 5,155                   | 725                  | 4,430                                                             |
| <b>Total Special Programs</b>              | <b>\$ 4,167,564</b>     | <b>\$ 3,851,527</b>  | <b>\$ 316,037</b>                                                 |
| <b>Vocational Education Programs</b>       |                         |                      |                                                                   |
| Other Purchased Services                   | \$ 299,812              | \$ 343,024           | \$ (43,212)                                                       |
| <b>Total Vocational Education Programs</b> | <b>\$ 299,812</b>       | <b>\$ 343,024</b>    | <b>\$ (43,212)</b>                                                |
| <b>Other Instructional Programs</b>        |                         |                      |                                                                   |
| Personnel Services - Salaries              | \$ 3,500                | \$ 1,288             | \$ 2,212                                                          |
| Personnel Services - Employee Benefits     | 268                     | 544                  | (276)                                                             |
| Purchased Professional/Tech Services       | 110,750                 | 29,134               | 81,616                                                            |
| Other Purchased Services                   | 184,250                 | 152,535              | 31,715                                                            |
| Supplies                                   | 100                     | -                    | 100                                                               |
| <b>Total Other Instructional Programs</b>  | <b>\$ 298,868</b>       | <b>\$ 183,501</b>    | <b>\$ 115,367</b>                                                 |
| <b>Non Public-School Programs</b>          |                         |                      |                                                                   |
| Purchased Professional Services            | \$ 2,000                | \$ 1,723             | \$ 277                                                            |
| <b>Total Non-Public School Programs</b>    | <b>\$ 2,000</b>         | <b>\$ 1,723</b>      | <b>\$ 277</b>                                                     |
| <b>TOTAL INSTRUCTION</b>                   | <b>\$ 18,075,708</b>    | <b>\$ 17,463,167</b> | <b>\$ 612,541</b>                                                 |

The accompanying notes are an integral part of these financial statements

**SCHEDULE 2**

**SOUTHMORELAND SCHOOL DISTRICT**  
**SCHEDULE OF GENERAL FUND EXPENDITURES - FINAL BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2020**

|                                           | <u>FINAL<br/>BUDGET</u> | <u>ACTUAL</u>       | <u>VARIANCE WITH<br/>FINAL BUDGET<br/>POSITIVE<br/>(NEGATIVE)</u> |
|-------------------------------------------|-------------------------|---------------------|-------------------------------------------------------------------|
| <b><u>SUPPORT SERVICES</u></b>            |                         |                     |                                                                   |
| <b>Pupil Personnel</b>                    |                         |                     |                                                                   |
| Personal Services - Salaries              | \$ 413,519              | \$ 412,342          | \$ 1,177                                                          |
| Personal Services - Employee Benefits     | 261,259                 | 265,687             | (4,428)                                                           |
| Purchased Professional/Technical Services | 47,250                  | 42,678              | 4,572                                                             |
| Purchased Property Services               | 6,300                   | 6,254               | 46                                                                |
| Other Purchased Services                  | 8,624                   | 4,555               | 4,069                                                             |
| Supplies                                  | 20,324                  | 4,993               | 15,331                                                            |
| Other Objects                             | 1,038                   | 478                 | 560                                                               |
| <b>Total Pupil Personnel</b>              | <b>\$ 758,314</b>       | <b>\$ 736,987</b>   | <b>\$ 21,327</b>                                                  |
| <b>Instructional Staff</b>                |                         |                     |                                                                   |
| Personal Services - Salaries              | \$ 67,874               | \$ 81,568           | \$ (13,694)                                                       |
| Personal Services - Employee Benefits     | 78,899                  | 65,470              | 13,429                                                            |
| Purchased Professional/Technical Services | 2,000                   | 854                 | 1,146                                                             |
| Purchased Property Services               | 6,615                   | 6,122               | 493                                                               |
| Other Purchased Services                  | 4,790                   | 7,255               | (2,465)                                                           |
| Supplies                                  | 61,553                  | 44,655              | 16,898                                                            |
| Other Objects                             | 432                     | -                   | 432                                                               |
| <b>Total Instructional Staff</b>          | <b>\$ 222,163</b>       | <b>\$ 205,924</b>   | <b>\$ 16,239</b>                                                  |
| <b>Administration</b>                     |                         |                     |                                                                   |
| Personnel Services - Salaries             | \$ 1,061,191            | \$ 1,067,273        | \$ (6,082)                                                        |
| Personnel Services - Employee Benefits    | 656,791                 | 599,845             | 56,946                                                            |
| Purchased Professional/Technical Services | 166,451                 | 150,214             | 16,237                                                            |
| Purchased Professional/Tech Services      | 58,543                  | 42,091              | 16,452                                                            |
| Purchased Property Services               | 53,213                  | 58,449              | (5,236)                                                           |
| Other Purchased Services                  | 34,009                  | 18,074              | 15,935                                                            |
| Other Objects                             | 28,373                  | 20,342              | 8,031                                                             |
| <b>Total Administration</b>               | <b>\$ 2,058,571</b>     | <b>\$ 1,956,288</b> | <b>\$ 102,283</b>                                                 |
| <b>Pupil Health</b>                       |                         |                     |                                                                   |
| Personnel Services - Salaries             | \$ 161,510              | \$ 158,810          | \$ 2,700                                                          |
| Personnel Services - Employee Benefits    | 108,234                 | 108,983             | (749)                                                             |
| Purchased Professional/Tech Services      | 98,574                  | 78,541              | 20,033                                                            |
| Purchased Property Services               | 1,615                   | 349                 | 1,266                                                             |
| Other Purchased Services                  | 3,350                   | 1,000               | 2,350                                                             |
| Supplies                                  | 19,148                  | 12,270              | 6,878                                                             |
| Property                                  | 400                     | -                   | 400                                                               |
| Other Objects                             | 515                     | -                   | 515                                                               |
| <b>Total Pupil Health</b>                 | <b>\$ 393,346</b>       | <b>\$ 359,953</b>   | <b>\$ 33,393</b>                                                  |

