

SHAMOKIN AREA SCHOOL DISTRICT
Coal Township, Pennsylvania

Financial and Single Audit Reports

For the Year Ended June 30, 2018

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JUNE 30, 2018

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Shamokin Area School District (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Klacik & Associates, P.C.

Shamokin, Pennsylvania
March 28, 2019

**SHAMOKIN AREA SCHOOL DISTRICT
COAL TOWNSHIP, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

The discussion and analysis of Shamokin Area School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

The Management Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

During the fiscal year 2017-2018, the Shamokin Area School District experienced another year of increases in the costs for labor and instruction and decrease in local and federal revenue. Overall our expenditures increased by 2.5%. This increase was primarily due to the salary and benefits of staff and tuition paid to cyber/charter schools. The district also provided educational services to True Core for court placed youth. Due to the low enrollment numbers at True Core the district was not able to recoup the total cost of the educational services provided. The district continues to educate the students residing at True Core during the school year of 2018-19. The District's revenue decreased by 1.8% due to a decrease in local and federal funds. In the budgeting process, the Board of School Directors balanced the budget by utilizing the general fund, fund balance. The district's actual expenditures did exceed the revenues collected for this school year. The general fund balance has been decreased by \$1,160,266. Even though Northwestern Academy closed its doors in 2015-16, the district is still collecting on unpaid invoices. It is noted that prior to 2012–2013, it was understood and agreed that the District's liability to Northwestern shall be strictly a pass through limited to reimbursement it receives from the resident student's home district within Pennsylvania less seven percent. For years 2012-13 through 2015-16, the district was charged a lease/rental fee from Northwestern Academy to educate the students on-site. Many resident home districts have not paid this fee which was included on the tuition invoices for the education services provided to the students residing at Northwestern Academy.

USING THE ANNUAL FINANCIAL REPORT (AFR)

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

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

The remaining statements (fund) focus on individual parts of the Districts operations in more detail than the government-wide statements. The governmental funds statements tell how general District

services were financed in the short term as well as what remains for future spending. Proprietary fund statements offer short-term and long-term financial information about the activities that the District operates like a business. For this District, this is our Food Service Fund. Fiduciary fund statements provide information about financial relationships where the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

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

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

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

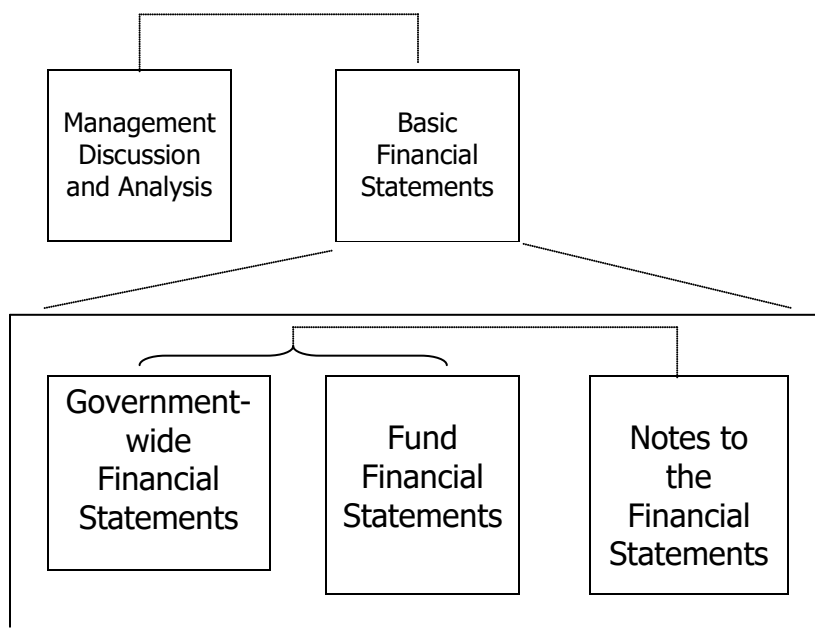


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management discussion and analysis explains the structure and contents of each of the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

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

		Fund Statements		
	Government-wide Statements	Governmental Funds	Proprietary 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 Funds
Required financial statements	Statement of Net Position (NAGW) Statement of Activities (SOA)	Balance Sheet (NAG) Statement of Revenues, Expenditures, and Changes in Fund Balance (REG)	Statement of Net Position (NAP) Statement of Revenues, Expenses, and Changes in Net Assets (REP) Statement of Cash Flows (CFP)	Statement of Fiduciary Net Assets (NAF) Statement of Changes in Fiduciary Net Assets (CNAF)
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow-outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

OVERVIEW OF FINANCIAL STATEMENTS

Government-wide Statements

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

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

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

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

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

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

Fund Financial Statements

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

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

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. Due to GASB 68, state and local governments and its entities must recognize their pension liability by reporting the “net pension liability” in their financial statements. “Net pension liability” is the amount by which the total pension liability exceeds the pension plan’s net assets (now referred to as a plan net position) available for paying benefits. With GASB 68 the District's combined net position is (\$12,598,245) as of June 30, 2018. (See Table A-3.)

Table A-3
Shamokin Area School District
For Years Ended June 30, 2017 and 2018
Net
Position

	Government Activities	Government Activities	Business- Type Activities	Business- Type Activities		
	2017-2018	2016-2017	2017-2018	2016-2017	Total	Total
					2017-2018	2016-2017
Current and other assets	\$ 16,552,276	\$ 18,135,391	\$ 1,728,638	\$ 1,528,786	\$ 18,280,914	\$ 19,664,177
Capital assets	\$ 21,386,936	\$ 21,971,881	\$ 57,865	\$ 102,784	\$ 21,444,801	\$ 22,074,665
Total Assets	\$ 37,939,212	\$ 40,107,272	\$ 1,786,503	\$ 1,631,570	\$ 39,725,715	\$ 41,738,842
Deferred Outflows	\$ 7,482,614	\$ 9,021,972			\$ 7,482,614	\$ 9,021,972
pension activity						
Current and other liabilities	\$ 5,507,491	\$ 5,343,422	\$ 139,301	\$ 853,284	\$ 5,646,792	\$ 6,196,706
Long-term liabilities	\$ 53,522,782	\$ 50,630,100	\$ -	\$ -	\$ 53,522,782	\$ 50,630,100
Total Liabilities	\$ 59,030,273	\$ 55,973,522	\$ 139,301	\$ 853,284	\$ 59,169,574	\$ 56,826,806
Deferred Inflows	\$ 637,000	\$ 689,000	\$ -		\$ 637,000	\$ 689,000
Invested in capital assets						
Net of related debt	\$ 14,544,935	\$ 14,824,267	\$ 57,865	\$ 102,784	\$ 14,602,800	\$ 14,927,051
Restricted for Capital Projects	\$ 1,640,766	\$ 1,850,385	\$ -	\$ -	\$ 1,640,766	\$ 1,850,385
Unrestricted total net position	\$ (30,431,148)	\$ (24,207,930)	\$ 1,589,337	\$ 675,502	\$ (28,841,811)	\$ (23,532,428)
Total Net Position	\$ (14,245,447)	\$ (7,533,278)	\$ 1,647,202	\$ 778,286	\$ (12,598,245)	\$ (6,754,992)

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

Table A-4
Shamokin Area School District
Change in Net Position
For Years Ended June 30, 2017 and 2018

	Governmental Activities	Governmental Activities	Business- Type	Business- Type		
	2017-18	2016-2017	Activities	Activities	Total	Total
			2017-2018	2016-2017	2017-2018	2016-2017
REVENUES:						
<i>Program Revenues</i>						
Charges for Services	\$ 153,368	\$ 469,569	\$ 344,268	\$ 60,272	\$ 497,636	\$ 529,841
Operating Grants & Contributions	\$ 9,006,455	\$ 9,558,400	\$ 1,149,247	\$ 1,187,343	\$ 10,155,702	\$ 10,745,743
<i>General Revenues</i>						
Property Taxes	\$ 3,359,169	\$ 3,784,526	\$ -	\$ -	\$ 3,359,169	\$ 3,784,526
Other Taxes	\$ 2,924,696	\$ 2,955,442	\$ -	\$ -	\$ 2,924,696	\$ 2,955,442
State Formula Aid	\$ 12,441,911	\$ 12,274,185	\$ -	\$ -	\$ 12,441,911	\$ 12,274,185
Investment Earnings	\$ 148,384	\$ 87,182	\$ 17,062	\$ 3,782	\$ 165,446	\$ 90,964
Transfers	\$ (65,040)	\$ (57,583)	\$ 65,040	\$ 57,583	\$ -	\$ -
Loss on fixed assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other	\$ 52,445	\$ 803,919	\$ (80)	\$ 4,069	\$ 52,365	\$ 807,988
TOTAL REVENUES	\$ 28,021,388	\$ 29,875,640	\$ 1,575,537	\$ 1,313,049	\$ 29,596,925	\$ 31,188,689
EXPENSES:						
Depreciation – unallocated	0	613,028	0	0	0	613,028
Instruction	21,265,263	20,959,359	0	0	21,265,263	20,959,359
Instructional Student Support	1,275,025	1,257,541	0	0	1,275,025	1,257,541
Administration	3,509,482	3,204,529	0	0	3,509,482	3,204,529
Operation & Maintenance of Facilities	2,694,841	3,029,672	0	0	2,694,841	3,029,672
Pupil Transportation	1,334,645	1,217,189	0	0	1,334,645	1,217,189
Student Activities	559,790	514,332	0	0	559,790	514,332
Community Services	15,301	11,904	0	0	15,301	11,904
Scholarships and Awards	0	0	0	0	0	0
Capital Acquisition	0	7,974	0	0	0	7,974
Interest on long term debt	325,176	325,810	0	0	325,176	325,810
Food Service	0	0	1,461,734	1,335,181	1,461,734	1,335,181
Total Expenses	\$ 30,979,523	\$ 31,141,338	\$ 1,461,734	\$ 1,335,181	\$ 32,441,257	\$ 32,476,519
INCREASE (DECREASE) IN NET POSITION	-2,958,135	-1,265,698	113,803	-22,132	-2,844,332	-1,287,830

The District's specific revenues as indicated above were \$29,596,925 for the year ended June 30, 2018. This is a decrease of prior year. Taxes and State Formula Aid amounted to \$18,725,776. This is a decrease of \$288,377 from prior year that is reflected in taxes collected. Another \$9,159,823 came from Operating Grants and Contributions which also reflects a decrease of prior year in the amount of \$868,146. Food service revenue totaled \$1,575,537 and the remainder came from fees charged for services, investment earnings, and miscellaneous sources. (See Table A-4.)