The accompanying notes are an integral part of these financial statements

**SCHEDULE 2**

**SOUTHMORELAND SCHOOL DISTRICT**  
**SCHEDULE OF GENERAL FUND EXPENDITURES - FINAL BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2020**

|                                                              | FINAL<br>BUDGET     | ACTUAL              | VARIANCE WITH<br>FINAL BUDGET<br>POSITIVE<br>(NEGATIVE) |
|--------------------------------------------------------------|---------------------|---------------------|---------------------------------------------------------|
| <b>SUPPORT SERVICES (Continued)</b>                          |                     |                     |                                                         |
| <b>Business</b>                                              |                     |                     |                                                         |
| Personnel Services - Salaries                                | \$ 216,383          | \$ 215,014          | \$ 1,369                                                |
| Personnel Services - Employee Benefits                       | 153,973             | 153,295             | 678                                                     |
| Purchased Professional/Technical Services                    | 47,055              | 23,237              | 23,818                                                  |
| Purchased Property Services                                  | 8,910               | 8,228               | 682                                                     |
| Other Purchased Services                                     | 9,135               | 4,123               | 5,012                                                   |
| Supplies                                                     | 7,080               | 2,083               | 4,997                                                   |
| Other Objects                                                | 1,000               | 475                 | 525                                                     |
| <b>Total Business</b>                                        | <b>\$ 443,536</b>   | <b>\$ 406,455</b>   | <b>\$ 37,081</b>                                        |
| <b>Operation &amp; Maintenance of Plant Services</b>         |                     |                     |                                                         |
| Personnel Services - Salaries                                | \$ 1,072,766        | \$ 1,013,787        | \$ 58,979                                               |
| Personnel Services - Employee Benefits                       | 636,537             | 619,685             | 16,852                                                  |
| Purchased Professional/Technical Services                    | 58,900              | 51,121              | 7,779                                                   |
| Purchased Property Services                                  | 243,105             | 249,061             | (5,956)                                                 |
| Other Purchased Services                                     | 158,780             | 156,009             | 2,771                                                   |
| Supplies                                                     | 442,260             | 417,355             | 24,905                                                  |
| Property                                                     | 4,101               | 10,783              | (6,682)                                                 |
| Other Objects                                                | 1,500               | 291                 | 1,209                                                   |
| <b>Total Operation and Maintenance of<br/>Plant Services</b> | <b>\$ 2,617,949</b> | <b>\$ 2,518,092</b> | <b>\$ 99,857</b>                                        |
| <b>Student Transportation</b>                                |                     |                     |                                                         |
| Personnel Services - Salaries                                | \$ 244,891          | \$ 232,603          | \$ 12,288                                               |
| Personnel Services - Employee Benefits                       | 158,105             | 154,237             | 3,868                                                   |
| Purchased Property Services                                  | 12,000              | 9,513               | 2,487                                                   |
| Other Purchased Services                                     | 1,659,350           | 1,699,060           | (39,710)                                                |
| Supplies                                                     | 17,625              | 11,358              | 6,267                                                   |
| Property                                                     | 9,250               | 8,548               | 702                                                     |
| Other Objects                                                | 200                 | -                   | 200                                                     |
| <b>Total Student Transportation</b>                          | <b>\$ 2,101,421</b> | <b>\$ 2,115,319</b> | <b>\$ (13,898)</b>                                      |
| <b>Support Services - Central</b>                            |                     |                     |                                                         |
| Personnel Services - Salaries                                | \$ 154,763          | \$ 149,764          | \$ 4,999                                                |
| Personnel Services - Employee Benefits                       | 82,573              | 81,890              | 683                                                     |
| Purchased Property Services                                  | 9,550               | 10                  | 9,540                                                   |
| Other Purchased Services                                     | 1,820               | 1,333               | 487                                                     |
| Supplies                                                     | 58,670              | 55,882              | 2,788                                                   |
| Property                                                     | 22,899              | 12,475              | 10,424                                                  |
| <b>Total Support Services - Central</b>                      | <b>\$ 330,275</b>   | <b>\$ 301,354</b>   | <b>\$ 28,921</b>                                        |
| <b>Other Support Services</b>                                |                     |                     |                                                         |
| Purchased Professional/Technical Services                    | \$ 25,308           | \$ 23,910           | \$ 1,398                                                |
| Other Purchased Services                                     | 10,869              | 5,381               | 5,488                                                   |
| <b>Total Other Support Services</b>                          | <b>\$ 36,177</b>    | <b>\$ 29,291</b>    | <b>\$ 6,886</b>                                         |
| <b>TOTAL SUPPORT SERVICES</b>                                | <b>\$ 8,961,752</b> | <b>\$ 8,629,663</b> | <b>\$ 332,089</b>                                       |

The accompanying notes are an integral part of these financial statements

**SCHEDULE 2**

**SOUTHMORELAND SCHOOL DISTRICT  
SCHEDULE OF GENERAL FUND EXPENDITURES - FINAL BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2020**

|                                                       | <u>FINAL<br/>BUDGET</u> | <u>ACTUAL</u>        | <u>VARIANCE WITH<br/>FINAL BUDGET<br/>POSITIVE<br/>(NEGATIVE)</u> |
|-------------------------------------------------------|-------------------------|----------------------|-------------------------------------------------------------------|
| <b><u>OPERATION OF NON-INSTRUCTIONAL SERVICES</u></b> |                         |                      |                                                                   |
| <b>Student Activities</b>                             |                         |                      |                                                                   |
| Personal Services - Salaries                          | \$ 318,161              | \$ 290,663           | \$ 27,498                                                         |
| Personal Services - Employee Benefits                 | 141,876                 | 120,395              | 21,481                                                            |
| Purchased Professional/Technical Services             | 72,500                  | 58,248               | 14,252                                                            |
| Purchased Property Services                           | 19,950                  | 15,187               | 4,763                                                             |
| Other Purchased Services                              | 144,095                 | 107,905              | 36,190                                                            |
| Supplies                                              | 95,638                  | 72,438               | 23,200                                                            |
| Other Objects                                         | 21,129                  | 13,301               | 7,828                                                             |
| <b>Total Student Activities</b>                       | <b>\$ 813,349</b>       | <b>\$ 678,137</b>    | <b>\$ 135,212</b>                                                 |
| <b>Community Services</b>                             |                         |                      |                                                                   |
| Personal Services - Salaries                          | \$ 56,480               | \$ 39,110            | \$ 17,370                                                         |
| Personal Services - Employee Benefits                 | 37,983                  | 30,231               | 7,752                                                             |
| Purchased Professional/Technical Services             | 15,180                  | 5,546                | 9,634                                                             |
| Supplies                                              | 2,000                   | 1,449                | 551                                                               |
| <b>Total Community Services</b>                       | <b>\$ 111,643</b>       | <b>\$ 76,336</b>     | <b>\$ 35,307</b>                                                  |
| <b>TOTAL OPERATION OF NON-INSTRUCTIONAL SERVICES</b>  | <b>\$ 924,992</b>       | <b>\$ 754,473</b>    | <b>\$ 170,519</b>                                                 |
| <b><u>FACILITIES ACQUISITION AND IMPROVEMENT</u></b>  |                         |                      |                                                                   |
| Purchased Property services                           | \$ 84,076               | \$ 99,981            | \$ (15,905)                                                       |
| <b>TOTAL FACILITIES ACQUISITION AND IMPROVEMENT</b>   | <b>\$ 84,076</b>        | <b>\$ 99,981</b>     | <b>\$ (15,905)</b>                                                |
| <b><u>OTHER FINANCING USES</u></b>                    |                         |                      |                                                                   |
| <b>Debt Service</b>                                   |                         |                      |                                                                   |
| Other Objects                                         | \$ 666,086              | \$ 518,602           | \$ 147,484                                                        |
| Other Financing Uses                                  | 2,110,000               | 2,264,000            | (154,000)                                                         |
| <b>Total Debt Service</b>                             | <b>\$ 2,776,086</b>     | <b>\$ 2,782,602</b>  | <b>\$ (6,516)</b>                                                 |
| <b>Budgetary Reserve</b>                              |                         |                      |                                                                   |
| Other Objects                                         | \$ 50,000               | \$ -                 | \$ 50,000                                                         |
| <b>Total Budgetary Reserve</b>                        | <b>\$ 50,000</b>        | <b>\$ -</b>          | <b>\$ 50,000</b>                                                  |
| <b>TOTAL EXPENDITURES</b>                             | <b>\$ 30,872,614</b>    | <b>\$ 29,729,886</b> | <b>\$ 1,142,728</b>                                               |