The total cost of all programs and services was \$32,441,257 for the year ended June 30, 2018. This reflected a slight decrease of prior year, but the loss in revenue resulted in a deficit in which general fund balance was used to balance the year. The majority of the District's costs related to educating and servicing students (Instruction, Instructional Student Support, Pupil Transportation, Student Activities), in the amount of \$24,434,723 or 75.3%, Administrative Costs accounted for \$3,509,482 or 10.8%, Operation of the District's Facilities accounted for \$3,035,318 or 9.4%, and Food Service Costs totaled \$1,461,734 or 4.1%. (See Table A-4.) In general most of the District's costs are paid for by District taxpayers and taxpayers of the Commonwealth of Pennsylvania.

Table A-5
Shamokin Area School District
Net Cost of Governmental Activities
For Years Ended June 30, 2016 and 2017

	Total Cost	Total Cost	Percentage	Net Cost	Net Cost	Percentage
	of Services	of Services	Change	2017-2018	of Services	Change
	2017-2018	2016-2017			2016-2017	
Depreciation – unallocated	0	613,028			-613,028	
Instruction	21,265,263	20,959,359	1%	-13,811,146	-12,713,039	7.95%
Instructional Student Support	1,275,025	1,257,541	1.37%	-1,189,283	-1,200,535	-0.95%
Administration	3,509,482	3,204,529	8.69%	-3,032,237	-3,130,363	-3.24%
Operation & Maintenance of Facilities						
	2,694,841	3,029,672	-12.42%	-2,499,936	-2,334,976	6.60%
Pupil Transportation	1,334,645	1,217,189	8.80%	-455,877	-330,910	27.41%
Student Activities	559,790	514,332	8.12%	-490,744	-444,830	9.36%
Community Services	15,301	11,904	22.20%	-15,301	-11,904	22.20%
Interest & Charges on						
Long-Term Debt	325,176	325,810	-0.19%	-325,176	-325,810	-0.19%
Scholarships/Awards	0		0	0	0	
Capital acquisition	0	7,974			-7974	
Refund of prior year revenues	0	0	0	0	0	
Total Expenses	\$30,979,523	\$31,141,338	0.52%	-21,819,700	-21,113,369	3.24%

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

FINANCIAL ANALYSIS OF DISTRICT FUNDS

As of June 30, 2018, the District's governmental funds reported a combined fund balance of \$8,298,551 a decrease of \$1,369,883 from the prior year amount of \$9,668,434. (See Table A-6.) There was a decrease overall. Decreases were in the capital funds for the elementary project and ESCO energy project bond payables and other capital projects. The other factors are specific to two funds:

General Fund:

Overall, the District budgeted adequately for all levels of expenditures. Overall, actual expenditures of \$29,053,618 reflect 92% of the original budget estimate of \$31,606,300 or 8% of the original budget was not expended. Towards the end of the fiscal year the district historically does not maximize each expenditure line item unless it is deemed necessary. In addition, funds were budgeted to resolve past year issues regarding wards of state reimbursement from the state that may be owed to Northwestern. This item is still being discussed with our solicitor and has been budgeted for following year until its resolution.

Total actual revenue totaled \$27,173,609 equating to a deficit of \$1,106,266 which decreases the general fund balance. Local revenue and federal revenue decreased from prior year but was approximately \$290,177 more than originally projected.

Capital Reserve Fund:

The District established this fund in accordance with Section 1432 of the Pennsylvania Municipal Code and in compliance with the Pennsylvania School Code. It is utilized for unforeseen and various capital expenditures. In 2017-2018 the district expended a total of \$940,555 in capital projects, debt service, purchases, and improvements throughout the district. For the 2012-13 fiscal year and thereafter, the QZAB debt service will be paid from the capital reserve account. However, the Federal Government Sequestrian affected the 100% repayment of the interest. The district is receiving about 91% of the interest paid for the Elementary Project Bond Issuance. The District is receiving PlanCon funds for the Elementary Project as of the 2017-18 school year. The PlanCon funds must be recorded in the general fund prior to transferring to the capital reserve per PDE. The ESCO (energy) project debt service will be paid from the capital reserve account. The ESCO (energy) project debt was a loan in prior years. The district refinanced this loan as bond to save funds over the remained. However due to the impact the debt service is having on the capital projects fund, the district is considering moving debt service to the general fund.

At the beginning of the fiscal year, the fund balance was \$1,850,384. With all of the capital expenditures and revenue, the ending fund balance totaled \$1,640,767 or a net change in fund balance of \$209,617.

Table A-6
Shamokin Area School District
Change in Fund Balances
For Years Ended June 30, 2016 and 2017

	Fund Balance	Fund Balance	Increase
	30-Jun-18	30-Jun-17	(Decrease)
General Fund	\$6,657,783	\$7,818,049	(\$1,160,266)
Capital Reserve Fund	1,640,767	1,850,384	(\$209,617)
Non-Major Funds	0	0	0
Other Capital Projects Fund 39	1	1	\$0
Totals	\$8,298,551	\$9,668,434	(\$1,369,883)

Revenues for the District's governmental funds were \$27,953,137 while total expenses were \$29,457,612 yielding a deficiency of \$1,369,883. In June, 2016, the capital fund 39 has been used for the ESCO energy project that was completed in the 2016-17 school year. This loan was in the amount of \$4.5 million to upgrade the HVAC system of the center section of the High School, upgrade exterior lighting, and assist with energy savings in the district. During the summer of 2017, the District refinanced this loan with a Bond for savings.

General Fund Budget

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

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

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

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

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

The following provides a summary of General Fund revenues:

**Table A-7
Shamokin Area School District
General Fund Revenues
For Years Ended June 30, 2017 and 2018**

	Revenues 2017-18	Revenues 2016-2017	Increase (Decrease)	% Change
Local Sources	6,583,352	7,381,525	\$ (798,173)	-10.81%
State Sources	20,079,295	19,500,599	\$ 578,696	2.97%
Federal Sources	1,230,705	1,498,288	\$ (267,583)	-17.86%
Total Revenue	\$27,893,352	\$28,380,412	(\$487,060)	-1.72%

The following provides a summary of General Fund expenditures:

**Table A-8
Shamokin Area School District
General Fund Expenditures
For Years Ended June 30, 2016 and 2017**

	Expenditures	Expenditures	Increase (Decrease)	%
	2017-2018	2016-2017		Change
Instruction	\$19,320,705	\$19,274,921	\$45,784	0.24%
Support Services	8,397,429	8,493,640	\$ (96,211)	-1%
Non- instructional services	555,150	517,319	\$ 37,831	7.31%
Refunds of prior year revenues	76,419	0	\$ 76,419	
Total Expenditures	\$28,349,703	\$28,285,880	\$63,823	0.23%

Total General Fund expenditures increased by \$63,823 or 0.23% from the previous year. Employees Benefits increased due to increase cost of healthcare and PSERS retirement. Equipment increased due to purchases of computers and technology for classrooms. During the 2015-16 school year the SAEA and AFSCME contracts were settled and salaries reflect wage increases. These contracts ended on June 30, 2018. (See Table A-8.)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2018, the District had \$21,444,801 in net capital assets, including land, buildings, furniture and equipment. This is a decrease of 2.85% based on the total of \$22,074,665 in June of 2017 due to decreases in site improvements, building and building improvements, furniture and equipment. (Reference table A-9.)

Table A-9
Shamokin Area School District
Capital Assets
For Years Ended June 30, 2016 and 2017

	Governmental Activities 2017-2018	Governmental Activities 2016-2017	Business- Type Activities 2017-2018	Business-Type Activities 2016-2017	Total 2017-2018	Total 2016-2017	% Change
Land	10,362,707	10,362,707	0	0	10,362,707	10,362,707	0.00%
Site Improvements	553,059	\$601,838	\$0	\$0	553,059	\$601,838	-8.11%
Building and Building Improvements (net of acc dep)	9,567,524	10,100,387	0	0	9,567,524	10,100,387	-5.28%
Furniture and Equipment (net of acc dep)	903,646	906,949	57,865	102,784	961,511	1,009,733	-5%
Debt Issuance		0			0	0	0%
Construction in Progress	0				0	0	
Totals	\$21,386,936	\$21,971,881	\$57,865	\$102,784	\$21,444,801	\$22,074,665	-2.85%

Debt Administration

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

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

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

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

Table A-10
Shamokin Area School District
Long-Term Liabilities
For Years Ended June 30, 2016 and 2017

	Year Ending	Year Ending	Increase (Decrease)	%
	30-Jun-18	30-Jun-17		Change
General Obligation Bonds	\$6,411,000	\$6,723,688	-312,688	-4.65%
Current portion of long term debt	431,000	423,926	7,074	1.67%
Accrued interest	76,913	73,853	3,060	4%
Compensated Absences and Other Post Employment Benefits	345,088	\$417,633	-72,545	-17.37%
Net pension liability	42,721,000	42,966,000	(\$245,000)	-0.57%
Current portion of compensated absences	25,000	25,000	0	
Totals	\$50,010,001	\$50,630,100	-620,099	-1.22%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

A major financial issue facing the District is the funding of the district contractual obligations, specifically salaries and benefits for district staff. The Collective Bargaining agreement with the Shamokin Area Educational Association was settled during the 2015-2016 year as well as the agreement with AFSCME who represents the support staff employees. However, this five year agreement expires June 30, 2018. All eligible staff participate in the Central Susquehanna Regional Health Care Trust administered through the CSIU. The annual cost per enrollee for the PPO program is based on a tier rate of individual and dependent enrollment.

The projected tiers for 2017-18 annual cost are Single \$9,000, Husband & wife \$19,788, Parent & child \$12,588, Parent & children \$17,088, or Family \$25,188. The tiers establish a potential liability and difficulty in budgeting as employees move from single to two party or family coverage. From the initial year into 2015-16 the rate of increase was 5.5%. It is projected for the 2017-18 school to increase by 8.9% per tier level and for the 2018-19 by 8.9%. The rates of increase are based upon claims over a period of time. These increases vary and are not predictable.