The accompanying notes are an integral part of these financial statements

**REQUIRED  
SUPPLEMENTARY  
INFORMATION**

**SOUTHMORELAND SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**DEFINED BENEFIT PENSION PLAN**  
**JUNE 30.**

| <b>As of the measurement date of June 30,</b>                                                               | <b>2019</b>   | <b>2018</b>   | <b>2017</b>   | <b>2016</b>   | <b>2015</b>   | <b>2014</b>   | <b>2013</b>   |
|-------------------------------------------------------------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| District's proportion of the net pension liability                                                          | 9.2000%       | 9.1400%       | 9.2600%       | 0.0892%       | 0.0927%       | 0.0892%       | 0.0879%       |
| District's proportionate share of the net pension liability                                                 | \$ 43,040,000 | \$ 43,877,000 | \$ 45,734,000 | \$ 44,205,000 | \$ 40,153,000 | \$ 35,306,000 | \$ 35,983,000 |
| District's covered-employee payroll                                                                         | \$ 12,689,064 | \$ 12,305,232 | \$ 12,330,405 | \$ 11,555,858 | \$ 11,921,751 | \$ 11,376,903 | \$ 11,279,305 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 339.19%       | 356.57%       | 370.90%       | 382.53%       | 336.80%       | 310.33%       | 319.02%       |
| Plan fiduciary net position as a percentage of the total pension liability                                  | 55.66%        | 54.00%        | 51.84%        | 50.14%        | 54.36%        | 57.24%        | 54.49%        |

The amounts presented for each fiscal year were determined as of the measurement date, which is June 30 of the preceding fiscal year. This schedule is intended to illustrate information for a ten (10) year period. Information for that ten year period will be presented as information becomes available.

SOUTHMORELAND SCHOOL DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF SCHOOL DISTRICT'S CONTRACTUALLY REQUIRED CONTRIBUTIONS  
 DEFINED BENEFIT PENSION PLAN

JUNE 30.

|                                                                     | 2020          | 2019          | 2018          | 2017          | 2016          | 2015          | 2014          |
|---------------------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Contractually Required Contributions                                | \$ 4,075,104  | \$ 4,121,007  | \$ 3,865,864  | \$ 3,645,286  | \$ 2,878,237  | \$ 2,731,483  | \$ 1,725,789  |
| Contribution in relation to the contractually required contribution | (4,075,104)   | (4,121,007)   | (3,865,864)   | (3,645,286)   | (2,878,237)   | (2,731,483)   | (1,725,789)   |
| Contribution deficiency (excess)                                    | \$ -          | \$ -          | \$ -          | \$ -          | \$ -          | \$ -          | \$ -          |
| District's covered payroll                                          | \$ 12,225,017 | \$ 12,689,064 | \$ 12,305,232 | \$ 12,330,405 | \$ 11,555,858 | \$ 11,921,751 | \$ 11,376,903 |
| Contributions as a percentage of covered-employee payroll           | 33.33%        | 32.48%        | 31.42%        | 29.56%        | 24.91%        | 22.91%        | 15.17%        |

This schedule is intended to illustrate information for a ten (10) year period. Information for that ten year period will be presented as information becomes available.

Note: Beginning in 2018 with the implementation of GASB 75, contributions as reported above reflect the pension portion of the contribution only. The premium assistance (OPEB) portion of the contribution is reflected on a separate RSI schedule. Prior year contributions reflect both the pension and premium assistance amounts combined.

**SOUTHMORELAND SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY**

**PSERS PLAN**  
**JUNE 30,**

| <b>As of the measurement date of June 30,</b>                                                            | <b>2019</b>   | <b>2018</b>   | <b>2017</b>   |
|----------------------------------------------------------------------------------------------------------|---------------|---------------|---------------|
| District's proportion of the net OPEB liability                                                          | 9.2000%       | 9.1400%       | 0.0926%       |
| District's proportionate share of the net OPEB liability                                                 | \$ 1,957,000  | \$ 1,906,000  | \$ 1,887,000  |
| District's covered-employee payroll                                                                      | \$ 12,689,064 | \$ 12,305,232 | \$ 12,330,405 |
| District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll | 15.42%        | 15.49%        | 15.30%        |
| Plan fiduciary net position as a percentage of the total OPEB liability                                  | 5.56%         | 5.56%         | 5.73%         |

The amounts presented for each fiscal year were determined as of the measurement date, which is June 30 of the preceding fiscal year. This schedule is intended to illustrate information for a ten (10) year period. Information for that ten year period will be presented as information becomes available.



SOUTHMORELAND SCHOOL DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF SCHOOL DISTRICT'S CONTRACTUALLY REQUIRED OPEB CONTRIBUTIONS

PSERS PLAN  
JUNE 30.

|                                                                     | 2020             | 2019             | 2018             | 2017             |
|---------------------------------------------------------------------|------------------|------------------|------------------|------------------|
| Contractually Required Contributions                                | \$ 102,334       | \$ 104,921       | \$ 101,092       | \$ 100,752       |
| Contribution in relation to the contractually required contribution | <u>(102,334)</u> | <u>(104,921)</u> | <u>(101,092)</u> | <u>(100,752)</u> |
| Contribution deficiency (excess)                                    | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ -</u>      |
| District's covered payroll                                          | \$ 12,225,017    | \$ 12,689,064    | \$ 12,305,232    | \$ 12,330,405    |
| Contributions as a percentage of covered-employee payroll           | 0.84%            | 0.83%            | 0.82%            | 0.82%            |

This schedule is intended to illustrate information for a ten (10) year period. Information for that ten year period will be presented as information becomes available.

**SOUTHMORELAND SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS**  
**DISTRICT POST-RETIREMENT HEALTHCARE PLAN**  
**JUNE 30,**

|                                                                | <u>2020</u>         | <u>2019</u>         | <u>2018</u>         |
|----------------------------------------------------------------|---------------------|---------------------|---------------------|
| Service cost                                                   | \$ 108,415          | \$ 106,130          | \$ 98,564           |
| Interest                                                       | 84,826              | 78,137              | 73,553              |
| Change of Benefit Terms                                        | -                   | -                   | -                   |
| Differences between expected and actual experience             | 75,740              | -                   | 140,185             |
| Changes of assumptions or other inputs                         | 27,409              | (32,282)            | 219,124             |
| Benefit Payments                                               | (190,203)           | (142,713)           | (187,654)           |
| <b>Net Change in Total OPEB Liability</b>                      | <b>\$ 106,187</b>   | <b>\$ 9,272</b>     | <b>\$ 343,772</b>   |
| <b>Total OPEB Liability - Beginning of Year</b>                | <b>\$ 2,191,879</b> | <b>\$ 2,182,607</b> | <b>\$ 1,838,835</b> |
| <b>Total OPEB Liability - End of Year</b>                      | <b>\$ 2,298,066</b> | <b>\$ 2,191,879</b> | <b>\$ 2,182,607</b> |
| Covered-employee payroll                                       | \$ 9,175,430        | \$ 9,080,970        | \$ 8,859,483        |
| Net OPEB liability as a percentage of covered employee payroll | 25.05%              | 24.14%              | 24.64%              |

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2020**

**NOTE 1 - FACTORS AND TRENDS USED IN THE ACTUARIAL VALUATION FOR PSERS PENSION BENEFITS**

**Changes in Benefit Terms**

None

**Changes in Assumptions used in the Measurement of PSERS' Total Pension Liability Beginning June 30, 2019**

None

**Changes in Assumptions used in the Measurement of PSERS' Total Pension Liability Beginning June 30, 2018**

None

**Changes in Actuarial Assumptions used in Calculations of Actuarially Determined Contributions**

None

**NOTE 2 - FACTORS AND TRENDS USED IN THE ACTUARIAL VALUATION FOR THE PSERS POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB)**

**Changes in Benefit Terms**

None

**Changes in Assumptions used in the Measurement of PSERS' Total OPEB Liability Beginning June 30, 2019**

The discount rate decreased from 2.98% to 2.79%.

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2020**

**NOTE 2 - FACTORS AND TRENDS USED IN THE ACTUARIAL VALUATION FOR THE PSERS POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB)**  
(Continued)

**Changes in Assumptions used in the Measurement of PSERS' Total OPEB Liability Beginning June 30, 2018**

The discount rate decreased from 3.13% to 2.98%.

**Changes in Actuarial Assumptions used in Calculations of Actuarially Determined Contributions**

None

**Actuarial Assumptions used in Calculations of Actuarially Determined Contributions**

The following actuarial methods and assumptions were used to determine contribution rates reported in the OPEB required supplementary schedules:

- The results of the actuarial valuation as of June 30, 2016 determined the employer contribution rate for fiscal year 2019.
- 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.).