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

In the fall of 2017, the district did settle both contracts. The collective bargaining agreement with the SAEA is for 5 years and with AFSCME for 4 years. A cost savings to the district will be the move from the healthcare plan PPO \$0 deductible to the QHDP at the IRS minimum. The district is also contributing to an Health Savings Plan for eligible employees. This contribution decreases from initial year to final year of the AFSCME agreement and remains at 40% for the SAEA employees.

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

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

Prior to the end of 2015-2016, Northwestern Academy closed its doors (May 2016). Providing instruction at Northwestern Academy has seen its challenges. A decision was made to provide special education instruction in 1213 and with the addition of regular education in 1314. At that time, enrollment numbers were steady. These enrollment numbers have been declining since 1213 which made it difficult to project tuition revenue and the needs of instructional staff. At the start of

the 2015-16 school year several buildings at Northwestern were closed and the district was able to decrease staff. However in December 2015 additional closures took place requiring the district to terminate additional staff. Enrollment declined drastically and the cost of the rental/lease per student ADM increased even more making it extremely costly. Though the district does invoice the home districts of costs, school code does limit what can be charged for regular education tuition. Other items of concern between Shamokin Area School District and Northwestern Human Services are Wards of state tuition reimbursement for years prior to 2008-09, regular education tuition portion of the special education students during 2012-13, and outstanding payments from home school districts of invoices. In the initial agreement with Northwestern, Shamokin Area School District was to act as a pass through of the funds between school districts of enrolled students and Northwestern which limited the liability to the district. These matters are currently being litigated.

The District is currently responsible for providing educational services to a new facility called Coal Township Youth Academy which houses court placed youth. This facility began accepting students in January. The Facility can house a maximum of 32 students. Due to the low enrollment numbers, the cost to the district exceeds the amount that we are limited to invoice the home districts by school code.

The agreement between the district and the American Federation of State, County, and Municipal Employees will expire in June of 2018. The present agreement settled in fall 2015 for the term of July 1 2013 through June 30, 2018. Previous agreements granted annual increases retroactive to July 1, 2009 as follows, .40, .60, .50, and .40 in 2012. The prior two contracts yielded annual hourly increase of: \$.75, .80, \$.80, \$.60, \$.60, \$.60, \$.60, \$.60, and \$.60. For the 2014-15 and 2015-16 budget, the district was still in negotiations and had prepared the budget without any increases included. Negotiations were in progress and it was difficult to predict how to budget for 2015-16. The budget was prepared without any increases included, however either the budgetary reserve would be used or the board would need to reopen the budget to allocate the appropriate funds to cover the cost of the contract. The agreement was settled after the passing of the budget with an increase of \$1 for 1516 (prorated), \$0.40 in 1617 and \$0.35 in 1718 were agreed upon. As referenced earlier, a new agreement has been reached in fall, 2017.

The District expects its retirement contribution on behalf of its employees to the Pennsylvania School Employees Retirement System (PSERS) to continue increasing in the future. House Bill 2497 was passed on October 14, 2010. This legislation addressed in part, the anticipated increases in PSERS. Specifically, for 2011-12, the employer contribution rate is 8.65%. For 2012-13 the rate is established at 12.36% which would have been 28.71% without this legislation. The rate for 2013-14 was 16.93%. The 2014-15 is 21.41% and 25.84% for 2015-16. There also were changes to the plan for new employees related to retirement age, multiplier, and the vesting period. Legislation is still addressing these issues. The annual increases present a significant funding issue for the Commonwealth of Pennsylvania as well as local school districts. The 2016-17 is set at 30.03 % and 2017-18 at 32.57%. The 2018-19 is 33.43 and projected for 2019-20 is a rate of \$34.29. With this said for every \$1.00 the district pays in salary, one must also add the benefit costs of retirement, social security, unemployment, and workers compensation. This \$1.00 becomes \$1.43.

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

The district is projecting an operating deficit in the range of \$3,000,000; the actual budget figure for 2017-18 was \$1,160,266. Personnel, tuition, and legal issues have contributed to the estimated increase in the deficit. In 13-14, 14-15 and 15-16, the district was able to keep their expenses within

the revenue collected and not have a high need to use the fund balance to budget. To accommodate the shortfall between our expenses and revenue, the deficit of was applied to the general fund balance. This decrease resulted in an ending fund balance of \$6,657,783 as of June 30, 2018. For the school year 2017-18, the district was able to maintain its actual expenditures to within 5% of the actual revenues received. Act 48 of 2002 prohibited districts from raising taxes if their fund balance exceeded eight percent of their projected expenditures. Thus the district has been unable to raise taxes over the past several years which began in 2012-13. Unfortunately, this only creates roughly \$88,000 in additional revenue and in 2017-18 total taxes collected decreased from prior year. Prior to Act 48, the last district tax increase was in June of 1992. The combination of not raising local real estate taxes, reduced state funding, maintenance of infrastructure, increase healthcare costs, increase PSERS contributions, and increased cyber charter school expenditures has contributed to this current financial dilemma. The need to cut programs, staff and supplies may be necessary to balance the budget in future years.

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

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

Retirement 2010-11	Retirement 2009-10	Retirement 2008-2009	Retirement 2007-2008	Retirement 2006-2007	Retirement 2005-2006	Retirement 2004-2005	Retirement 2003-2004
5.64%	4.78%	4.76%	7.13%	6.46%	4.69%	4.23%	3.77%

Retirement 2011-12	Retirement 2012-2013	Retirement 2013-2014	Retirement 2014-2015	Retirement 2015-2016	Retirement 2016-2017	Retirement 2017-2018	Retirement 2018-19
8.65%	12.36%	16.93%	21.41%	25.84%	30.03%	32.57%	33.43%

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

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

Shamokin Area School District

Statement of Net Position

As of June 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 8,110,434	\$ 1,675,483	\$ 9,785,917
Investments	217,851	-	217,851
Receivables, net:			
Taxes	2,846,686	-	2,846,686
Due from other governments	5,227,390	174,010	5,401,400
Inventories	-	29,060	29,060
Internal balances	149,915	(149,915)	-
Total Current Assets	<u>16,552,276</u>	<u>1,728,638</u>	<u>18,280,914</u>
Capital Assets:			
Land not being depreciated	10,362,707	-	10,362,707
Land and site improvements, net of accum. deprec.	553,059	-	553,059
Buildings and improvements, net of accum. deprec.	9,567,524	-	9,567,524
Furniture and equipment, net of accum. deprec.	903,646	57,865	961,511
Total Capital Assets	<u>21,386,936</u>	<u>57,865</u>	<u>21,444,801</u>
TOTAL ASSETS	37,939,212	1,786,503	39,725,715
DEFERRED OUTFLOWS OF RESOURCES:			
Pension Activity	7,184,572	-	7,184,572
OPEB Activity	<u>298,042</u>	<u>-</u>	<u>298,042</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	7,482,614	-	7,482,614
LIABILITIES:			
Accounts payable	2,998,306	113,980	3,112,286
Accrued salaries and benefits	2,456,945	-	2,456,945
Unearned income	13,804	16,703	30,507
Other	38,436	8,618	47,054
Long-Term Liabilities:			
Due within one year:			
Bonds and loans	431,000	-	431,000
Compensated absences	25,000	-	25,000
Accrued interest	76,913	-	76,913
Due in more than one year:			
Bonds and loans	6,411,000	-	6,411,000
Compensated absences	345,088	-	345,088
Net pension liability	42,721,000	-	42,721,000
Net OPEB liability	3,512,780	-	3,512,780
TOTAL LIABILITIES	<u>59,030,273</u>	<u>139,301</u>	<u>59,169,574</u>
DEFERRED INFLOWS OF RESOURCES:			
Pension Activity	551,000	-	551,000
OPEB Activity	<u>86,000</u>	<u>-</u>	<u>86,000</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	637,000	-	637,000
NET POSITION:			
Invested in capital assets, net of related debt	14,544,935	57,865	14,602,800
Restricted for capital projects	1,640,766	-	1,640,766
Unrestricted	(30,431,148)	1,589,337	(28,841,811)
Total Net Position	<u>\$ (14,245,447)</u>	<u>\$ 1,647,202</u>	<u>\$ (12,598,245)</u>

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

Shamokin Area School District
Statement of Activities
For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
Instruction	\$ 21,265,263	\$ 84,322	\$ 7,369,795	\$ (13,811,146)	\$ -	\$ (13,811,146)
Instructional student support	1,275,025	-	85,742	(1,189,283)	-	(1,189,283)
Administrative and financial support services	3,509,482	-	477,245	(3,032,237)	-	(3,032,237)
Operation and maintenance of plant services	2,694,841	-	194,905	(2,499,936)	-	(2,499,936)
Pupil transportation	1,334,645	-	878,768	(455,877)	-	(455,877)
Student activities	559,790	69,046	-	(490,744)	-	(490,744)
Community services	15,301	-	-	(15,301)	-	(15,301)
Interest on long-term debt	325,176	-	-	(325,176)	-	(325,176)
Total Governmental Activities	30,979,523	153,368	9,006,455	(21,819,700)	-	(21,819,700)
Business-Type Activities:						
Food services	1,461,734	344,268	1,149,247	-	31,781	31,781
Total Primary Government	<u>\$ 32,441,257</u>	<u>\$ 497,636</u>	<u>\$ 10,155,702</u>	<u>(21,819,700)</u>	<u>31,781</u>	<u>(21,787,919)</u>
General Revenues:						
Taxes:						
Property taxes, levied for general purposes, net				3,359,169	-	3,359,169
Public utility, realty, earned income and miscellaneous taxes levied for general purposes, net				2,924,696	-	2,924,696
Grants, subsidies, and contributions not restricted				12,441,911	-	12,441,911
Investment Earnings				148,384	17,062	165,446
Miscellaneous				52,445	(80)	52,365
Transfers				(65,040)	65,040	-
Total General Revenues				<u>18,861,565</u>	<u>82,022</u>	<u>18,943,587</u>
Change in Net Position				(2,958,135)	113,803	(2,844,332)
Net Position - June 30, 2017, as restated (See Note 16)				(11,287,312)	1,533,399	(9,753,913)
Net Position - June 30, 2018				<u>\$ (14,245,447)</u>	<u>\$ 1,647,202</u>	<u>\$ (12,598,245)</u>