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2020**

**NOTE 3 - FACTORS AND TRENDS USED IN THE ACTUARIAL VALUATION FOR THE RETIREE OPEB SCHOOL PLAN**

**Changes in Benefit Terms**

None

**Changes in Assumptions**

June 30, 2020 – Discount rate changed to 3.50% from 3.87%

**Actuarial Assumptions used in Calculations of Actuarially Determined Contributions**

The actuarial plan does not disclose actuarial assumptions, if applicable, used in the calculations of Actuarially Determined Contributions.

**SOUTHMORELAND  
SCHOOL DISTRICT**

***INFORMATION AS REQUIRED BY  
GOVERNMENT AUDITING STANDARDS  
AND UNIFORM GUIDANCE***

**Mark C. Turnley**

---

Certified Public Accountant

# Mark C. Turnley

---

Certified Public Accountant

1000 3<sup>rd</sup> Avenue  
New Brighton, Pennsylvania 15066  
(724) 384-1081  
FAX (724) 384-8908

**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**

**To the Management and Board of Education  
Southmoreland School District**

I 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 Standard* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Southmoreland School District as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Southmoreland School District's basic financial statements, and have issued my report thereon dated March 12, 2021.

**Internal Control over Financial Reporting**

In planning and performing my audit of the financial statements, I considered the Southmoreland 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Southmoreland School District's internal control. Accordingly, I do not express an opinion on the effectiveness of the Southmoreland School District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Southmoreland School District'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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**To the Board of Education  
Southmoreland School District**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Southmoreland School District's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Southmoreland School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Southmoreland School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Mark C. Turnley  
Certified Public Accountant

March 12, 2021  
New Brighton, Pennsylvania



# **Mark C. Turnley**

Certified Public Accountant

1000 3<sup>rd</sup> Avenue  
New Brighton, Pennsylvania 15066  
(724) 384-1081  
FAX (724) 384-8908

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

**To the Board of Education  
Southmoreland School District**

### **REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

I have audited the Southmoreland 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 Southmoreland School District's major federal programs for the year ended June 30, 2020. The Southmoreland 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**

My responsibility is to express an opinion on compliance for each of the Southmoreland School District's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 I 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 Southmoreland School District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination on the Southmoreland School District's compliance.

#### **Opinion on Each Major Federal Program**

In my opinion, Southmoreland School District complied, in all material respects, with the 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, 2020.

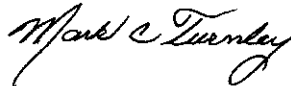
**REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of Southmoreland 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 my audit of compliance, I considered the Southmoreland 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 my 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, I do not express an opinion on the effectiveness of the Southmoreland 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.

My 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. I did not identify any deficiencies in internal control over compliance that I 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 my testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Mark C. Turnley  
Certified Public Accountant

March 12, 2021  
New Brighton, Pennsylvania

**SOUTHMORELAND SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2020**

| FEDERAL GRANTOR / PROJECT TITLE                                                        | FUNDING SOURCE | FEDERAL CFDA NUMBER | PASS-THROUGH GRANTOR NUMBER | GRANT PERIOD BEGINNING / ENDING DATE | PROGRAM AWARD AMOUNT | 2019-2020 PASSED THROUGH TO SUBRECIPIENTS | TOTAL RECEIVED THIS PERIOD | ACCRUED (DEFERRED) REVENUE JULY 1 | REVENUE RECOGNIZED  | EXPENDITURES        | ACCRUED (DEFERRED) REVENUE JUNE 30 |
|----------------------------------------------------------------------------------------|----------------|---------------------|-----------------------------|--------------------------------------|----------------------|-------------------------------------------|----------------------------|-----------------------------------|---------------------|---------------------|------------------------------------|
|                                                                                        |                |                     |                             |                                      |                      |                                           |                            |                                   |                     |                     |                                    |
| <b>U.S. Department of Education:</b>                                                   |                |                     |                             |                                      |                      |                                           |                            |                                   |                     |                     |                                    |
| <b>Passed through Pa. Dept. of Education:</b>                                          |                |                     |                             |                                      |                      |                                           |                            |                                   |                     |                     |                                    |
| Title I                                                                                | Indirect       | 84.010              | 13-200410                   | 7/1/19-9/30/20                       | \$ 433,882           | \$ -                                      | \$ 376,037                 | \$ -                              | \$ 417,210          | \$ 417,210          | \$ 41,173                          |
| Title I                                                                                | Indirect       | 84.010              | 13-190410                   | 7/1/19-9/30/19                       | 433,111              | -                                         | 266,518                    | 266,518                           | -                   | -                   | -                                  |
| Title I                                                                                | Indirect       | 84.010              | 13-180410                   | 7/1/17-9/30/18                       | 435,191              | -                                         | 143,550                    | 144,167                           | -                   | -                   | 617                                |
| Title II - Improving Teacher Quality                                                   | Indirect       | 84.367              | 20-200410                   | 7/1/19-9/30/20                       | 69,686               | -                                         | 66,267                     | -                                 | 69,686              | 69,686              | 4,419                              |
| Title II - Improving Teacher Quality                                                   | Indirect       | 84.367              | 20-190410                   | 7/1/19-9/30/19                       | 68,438               | -                                         | 41,650                     | 41,213                            | 437                 | 437                 | -                                  |
| Title II - Improving Teacher Quality                                                   | Indirect       | 84.367              | 20-180410                   | 7/1/17-9/30/18                       | 75,615               | -                                         | 29,878                     | 29,878                            | -                   | -                   | -                                  |
| Title IV                                                                               | Indirect       | 84.424              | 144-200410                  | 7/1/19-9/30/20                       | 32,416               | -                                         | 32,416                     | -                                 | 23,074              | 23,074              | (9,342)                            |
| Title IV                                                                               | Indirect       | 84.424              | 144-190410                  | 7/1/19-9/30/19                       | 31,516               | -                                         | 2,424                      | (9,317)                           | 19,458              | 19,458              | 7,717                              |
| <b>Total Passed through Pa. Dept. of Education</b>                                     |                |                     |                             |                                      | <b>\$ 1,957,740</b>  |                                           | <b>\$ 957,740</b>          | <b>\$ 472,459</b>                 | <b>\$ 529,865</b>   | <b>\$ 529,865</b>   | <b>\$ 44,584</b>                   |
| <b>Passed through Westmoreland Intermediate Unit:</b>                                  |                |                     |                             |                                      |                      |                                           |                            |                                   |                     |                     |                                    |
| IDEA                                                                                   | Indirect       | 84.027              | N/A                         | 7/1/19-6/30/20                       | \$ 358,435           | \$ -                                      | \$ -                       | \$ -                              | \$ 358,435          | \$ 358,435          | (1)                                |
| IDEA                                                                                   | Indirect       | 84.027              | N/A                         | 7/1/18-6/30/19                       | 357,688              | -                                         | 357,688                    | 357,688                           | -                   | -                   | -                                  |
| IDEA Section 619                                                                       | Indirect       | 84.173              | N/A                         | 7/1/19-6/30/20                       | 2,297                | -                                         | -                          | -                                 | 2,297               | 2,297               | (1)                                |
| IDEA Section 619                                                                       | Indirect       | 84.173              | N/A                         | 7/1/18-6/30/19                       | 2,585                | -                                         | 2,585                      | 2,585                             | -                   | -                   | -                                  |
| <b>Total Passed through Westmoreland Intermediate Unit (Special Education Cluster)</b> |                |                     |                             |                                      | <b>\$ 360,273</b>    |                                           | <b>\$ 360,273</b>          | <b>\$ 360,273</b>                 | <b>\$ 360,732</b>   | <b>\$ 360,732</b>   | <b>\$ 360,732</b>                  |
| <b>TOTAL DEPARTMENT OF EDUCATION</b>                                                   |                |                     |                             |                                      | <b>\$ 1,318,013</b>  |                                           | <b>\$ 1,318,013</b>        | <b>\$ 832,732</b>                 | <b>\$ 890,597</b>   | <b>\$ 890,597</b>   | <b>\$ 405,316</b>                  |
| <b>U.S. Department of Agriculture:</b>                                                 |                |                     |                             |                                      |                      |                                           |                            |                                   |                     |                     |                                    |
| <b>Passed through Pa. Dept. of Education:</b>                                          |                |                     |                             |                                      |                      |                                           |                            |                                   |                     |                     |                                    |
| National School Lunch Program                                                          | Indirect       | 10.555              | N/A                         | 7/1/19-6/30/20                       | N/A                  | \$ -                                      | \$ 359,782                 | \$ -                              | \$ 359,782          | \$ 359,782          | \$ -                               |
| Breakfast Program                                                                      | Indirect       | 10.553              | N/A                         | 7/1/19-6/30/20                       | N/A                  | \$ -                                      | 122,600                    | -                                 | 122,600             | 122,600             | -                                  |
| <b>Total Passed through Pa. Dept. of Education</b>                                     |                |                     |                             |                                      |                      | <b>\$ -</b>                               | <b>\$ 482,382</b>          | <b>\$ -</b>                       | <b>\$ 482,382</b>   | <b>\$ 482,382</b>   | <b>\$ -</b>                        |
| <b>Passed through Pa. Dept. of Agriculture:</b>                                        |                |                     |                             |                                      |                      |                                           |                            |                                   |                     |                     |                                    |
| National School Lunch Program                                                          | Indirect       | 10.555              | N/A                         | 7/1/18-6/30/19                       | N/A                  | \$ -                                      | 87,715                     | * \$ 14,139                       | \$ 103,182          | \$ 103,182          | \$ 29,605                          |
| Summer Food Program                                                                    | Indirect       | 10.559              | N/A                         | 7/1/19-6/30/20                       | N/A                  | \$ -                                      | 107,456                    | -                                 | 134,911             | 134,911             | 27,455                             |
| <b>Total Passed through Pa. Dept. of Agriculture</b>                                   |                |                     |                             |                                      |                      | <b>\$ -</b>                               | <b>\$ 195,171</b>          | <b>\$ 14,139</b>                  | <b>\$ 238,093</b>   | <b>\$ 238,093</b>   | <b>\$ 57,061</b>                   |
| <b>TOTAL DEPARTMENT OF AGRICULTURE (Special Nutrition Cluster)</b>                     |                |                     |                             |                                      |                      | <b>\$ -</b>                               | <b>\$ 677,553</b>          | <b>\$ 14,139</b>                  | <b>\$ 720,475</b>   | <b>\$ 720,475</b>   | <b>\$ 57,061</b>                   |
| <b>TOTAL FEDERAL ASSISTANCE</b>                                                        |                |                     |                             |                                      |                      | <b>\$ -</b>                               | <b>\$ 1,995,566</b>        | <b>\$ 846,871</b>                 | <b>\$ 1,611,072</b> | <b>\$ 1,611,072</b> | <b>\$ 462,377</b>                  |