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

Shamokin Area School District

Balance Sheet

June 30, 2018

	General Fund	Capital Reserve Fund	Capital Projects Fund	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 6,474,013	\$ 1,636,421	\$ -	\$ 8,110,434
Investments	217,851	-	-	217,851
Taxes Receivable, Net	2,846,686	-	-	2,846,686
Due from Other Funds	149,915	7,955	-	157,870
Intergovernmental Receivables	5,227,390	-	-	5,227,390
TOTAL ASSETS	\$ 14,915,855	\$ 1,644,376	\$ -	\$ 16,560,231
LIABILITIES				
Accounts Payable	\$ 2,994,696	\$ 3,610	\$ -	\$ 2,998,306
Due to Other Funds	7,955	-	-	7,955
Accrued Salaries and Benefits	2,456,945	-	-	2,456,945
Other Current Liabilities	38,436	-	-	38,436
Unearned Revenue	13,804	-	-	13,804
TOTAL LIABILITIES	5,511,836	3,610	-	5,515,446
DEFERRED INFLOWS OF RESOURCES				
Deferred Revenues	2,746,236	-	-	2,746,236
FUND BALANCES				
Restricted Fund Balance	-	1,640,766	-	1,640,766
Assigned Fund Balance	2,000,000	-	-	2,000,000
Unassigned Fund Balance	4,657,783	-	-	4,657,783
TOTAL FUND BALANCES	6,657,783	1,640,766	-	8,298,549
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES & FUND BALANCES	\$ 14,915,855	\$ 1,644,376	\$ -	\$ 16,560,231

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

Shamokin Area School District
Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position
As of June 30, 2018

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS **\$ 8,298,548**

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

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

Cost of capital assets	\$ 54,052,700	
Less: accumulated depreciation	<u>(32,665,764)</u>	21,386,936

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

Deferred outflows of resources related to pensions	7,184,572	
Deferred inflows of resources related to pensions	(551,000)	
Deferred outflows of resources related to OPEB	298,042	
Deferred inflows of resources related to OPEB	<u>(86,000)</u>	6,845,614

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

Net Pension Liability	(42,721,000)	
Net OPEB Liability	(3,512,780)	
Bonds Payable	(6,842,000)	
Compensated Absences	<u>(370,088)</u>	(53,445,868)

Governmental funds do not report a liability for accrued interest until due and payable; such liability is accrued on the District-Wide financial statements.	(76,913)
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Delinquent personal and property taxes receivables are not available soon enough to pay for the current period's expenditures and are, therefore, deferred in the funds.	<u>2,746,236</u>
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TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$(14,245,447)**

Shamokin Area School District
Statement of Revenues, Expenditures Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2018

	General Fund	Capital Reserve Fund	Capital Projects Fund	Total Governmental Funds
REVENUES				
Local Sources:				
Taxes	\$ 5,759,721	\$ -	\$ -	\$ 5,759,721
Earnings On Investments	88,599	59,785	-	148,384
Other Local Sources	735,032	-	-	735,032
State Sources	20,079,295	-	-	20,079,295
Federal Sources	1,230,705	-	-	1,230,705
TOTAL REVENUES	<u>27,893,352</u>	<u>59,785</u>	<u>-</u>	<u>27,953,137</u>
EXPENDITURES				
Instruction	19,320,705	-	-	19,320,705
Support Services	8,397,430	207,191	99,515	8,704,136
Non-Instructional Services	555,150	-	-	555,150
Debt Service - Principal	-	429,211	4,161,403	4,590,614
Debt Service - Interest	-	304,154	-	304,154
Refunds of Prior Year Revenues	76,419	-	-	76,419
TOTAL EXPENDITURES	<u>28,349,704</u>	<u>940,556</u>	<u>4,260,918</u>	<u>33,551,178</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(456,352)</u>	<u>(880,771)</u>	<u>(4,260,918)</u>	<u>(5,598,041)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from Extended-Term Financing	-	-	4,285,000	4,285,000
Bond Discount	-	-	(24,083)	(24,083)
Insurance Recoveries	32,278	-	-	32,278
Interfund Transfers In (Out)	(736,193)	671,153	-	(65,040)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(703,915)</u>	<u>671,153</u>	<u>4,260,917</u>	<u>4,228,155</u>
Net Change in Fund Balances	(1,160,267)	(209,618)	(1)	(1,369,886)
Fund Balance - July 1, 2017	<u>7,818,050</u>	<u>1,850,384</u>	<u>1</u>	<u>9,668,435</u>
Fund Balance - June 30, 2018	<u><u>\$ 6,657,783</u></u>	<u><u>\$ 1,640,766</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 8,298,549</u></u>

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

Shamokin Area School District
Reconciliation of Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
Governmental Funds
For the Year Ended June 30, 2018

Net changes in fund balances, total governmental funds \$ (1,369,885)

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

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

Depreciation expense	(826,285)
Capital outlay	241,340

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

169,941

Governmental funds report debt proceeds as an other financing source. The Statement of Activities treats such issuance of debt as a liability.

(4,285,000)

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

4,590,614

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

Pension activity	(1,548,123)
OPEB activity	87,493

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

Compensated absences	(21,291)
Accrued interest	3,061

Change in net position of governmental activities \$ (2,958,135)

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

Shamokin Area School District

Statement of Net Position

Proprietary Fund

June 30, 2018

	Food Service
ASSETS	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 1,675,483
Intergovernmental Receivables	174,010
Inventories	29,060
Total Current Assets	<u>1,878,553</u>
<i>Noncurrent Assets:</i>	
Machinery and Equipment, Net	<u>57,865</u>
 TOTAL ASSETS	 1,936,418
LIABILITIES	
<i>Current Liabilities:</i>	
Accounts Payable	113,980
Due to Other Funds	149,915
Unearned Revenues	16,703
Other Current Liabilities	8,618
Total Current Liabilities	<u>289,216</u>
 TOTAL LIABILITIES	 289,216
NET POSITION	
Investment in Capital Assets, net of Related Debt	57,865
Unrestricted Net Position	1,589,337
TOTAL NET POSITION	<u>\$ 1,647,202</u>

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

Shamokin Area School District
Statement of Revenues, Expenditures Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2018

	Food Service
OPERATING REVENUES:	
Food Service Revenue	\$ 344,268
OPERATING EXPENSES:	
Salaries	70,510
Employee Benefits	97,081
Purchased Property Services	6,443
Other Purchased Service	559,117
Supplies	683,274
Depreciation	44,919
Dues and Fees	390
TOTAL OPERATING EXPENSES	1,461,734
OPERATING INCOME/(LOSS)	(1,117,466)
NONOPERATING REVENUES (EXPENSES):	
Earnings on Investments	17,062
State Grants	48,089
Federal Grants	1,101,158
TOTAL NONOPERATING REVENUES (EXPENSES)	1,166,309
CONTRIBUTIONS, TRANSFERS, AND SPECIAL AND EXTRAORDINARY ITEMS	
Interfund Transfers - In	65,040
Other	(80)
TOTAL CONTRIBUTIONS, TRANSFERS, AND SPECIAL AND EXTRAORDINARY ITEMS	64,960
CHANGE IN NET POSITION	113,803
NET POSITION - JULY 1, 2017, as Restated (Note 16)	1,533,399
NET POSITION - JUNE 30, 2018	\$ 1,647,202

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

Shamokin Area School District
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2018

	Food Service
<i>Cash Flows from Operating Activities</i>	
Cash Received from Customers and Intergovernmental	\$ 342,097
Cash Payments to Employees for Services	(167,592)
Cash Payments to Suppliers for Goods and Services	(1,054,063)
Net Cash (Used for) Operating Activities	(879,558)
<i>Cash Flows from Noncapital Financing Activities</i>	
State Grants	48,450
Federal Grants	1,127,838
Operating Transfers In (Primary Government)	65,041
Other	(80)
Net Cash Provided by Noncapital Financing Activities	1,241,249
<i>Cash Flows from Investing Activities</i>	
Earnings on Investments	17,062
Net Cash Provided by Investing Activities	17,062
Net Increase (Decrease) in Cash and Cash Equivalents	378,753
Cash and Cash Equivalents Beginning of Year	1,296,730
Cash and Cash Equivalents End of Year	\$ 1,675,483
Operating Income (Loss)	\$ (1,117,466)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:	
Depreciation	44,919
(Increase) Decrease in Accounts Receivable	47,856
(Increase) Decrease in Other Current or Noncurrent Assets	149,914
(Increase) Decrease in Inventories	1,872
Increase (Decrease) in Unearned Revenue	(2,171)
Increase (Decrease) in Accounts Payable	(4,482)
Total Adjustments	237,908
Net Cash (Used for) Operating Activities	\$ (879,558)

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

Shamokin Area School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	Pension Fiduciary Fund	Private Purpose Trust Fund	Agency Fund - Student Activity
ASSETS			
Cash and Cash Equivalents	\$ -	\$ 63,179	\$ 168,896
Investments	<u>473,561</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>473,561</u>	<u>63,179</u>	<u>168,896</u>
LIABILITIES			
Other Current Liabilities	<u>-</u>	<u>-</u>	<u>168,896</u>
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u><u>\$ 168,896</u></u>
NET POSITION			
Restricted for Student Scholarships	-	63,179	
Restricted for Employee OPEB other than pensions	<u>473,561</u>	<u>-</u>	
TOTAL FIDUCIARY NET POSITION	<u><u>\$ 473,561</u></u>	<u><u>\$ 63,179</u></u>	

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

Shamokin Area School District
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2018

	Pension Fiduciary Fund	Private Purpose Trust Fund
ADDITIONS		
Gifts and Contributions	\$ -	\$ 6,148
Employer Contributions	159,340	-
Earnings on Investments	12,943	7
Gains on Investment	5,146	-
	<hr/>	<hr/>
TOTAL ADDITIONS	177,429	6,155
DEDUCTIONS		
Scholarships Awarded	-	4,850
Benefits Paid	159,340	-
Administrative Expenses	4,167	-
	<hr/>	<hr/>
TOTAL DEDUCTIONS	163,507	4,850
	<hr/>	<hr/>
CHANGE IN FIDUCIARY NET POSITION	13,922	1,305
FIDUCIARY NET POSITION - JULY 1, 2017, as Restated (See Note 16)	459,639	61,874
	<hr/>	<hr/>
FIDUCIARY NET POSITION - JUNE 30, 2018	<u>\$ 473,561</u>	<u>\$ 63,179</u>

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

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The financial statements include:

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

A. DEFINING THE REPORTING ENTITY

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

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

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

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

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

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. FUND ACCOUNTING

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

Established classifications are as follows:

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

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

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

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

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

Order of Fund Balance Spending Policy

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

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

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

Shamokin Area School District
 Note to the Financial Statements
 June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. FUND ACCOUNTING (Continued)

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2018

Fund Balance	General Fund	Capital Reserve Fund	Capital Projects	Total Governmental Funds
Nonspendable	\$ -	\$ -	\$ -	\$ -
Restricted	-	1,640,766	-	1,640,766
Committed	-	-	-	-
Assigned	2,000,000	-	-	2,000,000
Unassigned	4,657,783	-	-	4,657,783
TOTAL FUND BALANCE	\$ 6,657,783	\$ 1,640,766	\$ -	\$ 8,298,549

C. BASIS OF PRESENTATION

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

Government-Wide Financial Statements

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

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

- Direct Expenses are those that are clearly identifiable with a specific program.
- Program revenues include 1) charges to students or recipients who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. BASIS OF PRESENTATION (Continued)

- Taxes and other items not properly included among program revenues are reported as general revenues.

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

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

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

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

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. All individual governmental funds are considered to be major funds and are reported as separate columns in the governmental fund financial statements.

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

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. BASIS OF PRESENTATION (Continued)

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

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

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

The District reports the following major governmental funds:

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

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

Capital Projects Fund - The Capital Projects Fund is used to account for the acquisition or construction of major capital facilities, other than those financed by proprietary and trust funds, as well as debt activities relating to these projects.

The District reports the following major proprietary fund:

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

The District reports the following types of fiduciary funds:

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

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

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. BASIS OF ACCOUNTING

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

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

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

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

E. BUDGETS AND BUDGETARY ACCOUNTING

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

- An operating budget is adopted prior to the beginning of each year for the General Fund on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required.
- The Pennsylvania School Code dictates specific procedures relative to adoption of the School District's budget and reporting of its financial statements, specifically:
- The School District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

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

E. BUDGETS AND BUDGETARY ACCOUNTING (Continued)

- The School District is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which it is located, and within fifteen days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative office of the School District.
- Notice that public hearing will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least ten days prior to when final action on adoption is taken by the Board.

Legal budgetary control is maintained at the sub-function/major object level. The Board of School Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval. Appropriations lapse at the end of the fiscal period.

Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

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

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

F. CASH AND INVESTMENTS

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

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

G. INVENTORY

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

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. INVENTORY (Continued)

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

H. CAPITAL ASSETS

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

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

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

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

I. COMPENSATED ABSENCES

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

J. RESTRICTED ASSETS

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

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. FUND EQUITY

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

L. NET POSITION

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

M. FOOD SERVICE FUND- UNALLOCATED COSTS

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

N. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

O. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 28, 2019 the date on which the financial statements were available to be issued.

P. TAXES RECEIVABLE AND INTERGOVERNMENTAL RECEIVABLES

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

Q. INTERFUND ACTIVITY

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

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

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. DEFERRED OUTFLOWS/ INFLOWS OF RESOURCES

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

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

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

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

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

S. LONG-TERM LIABILITIES

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method in most instances. In the year ended June 30, 2018, the District made the decision to recognize the full non-material amount in the financial statements. Debt issuance costs are recognized as an expense in the period incurred.

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

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

T. DUE TO AND DUE FROM OTHER FUNDS

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

A. DEPOSITS

Custodial Credit Risk

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

Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to:

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

As of June 30, 2018, the District's cash balances for its governmental activities, business-type activities and fiduciary funds were \$10,017,992 and its bank balances were \$10,476,190.

All deposits at June 30, 2018 are insured by the Federal Deposit Insurance Corporation (FDIC) for amounts up to \$250,000. Deposits over this amount are collateralized by a pool of eligible securities established under Act 72 of the 1971 Session of the Pennsylvania General Assembly for the protection of public depositors. The pledged securities in the pool are safe kept at correspondent banks in accounts specifically segregated for this purpose. Act 72 specifies that it is the bank's responsibility to maintain sufficient assets in the pool to collateralize adequately all public deposits greater than the \$250,000 per type of account per entity which is FDIC insured.

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

B. INVESTMENTS

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

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

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

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

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

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

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

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

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

In June 2011, the District contributed \$347,118 to the Pennsylvania OPEB Trust. The Trust was established for Local PA Government units to pool their assets for investment to fund retiree benefits other than pensions within the meaning of the Governmental Accounting Standards Board Statements 43 and 45 (OPEB). The District's participation in the Trust is terminable by resolution of the District, subject to the terms, conditions, and restrictions of the Pennsylvania OPEB Trust Agreement and Participation Agreement. The assets of the trust are invested in a mutual fund in the US Bank. At June 30, 2018, the District's share of the trust is \$473,561, and is represented in the Statement of Fiduciary Net Position.

As of June 30, 2018, the District had the following deposits (carrying value):

	Fair Value Measurement Using 06/30/18	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
PA Treasurer's Invest	\$ 155,206	\$ 155,206	\$ -	\$ -
PSDLAF	62,645	62,645	-	-
OPEB Trust	473,561	473,561	-	-
Total Investments by fair value level	\$ 691,412	\$ 691,412	\$ -	\$ -

As of June 30, 2018, the District's investment balance by type and maturity were as follows:

Investment Type	Fair Value	Maturities		
		Less than 1 year	1-5 years	6-10 years
PA Treasurer's Invest	\$ 155,206	\$ 155,206	\$ -	\$ -
PSDLAF	62,645	62,645	-	-
OPEB Trust	473,561	473,561	-	-
	\$ 691,412	\$ 691,412	\$ -	\$ -

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES:

Due from other governments consist of amounts due for revenues earned by the District as of June 30, 2018. The following amounts are due from other governmental units:

	Governmental	Proprietary
Federal Programs	\$ 279,117	\$ 165,929
State Programs	1,074,564	8,081
Local Programs	3,873,709	-
Total	\$ 5,227,390	\$ 174,010

Shamokin Area School District
 Note to the Financial Statements
 June 30, 2018

NOTE 4 – INTERFUND TRANSFERS & RECEIVABLES

	Due to Other Funds	Due from Other Funds
General Fund	\$ 7,955	\$ 149,915
Capital Reserve Fund	-	7,955
Food Service Fund	149,915	-
	<u>\$ 157,870</u>	<u>\$ 157,870</u>

	Transfers to Other Funds	Transfers from Other Funds
General Fund	\$ 743,683	\$ 7,490
Capital Reserve Fund	-	671,153
Food Service Fund	-	65,040
	<u>\$ 743,683</u>	<u>\$ 743,683</u>

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 5 - CAPITAL ASSETS

Capital assets at June 30, 2018 consist of all land, buildings, furniture and equipment owned by and which has been titled in the name of the District. Amounts reflected in the government-wide statements are summarized as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Construction In Progress	\$ -	\$ -	\$ -	\$ -
Land	10,362,707	-	-	10,362,707
Total Capital Assets, Not Depreciated	10,362,707	-	-	10,362,707
Capital Assets, Being Depreciated:				
Buildings and Improvements	30,060,187	1,510	-	30,061,697
Site Improvements	3,003,493	7,178	-	3,010,671
Furniture and Equipment	10,405,144	232,652	20,171	10,617,625
Total Capital Assets, Being Depreciated	43,468,824	241,340	20,171	43,689,993
Less Accumulated Depreciation For:				
Buildings and Improvements	19,959,800	534,373	-	20,494,173
Site Improvements	2,401,655	55,957	-	2,457,612
Furniture and Equipment	9,498,195	235,955	20,171	9,713,979
Total Accumulated Depreciation	31,859,650	826,285	20,171	32,665,764
Governmental Activities -				
Capital Assets, Net -	<u>\$ 21,971,881</u>	<u>\$ (584,945)</u>	<u>\$ -</u>	<u>\$ 21,386,936</u>
Business Type Activities:				
Furniture/Equipment	\$ 735,696	\$ -	\$ -	\$ 735,696
Less: Accumulated Depreciation	632,912	44,919	-	677,831
Business Type Activities-				
Capital Assets, Net	<u>\$ 102,784</u>	<u>\$ (44,919)</u>	<u>\$ -</u>	<u>\$ 57,865</u>

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 5 - CAPITAL ASSETS (Continued)

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

Instruction	\$ 558,587
Instructional Student Support	35,827
Administrative & Financial Support Services	99,672
Operation & Maintenance of Plant Services	78,647
Pupil Transportation	37,502
Student Activities	15,620
Community Services	<u>430</u>
Governmental Activities Total	<u>\$ 826,285</u>
Business Type Activities Total	<u><u>\$ 44,919</u></u>

NOTE 6 - LONG-TERM LIABILITIES

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2018:

Governmental activities	Balance, July 1, 2017, As Restated	Additions	Retirements	Balance, June 30, 2018
Long Term Debt	\$ 7,147,614	\$ 4,285,000	\$ 4,590,614	\$ 6,842,000
Compensated Absences	348,797	21,291	-	370,088
Net Pension Liability	42,966,000	-	245,000	42,721,000
Net OPEB Liability	3,388,231	124,549	-	3,512,780
Total	<u>\$ 53,850,642</u>	<u>\$ 4,430,840</u>	<u>\$ 4,835,614</u>	<u>\$ 53,445,868</u>

Governmental Activities	Current Portion
Long Term Debt	\$ 431,000
Compensated Absences	25,000
Net Pension Liability	-
Net OPEB Liability	-
Total	<u><u>\$ 456,000</u></u>

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 6 - LONG-TERM LIABILITIES (Continued)

As of June 30, 2018, the District's long-term debt consisted of the following:

<u>Description</u>	<u>Interest Rate</u>	<u>Amount of Original Issue</u>	<u>Balance 07/01/17</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 06/30/18</u>
General Obligation Note, Series A of 2011	5.138%	\$ 4,068,000	\$ 2,938,000	\$ -	\$ 226,000	\$ 2,712,000
General Obligation Note, Series of 2015	2.620%	4,500,000	4,209,614	-	4,209,614	-
General Obligation Bond, Series of 2017	1.000%	4,285,000	-	4,285,000	155,000	4,130,000
			<u>\$ 7,147,614</u>	<u>\$ 4,285,000</u>	<u>\$ 4,590,614</u>	<u>\$ 6,842,000</u>

Long-Term Debt Obligations

General Obligation Note Series A of 2011

On November 3, 2011, the District, through the Pennsylvania State Public School Building Authority (Qualified Zone Academy Bonds (QZAB) – Direct Subsidy Bonds) issued a General Obligation Note Series A of 2011 in the amount of \$4,068,000 at a fixed interest rate of 5.138%. The proceeds of the issue are to be used to complete capital renovations and to pay issuance costs. Annual installments, as set forth below, are required to provide for payment of principal and interest through September 2029. Under the QZAB program the District will receive 92.80% reimbursement of interest paid on the Note in the form of a Federal reimbursement. The balance as of June 30, 2018 was \$2,712,000.