# Reconciliation with federal subsidy confirmation:  
Per above \$ 1,995,566  
School Lunch/Breakfast matching subsidy 27,699  
PA Smart Targeted Computer Science & STEM Education 28,824  
IDEA (360,273)  
Donated commodities (87,715)  
Per confirmation \$ 1,604,101

\* Total USDA Commodity Received  
\*\* Represents beginning inventory - 7/1/19  
\*\*\* Represents ending inventory - 6/30/20

(1) Denotes Major Program  
(2) Shown as Received on 2018-2019 SEFA, but should have been shown as a 'receivable'

**SOUTHMORELAND SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2020**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the 'Schedule') includes the federal grant activity administered by the Southmoreland School District for the year ended June 30, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Grant Guidance – UGG)*. Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position or changes in net position of the Southmoreland School District.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF ACCOUNTING**

Expenditures reported on the Schedule are presented using the accrual method of accounting. Under this method, grant revenue is recognized to the extent expenditures are incurred. Expenditures are recognized when the liability for the expenditure is incurred rather than when the disbursement is actually made.

The federal expenditures are recognized, as applicable, under the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or limited to reimbursement.

**NOTE 3 - RELATIONSHIP TO FINANCIAL STATEMENTS**

Federal financial award revenues are included in the financial statements as 'local source' and 'federal source' revenues.

**NOTE 4 – RECEIVABLES AND UNEARNED REVENUE**

Federal grants receivable are included as part of 'due from other governments' in Exhibit A and Exhibit C as referenced in Note 4 to the Financial Statements. Unearned federal grant revenue, if any, is included as part of 'unearned revenue' in Exhibit A and Exhibit C, and is referenced in Note 6 to the Financial Statements.

**NOTE 5 - NON-CASH ASSISTANCE**

The Southmoreland School District received donated commodities from the Department of Agriculture in connection with its food service program. The amount of non-cash assistance expended in the accompanying schedule of expenditures of federal awards reflects the fair market value of the commodities used during the 2019-2020 fiscal year.

**NOTE 6 – INDIRECT COST RATE**

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

**SOUTHMORELAND SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

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

**Financial Statements**

Type of auditor’s report issued Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_yes X\_no
- Significant deficiency(ies) identified? \_\_\_yes X\_no

Noncompliance material to financial statements noted? \_\_\_yes X\_no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? \_\_\_yes X\_no
- Significant deficiency(ies) identified? \_\_\_yes X\_no

Type of auditor’s report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_yes X\_no

Identification of major programs:

| <u>CFDA number(s)</u> | <u>Name of Federal Program or Cluster</u>      |
|-----------------------|------------------------------------------------|
| 84.027                | IDEA – Section 611 (Special Education Cluster) |
| 84.173                | IDEA – Section 619 (Special Education Cluster) |

The dollar threshold for distinguishing type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? X\_yes \_\_\_no

**Section II – Financial Statement Findings**

Findings related to the financial statements which are required to be report in accordance with Government Auditing Standards.

None

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

Findings and questioned costs related to Federal Awards which are required to be reported in accordance with the Uniform Guidance 2 CFR 200.516(a):

None

**SOUTHMORELAND SCHOOL DISTRICT**  
**STATUS OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDING JUNE 30, 2020**

The audit report of the Southmoreland School District for the year ended June 30, 2019, dated February 18, 2020, contained no audit findings.