General Obligation Note Series of 2015

In 2015, the District issued its \$4,500,000 General Obligation Note Series of 2015, bearing interest at 2.62% per annum, maturing June 1, 2036. The proceeds of the note will be used to finance certain capital projects consisting of among other things, the District's Energy Savings Program and to pay capitalized interest and the and expenses of the financing. As of June 30, 2018, this Note was paid in full.

General Obligation Bonds, Series of 2017

In September 2017, the District issued the General Obligation Bonds, Series of 2017, in the aggregate principal amount of \$4,285,000 at variable interest rates due semi-annually and principal due annually. The proceeds of the bonds were used to currently refund the District's outstanding General Obligation Note, Series of 2015 and for payment of the costs of issuing the Bonds. The balance as of June 30, 2018 was \$4,130,000.

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 6 - LONG-TERM LIABILITIES (Continued)

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

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2019	\$ 431,000	\$ 305,140	\$ 736,140
2020	436,000	302,540	738,540
2021	436,000	299,390	735,390
2022	441,000	295,665	736,665
2023	446,000	291,315	737,315
2024- 2028	2,305,000	1,386,466	3,691,466
2029 - 2033	1,777,000	499,020	2,276,020
2034 - 2038	570,000	16,950	586,950
Totals	<u>\$ 6,842,000</u>	<u>\$ 3,396,486</u>	<u>\$ 10,238,486</u>

COMPENSATED ABSENCES

Vacation - District employees who are required to work on a twelve-month schedule are credited with vacation at rates which vary with length of service or job classification. Vacation may be taken or accumulated within certain limits and is paid prior to retirement or termination at the employee's current rate of pay. At June 30, 2018, the estimated liability for compensated absences related to vacation payable was \$26,450.

Sick Leave and Personal Leave - Most District employees are credited with ten sick days and three personal leave days annually. Upon retirement, employees received payment for the unused portion of their sick leave and personal leave based on years of service and on rates specified by contracts or agreements. At June 30, 2018, the estimated liability for compensated absences related to sick and personal leave was \$174,638.

Early Retirement Incentive- The District offers an early retirement incentive to professional employees who retire having at least ten complete years of service with the District and at least thirty complete years as a professional employee in public schools of the Commonwealth of Pennsylvania. At June 30, 2018, the estimated liability for compensated absences related to outstanding early retirement incentives was \$169,000.

The accrued benefit to be provided from unused sick, personal, and vacation days and early retirement incentives was estimated to be \$370,088 as of June 30, 2018, and was reflected in the statement of net position as "compensated absences." This amount reported in the statement of net position represents the amount that would have been committed by the District under the terms of the various collective bargaining agreements computed as if all eligible District employees had retired effective July 1, 2018.

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 7 – PENSION PLAN

Pensions

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

General Information about the Pension Plan

Plan description

PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania.

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

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

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 7 – PENSION PLAN (Continued)

Benefits Provided

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

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

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

All members are fully vested in their individual balance in the Members' Saving Account. All non-vested members may receive a refund of their individual balance of member contributions and interest for the Members' Savings Account upon termination of public school employment. Vested members who enrolled prior to July 1, 2011 may elect to receive a return of their accumulated contributions and interest upon their retirement which results in a reduced monthly annuity. Vested Class T-E and T-F members cannot withdraw their accumulated contributions and interest from the Members' Savings Account upon their retirement.

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 7 – PENSION PLAN (Continued)

Contributions

Member Contribution:

Member contribution rates are set by law (redefined with the provisions of Act 9 of 2001 and Act 120) and are dependent upon membership class. Member contribution rate are as follows:

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

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

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

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

Employer Contribution:

The contribution policy is set by the Code. The Districts' contractually required contribution rate for the fiscal year ended June 30, 2018 was 31.74% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$3,566,572 for the year ended June 30, 2018.

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 7 – PENSION PLAN (Continued)

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

At June 30, 2018, the District reported a liability of \$42,721,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it related to the total one- year reported covered payroll. At June 30, 2018, the District's proportion was 0.0865 percent, which was an decrease of 0.0002 percent from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, the District recognized pension expense of \$1,454,400. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 446,000	\$ 258,000
Changes in assumptions	1,160,000	-
Net difference between projected and actual investment earnings	990,000	-
Changes in proportion	1,022,000	293,000
Difference between employer contributions and proportionate share of total contributions	-	-
Contributions subsequent to the measurement date	3,566,572	-
	<u>\$ 7,184,572</u>	<u>\$ 551,000</u>

\$3,566,572 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as reduction of the net pension liability in the year ended June 30, 2018.

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 7 – PENSION PLAN (Continued)

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

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

Year Ended June 30:	
2018	1,087,000
2019	1,253,000
2020	883,000
2021	(156,000)
Thereafter	-

3. Changes in Actuarial Assumptions

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

- The Investment Rate of Return was adjusted from 7.50% to 7.25%
- The inflation assumption was decreased from 3.0% to 2.75%
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an 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 modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 7 – PENSION PLAN (Continued)

3. Changes in Actuarial Assumptions (Continued)

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	20.0%	5.1%
Fixed Income	36.0%	2.6%
Commodities	8.0%	3.0%
Absolute return	10.0%	3.4%
Risk parity	10.0%	3.8%
Infrastructure/MLPs	8.0%	4.8%
Real estate	10.0%	3.6%
Alternative Investment	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	-20.0%	1.1%
	<u>100.0%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017.

Discount rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total liability.

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 7 – PENSION PLAN (Continued)

3. Changes in Actuarial Assumptions (Continued)

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

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

	6.25%	7.25%	8.25%
District's Proportionate Share of the Net Pension Liability	\$ 52,586,000	\$ 42,721,000	\$ 34,392,000

Pension plan fiduciary net position

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

NOTE 8- OTHER POST-EMPLOYMENT BENEFITS

PSERS Healthcare Insurance Premium Assistance Plan

Plan Description

The Pennsylvania Public School Employees' Retirement System ("PSERS") provides a Health Insurance Premium Assistance Plan ("PSERS Plan"). The PSERS Plan is a governmental cost-sharing multi-employer postretirement benefits plan that provides premium assistance to eligible public school employees of the Commonwealth of Pennsylvania. Under the PSERS Plan, employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of premium assistance benefits for each succeeding year.

The administrative staff of PSERS administers the PSERS Plan. The control and management of PSERS, including the investment of its assets, is vested in the 15 member Board of Trustees (Board). The Commonwealth General Assembly has the authority to amend the benefit terms of the PSERS Plan by passing a bill in the Senate and House of Representatives and sending the bills to the Governor for approval.

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of the PSERS and additions to/deductions from PSER's fiduciary net position have been determined on the same basis as they are reported by PSERS. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 8- OTHER POST-EMPLOYMENT BENEFITS (Continued)

PSERS Healthcare Insurance Premium Assistance Plan (Continued)

Premium Assistance Eligibility Criteria

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

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

Benefits Provided:

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2017, there were no assumed future benefit increases to participating eligible retirees.

Employer Contributions:

The District's contractually required contribution rate for the fiscal year ended June 30, 2018 was 0.0611% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$93,266 for the year ended June 30, 2018.

As of June 30, 2018, the District reported a liability of \$1,762,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, 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, 2016 to June 30, 2017. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it related to the total one- year reported covered payroll. As of June 30, 2018, the District's proportion was 0.0865 percent, which was an increase of .0002 percent from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, the District recognized OPEB expense of (\$21,543). As of June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 8- OTHER POST-EMPLOYMENT BENEFITS (Continued)

PSERS Healthcare Insurance Premium Assistance Plan (Continued)

Employer Contributions (Continued):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference Between Projected and Actual Investment Earnings	\$ 2,000	\$ -
Changes in Assumptions	-	82,000
Changes in Proportion	-	4,000
Contributions Subsequent to the Measurement Date	93,266	-
	<u>\$ 95,266</u>	<u>\$ 86,000</u>

\$95,723 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30:

2018	\$ (1,400)
2019	(1,400)
2020	(1,400)
2021	(1,400)
2022	(1,400)
Thereafter	(8,400)

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.

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 8- OTHER POST-EMPLOYMENT BENEFITS (Continued)

PSERS Healthcare Insurance Premium Assistance Plan (Continued)

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, 2017.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	76.4%	0.6%
Fixed Income	23.6%	1.5%
Total	100.0%	

Discount rate

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

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

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2017, retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2016, 91,797 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2016, 1,354 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 Trend.

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 8- OTHER POST-EMPLOYMENT BENEFITS (Continued)

PSERS Healthcare Insurance Premium Assistance Plan (Continued)

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

The following presents the net OPEB liability, calculated using the discount rate of 3.13%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.13%) or 1-percentage-point higher (4.13%) than the current rate:

	1% Decrease 2.13%	Current Discount Rate 3.13%	1% Increase 4.13%
District's Proportionate Share of the Net OPEB Liability	\$ 2,003,000	\$ 1,762,000	\$ 1,562,000

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.

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

Plan Description

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

Plan Membership. As of June 30, 2018, the District Plan's membership consisted of the following:

Active Participants	231
Vested Former Participants	-
Retired Participants	19
Total	<u>250</u>
Annual Payroll of Active Participants:	\$ 10,542,847

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 8- OTHER POST-EMPLOYMENT BENEFITS (Continued)

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

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

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

Investments

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

Investment Policy. The District Plan’s policy in regard to the allocation of invested assets is established and may be amended by the School Board. It is the policy of the School Board to pursue an investment strategy that reduces risk through prudent diversification of the portfolio across a broad selection of distinct asset classes. The District Plan’s investment policy discourages the use of cash equivalent, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. A schedule of plan investments by asset class and target allocation as of June 30, 2018 is as follows:

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

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 8- OTHER POST-EMPLOYMENT BENEFITS (Continued)

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

Net OPEB Liability

The components of the net OPEB liability of the District’s Single-Employer Defined Benefit OPEB Plan at June 30, 2018 were as follows:

Total OPEB Liability	\$ 2,224,341
Plan Fiduciary Net Position	<u>473,561</u>
Net OPEB Liability (Asset)	<u>\$ 1,750,780</u>
Plan fiduciary net position as a percentage of the total OPEB liability	21.29%

Actuarial Assumptions and Other Inputs. The net OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.00%
Salary Increases	3.50% average, including inflation
Discount Rate	3.46%

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

The discount rate was based on the S&P Municipal Bond 20 Year High Grade Rate Index as of June 30, 2018.

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of census data as of September 2016.

The discount rate is determined following the procedures of Illustration B2 in the GASB 74 implementation guide. The long-term expected rate of return on OPEB plan investments is 6.50% and the municipal bond rate is 2.98% based on the S&P Municipal Bond 20 Year High Grade Rate Index as of June 30, 2018.

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 8- OTHER POST-EMPLOYMENT BENEFITS (Continued)

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

The target asset allocation as of June 30, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity	21.2%
International Equity	10.6%
Fixed Income	68.2%
	<u>100.0%</u>

Discount Rate. The discount rate used to measure the total net OPEB liability is 3.46% based upon the expected rate of return, net of expected investment expenses. The plan’s fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the net OPEB liability of the District Plan, as well as what the District’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.46%) or 1-percentage higher (4.46%) than the current discount rate (3.46%):

	<u>1% Decrease (3.6%)</u>	<u>Current Discount Rate (3.46%)</u>	<u>1% Increase (4.46%)</u>
District’s Net OPEB Liability	\$ 1,902,466	\$ 1,750,780	\$ 1,606,684

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

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
District’s Net OPEB Liability	\$ 1,586,142	\$ 1,750,780	\$ 1,948,290

NOTE 8- OTHER POST-EMPLOYMENT BENEFITS (Continued)

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

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

OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$27,773. As of June 30, 2018 the District reported deferred outflows related to OPEB from the following sources:

	Deferred Outflows of Resources
Differences between Expected and Actual Experience	\$ -
Changes in Assumptions	191,135
Net difference between Projected and Actual Earnings	11,641
Total	<u>\$ 202,776</u>

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

Year Ended June 30:

2019	\$ 16,755
2020	16,755
2021	16,755
2022	15,984
2023	13,652
Thereafter	122,875

NOTE 9 - TAXES ASSESSED AND DEFERRED REVENUE

The tax on real estate for public school purposes for the year ended June 30, 2018 was 30.95 mills (\$30.95 per \$1,000) of assessed valuation as levied by the board. Assessed valuations of property are determined by Northumberland County, and the elected tax collectors are responsible for the collection. The following is a listing of the taxes assessed:

Tax Type	Millage/Rate
Real Estate	30.95 mills
Occupation Tax - Act 511	\$200.00 / Person
Per Capita Tax - Act 511	\$5.00 / Person
Per Capita Tax - Section 679	\$5.00 / Person
Total Assessed Valuation	

NOTE 9 - TAXES ASSESSED AND DEFERRED REVENUE (Continued)

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

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

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

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

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

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

Taxes Receivable	\$ 3,347,211
Less Allowance for Uncollectable Accounts	(500,525)
Taxes Receivable, Net	<u>\$ 2,846,686</u>

NOTE 10 - RISK MANAGEMENT

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

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Grants

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

NOTE 11 - COMMITMENTS AND CONTINGENCIES (Continued)

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

Litigation

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

During the normal course of business, the District is subject to numerous disputes and claims. At June 30, 2018, there were no items of pending or threatened litigation that management has not accounted for of which they feel would have a material effect on the District's financial condition.

NOTE 12- RELATED ORGANIZATIONS

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

NOTE 13 - NEW PRONOUNCEMENTS

In November 2016, the GASB issued Statement No. 83, "Certain Asset Retirement Obligations." The District is required to adopt the provisions of statement No. 83 for its fiscal year 2019 financial statements.

In January 2017, the GASB issued Statement No. 84, "Fiduciary Activities." The District is required to adopt the provisions of statement No. 84 for its fiscal year 2020 financial statements.

In June 2017, the GASB issued Statement No. 87, "Leases." The District is required to adopt the provisions of Statement No. 87 for its fiscal year 2021 financial statements.

In April 2018, the GASB issued Statement No. 88, "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements." The District is required to adopt the provisions of Statement No. 88 for its fiscal year 2019 financial statements.

NOTE 13 - NEW PRONOUNCEMENTS (Continued)

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

In June 2018, the GASB issued Statement No. 89, "Accounting for Interest Cost Incurred before the end of a Construction Period." The District is required to adopt the provisions of Statement No. 88 for its fiscal year 2021 financial statements.

In August 2018, the GASB issued Statement No. 90, "Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61." The District is required to adopt the provisions of Statement No. 90 for its fiscal year 2020 financial statements.

The District has not yet completed the various analysis required to estimate the financial statement impact of these new pronouncements.

NOTE 14 - NORTHWESTERN ACADEMY

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

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

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

The SASD was servicing the special and regular education needs of Northwestern with professional staff employed by the SASD and was not utilizing sub-contracted services from neither the Central Susquehanna Intermediate Unit, nor Northwestern Academy. As of June 30, 2016 this facility has closed their doors. Intergovernmental receivables and payables remain outstanding as of June 30, 2018 relating to this entity's operations.

Shamokin Area School District
Note to the Financial Statements
June 30, 2018

NOTE 15 – TRUECORE BEHAVIORAL SOLUTIONS

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

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

NOTE 16 – RESTATEMENT

The following restatement was necessary to reflect the adoption of the provisions of GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" in which the District changed its manner of accounting for other postemployment benefits. It was also necessary relating to the evaluation of the OPEB investment account and student liabilities.

	<u>Governmental</u>	<u>Proprietary</u>	<u>Fiduciary</u>
Beginning Net Position, June 30, 2017	\$ (7,533,278)	\$ 778,286	\$ 61,874
Restatement	<u>(3,754,034)</u>	<u>755,113</u>	<u>459,639</u>
Restated Beginning Net Position, June 30, 2017	\$ (11,287,312)	\$ 1,533,399	\$ 521,513

**SHAMOKIN AREA SCHOOL DISTRICT
JUNE 30, 2018**

**Required
Supplementary
Information**

Shamokin Area School District
Required Supplementary Information
June 30, 2018

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

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

Amounts were determined as of the cost-sharing plan's June 30, 2017 fiscal year.

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

Schedule of the District Contributions - Last 10 Years

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

Amounts are based on actual contributions during the fiscal year.

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

Shamokin Area School District
Required Supplementary Information
June 30, 2018

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

	<u>2018</u>
District's proportion of the net OPEB liability	0.0000%
District's proportionate share of the OPEB liability	\$1,762,000
District's covered-employee payroll	\$11,513,198
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	15.30%
Plan fiduciary net position as a percentage of the total pension liability	51.84%

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

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

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

Amounts are based on actual contributions during the fiscal year.

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

Shamokin Area School District
Required Supplementary Information
June 30, 2018

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

Fiscal Year Ending	<u>2018</u>	<u>2017</u>
Total OPEB Liability		
Service Cost	\$ 123,972	\$ 117,927
Interest	75,052	74,478
Changes of Benefit Terms	-	-
Differences between Expected and Actual Experience	-	-
Changes of Assumptions	204,787	-
Benefit Payments	(159,340)	(211,017)
Other Changes	-	-
Net Change	<u>244,471</u>	<u>(18,612)</u>
Total OPEB Liability - Beginning	<u>1,979,870</u>	<u>1,998,482</u>
Total OPEB Liability - Ending	\$ 2,224,341	\$ 1,979,870
Plan Fiduciary Net Position		
Contributions - Employer	\$ 159,340	\$ 211,017
Contributions - Employee	-	-
Net Investment Income	18,089	26,585
Benefit Payments	(159,340)	(211,017)
Administrative Expense	(4,167)	(3,887)
Net Change	<u>13,922</u>	<u>22,698</u>
Plan Fiduciary Net Position - Beginning	<u>459,639</u>	<u>436,941</u>
Plan Fiduciary Net Position - Ending	\$ 473,561	\$ 459,639
Net OPEB Liability (Asset)	\$ 1,750,780	\$ 1,520,231
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	21.29%	23.22%
Covered Payroll	\$ 10,542,847	\$ 10,542,847
Net OPEB Liability as a Percentage of Covered-Employee Payroll	16.61%	14.42%

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

Shamokin Area School District
Required Supplementary Information
June 30, 2018

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

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

Notes to Schedule:

Valuation date:

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

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

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

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

**SHAMOKIN AREA SCHOOL DISTRICT
JUNE 30, 2018**

**Budget
to Actual
Schedule**

Shamokin Area School District
Schedule of Revenues, Expenditures Changes in Fund Balances
Budget and Actual
General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local Revenues	\$ 6,346,810	\$ 6,346,810	\$ 6,583,352	\$ 236,542
State Program Revenues	19,649,729	19,649,729	20,079,295	429,566
Federal Program Revenues	1,177,070	1,177,070	1,230,705	53,635
TOTAL REVENUES	27,173,609	27,173,609	27,893,352	719,743
EXPENDITURES				
<i>Instruction:</i>				
Regular Programs	13,698,774	13,698,774	12,664,603	1,035,695
Special Programs	4,464,262	4,464,262	4,453,290	10,972
Vocational Programs	1,747,856	1,747,856	1,459,450	288,406
Other Instructional Programs	1,060,946	1,060,946	335,669	725,277
Nonpublic School Programs	35,000	35,000	30,663	4,337
Community/Junior College Programs	-	-	-	-
Pre-Kindergarten Programs	340,000	340,000	377,030	(37,030)
<i>Support Services:</i>				
Pupil Personnel Services	533,308	533,308	524,751	8,557
Instructional Staff Services	661,639	661,639	714,447	(52,808)
Administrative Services	1,586,078	1,586,078	1,544,305	41,772
Pupil Health	589,944	589,944	553,896	36,048
Business Services	775,613	775,613	751,538	22,550
Operation & Maint. of Plant Services	3,097,594	3,097,594	2,513,111	584,483
Student Transportation Services	1,497,827	1,497,827	1,297,143	200,684
Central and Other Support Services	680,042	680,042	498,239	181,804
Other Support Services	-	-	-	-
<i>Operation of Noninstructional Services:</i>				
Food Services	-	-	-	-
Student Activities	614,252	614,252	540,280	73,972
Community Services	21,565	21,565	14,530	7,034
Scholarships and Awards	1,600	1,600	340	1,260
Acquisition, Constr., & Improvements	-	-	-	-
Debt Service	-	-	-	(68,929)
Refund of Prior year's revenue	-	-	76,419	-
TOTAL EXPENDITURES	31,406,300	31,406,300	28,349,704	3,064,084
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,232,691)	(4,232,691)	(456,352)	3,783,827
OTHER FINANCING SOURCES (USES)				
Insurance Proceeds	-	-	32,278	(32,278)
Interfund Transfers (Out)	-	-	(736,193)	743,683
Budgetary Reserve	(200,000)	(200,000)	-	(200,000)
TOTAL OTHER FINANCING SOURCES (USES)	(200,000)	(200,000)	(703,915)	(511,405)
Net Change in Fund Balances	\$ (4,432,691)	\$ (4,432,691)	(1,160,267)	\$ 3,272,422

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

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Shamokin Area School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 28, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule and Findings and Questioned Cost, which we consider to be material weaknesses. We consider deficiency 2018-001 described in the accompanying Schedule of Findings and Questioned Costs, to be a material weakness.

Compliance and Other Matters

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

The Shamokin Area School District's Response to Findings

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

Purpose of this Report

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

Klacik & Associates, P.C.

Shamokin, Pennsylvania
March 28, 2019

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

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

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

Klacik & Associates, P.C.

Shamokin, Pennsylvania
March 28, 2019

Shamokin Area School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

GRANT/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH GRANTOR'S NUMBER	PROGRAM OR AWARD AMOUNT	GRANT PERIOD BEGINNING/ ENDING DATES	TOTAL RECEIVED	ACCRUED OR (DEFERRED) REVENUE AT 6/30/17	REVENUE RECOGNIZED	FEDERAL EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT 6/30/18
U.S. DEPARTMENT OF EDUCATION									
Direct Funded									
PEP Carol White Grant	84.215F	Not Applicable	Unknown	7/1/16 - 6/30/17	\$ 36,520	\$ 36,520	\$ -	\$ -	\$ -
Passed through Pennsylvania Department of Education:									
Title I Grants to Local Educational Agencies	84.010	013-180380	827,129	7/1/17 - 9/30/19	661,703	-	713,676	713,676	51,973
Title I Grants to Local Educational Agencies	84.010	013-170380	904,409	7/1/16 - 9/30/18	219,304	172,044	47,260	47,260	-
Title I Subtotal					881,007	172,044	760,936	760,936	51,973
Title IV - Rural Education	84.358	007-180380	41,412	1/2/18 - 9/30/19	13,804	-	-	-	(13,804)
Title II Improving Teacher Quality	84.367	020-180380	124,633	7/1/17 - 9/30/19	50,172	-	58,956	58,956	8,784
Title II Improving Teacher Quality	84.367	020-170380	166,333	7/1/16 - 9/30/18	77,154	-	77,154	77,154	-
Title II Improving Teacher Quality Subtotal					127,326	-	136,110	136,110	8,784
Title IV Student Support and Academic Enrichment	84.424	144-180380	18,539	7/18/17 - 9/30/19	18,539	-	18,539	18,539	-
Passed through Central Susquehanna Intermediate Unit:									
Special Education - Grants to States (IDEA, Part B)	84.027	N/A	484,146	7/1/17 - 6/30/18	341,197	-	484,146	484,146	142,949
Special Education - Grants to States (IDEA, Part B)	84.027	N/A	485,082	7/1/16 - 6/30/17	329,499	329,499	-	-	-
Special Education - (IDEA, Part B) Subtotal					670,696	329,499	484,146	484,146	142,949
Special Education - Grants to States (IDEA, Preschool)	84.173	N/A	5,950	7/1/17 - 6/30/18	5,950	-	5,950	5,950	-
Special Education - Grants to States (IDEA, Preschool)	84.173	N/A	6,248	7/1/16 - 6/30/17	6,248	6,248	-	-	-
Special Education - (IDEA, Preschool) Subtotal					12,198	6,248	5,950	5,950	-
IDEA Cluster Subtotal					682,894	335,747	490,096	490,096	142,949
TOTAL U.S. DEPARTMENT OF EDUCATION					1,760,090	544,311	1,405,681	1,405,681	189,902
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES									
Passed through Pennsylvania Department of Human Services:									
Medical Assistance Program (ACCESS Title XIX)									
Administration Reimbursement (MAC)	93.778	N/A	N/A	7/1/17 - 6/30/18	-	-	23,235	23,235	23,235
Medical Assistance Program (ACCESS Title XIX)									
Administration Reimbursement (MAC)	93.778	N/A	N/A	7/1/16 - 6/30/17	11,580	15,751	-	-	4,171
Medical Assistance Program (ACCESS Title XIX) Subtotal					11,580	15,751	23,235	23,235	27,406
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					\$ 11,580	\$ 15,751	\$ 23,235	\$ 23,235	\$ 27,406

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

Shamokin Area School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

GRANT/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH GRANTOR'S NUMBER	PROGRAM OR AWARD AMOUNT	GRANT PERIOD BEGINNING/ ENDING DATES	TOTAL RECEIVED	ACCRUED OR (DEFERRED) REVENUE AT 6/30/17	REVENUE RECOGNIZED	FEDERAL EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT 6/30/18
U.S. DEPARTMENT OF AGRICULTURE									
Passed through Pennsylvania Department of Education:									
Fresh Fruit and Vegetables Program	10.582	116-49-650-3	N/A	7/1/17 - 6/30/18	\$ 53,336	\$ -	\$ 58,726	\$ 58,726	\$ 5,391
Fresh Fruit and Vegetables Program	10.582	116-49-650-3	N/A	7/1/16 - 6/30/17	28,592	22,291	6,301	6,301	-
Fresh Fruit and Vegetables Program Subtotal					81,928	22,291	65,027	65,027	5,391
School Breakfast Program (SBP)	10.553	116-49-650-3	N/A	7/1/17 - 6/30/18	175,719	-	214,639	214,639	38,920
School Breakfast Program (SBP)	10.553	116-49-650-3	N/A	7/1/16 - 6/30/17	40,677	40,677	-	-	-
School Breakfast Program (SBP) Subtotal					216,396	40,677	214,639	214,639	38,920
National School Lunch Program (NSLP)	10.555	116-49-650-3	N/A	7/1/17 - 6/30/18	617,394	-	739,012	739,012	121,618
National School Lunch Program (NSLP)	10.555	116-49-650-3	N/A	7/1/16 - 6/30/17	123,413	123,413	-	-	-
National School Lunch Program (NSLP) Subtotal					740,807	123,413	739,012	739,012	121,618
Passed through Pennsylvania Department of Agriculture:									
Value of USDA Commodities	10.555	2-02-49-650	N/A	7/1/15 - 6/30/16	86,609	(18,874)	88,780	88,780	(16,703)
					(A.)	(B.)		(C.)	(D.)
Child Nutrition Cluster Subtotal					1,043,812	145,216	1,042,431	1,042,431	143,835
TOTAL U.S. DEPARTMENT OF AGRICULTURE					1,125,740	167,507	1,107,458	1,107,458	149,226
TOTAL FEDERAL AWARDS					\$ 2,897,410	\$ 727,569	\$ 2,536,375	\$ 2,536,375	\$ 366,534

Code Legend

- (A.) Total amount of commodities received
(B.) Beginning inventory at July 1, 2017
(C.) Total amount of commodities used
(D.) Ending inventory at June 30, 2018

Footnote 1: Federal sources included in the face of the financial statements, such as Medical Assistance Reimbursement for Administrative Claiming Program, in the amount of \$67,446 are not required to be reported on the Schedule of Expenditures of Federal Awards.

Footnote 2: IDEA Cluster per the advisement of PDE to management has been included in local sources of revenue in the amount \$490,096.

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

Shamokin Area School District
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

1. BASIS OF PRESENTATION AND ACCOUNTING

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

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

The District has received noncash assistance during the year ended June 30, 2018 which is included in the Schedule of Expenditures of Federal Awards.

2. CATEGORIZATION OF EXPENDITURES

The accompanying Schedule reflects Federal expenditures for all programs which were active during the year. The categorization of expenditures included in the accompanying Schedule is based on the Catalog of Federal Domestic Assistance (CFDA). The accompanying Schedule of Expenditures of Federal Awards reflects CFDA changes issued through June 2018.

3. ADDITIONAL INFORMATION

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

4. IDENTIFICATION OF MAJOR PROGRAMS

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

Major Program	CFDA No.	Federal Expenditures
Title II Improving Teacher Quality	84.367	\$ 136,110
Child Nutrition Cluster	10.553, 10.555, 10.556, 10.559	1,042,431
Total		\$ 1,178,541
Percentage of total federal awards expended		46.47%

Shamokin Area School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: UNMODIFIED

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

Significant deficiency(ies)? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

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

Significant deficiency(ies)? yes X none reported

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.367	Title II Improving Teacher Quality
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster

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

Auditee qualified as low-risk auditee? yes X no

Shamokin Area School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section II – Financial Statement Findings

A. Material Weakness in Internal Control

Finding 2018-001 Financial Statement Adjustments and Presentation

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

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

Condition: Audit adjustments were required to be posted to the District's general ledger to properly reflect its financial position and financial activity for the year under audit. Although much of the information for the adjustments was provided by the District, some had not been analyzed and reconciled as adjustments and posted. The fact that these adjustments were required to be posted in order for the financial statements to be properly stated constitutes a deficiency in the District's financial reporting processes.

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

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

Shamokin Area School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section II – Financial Statement Findings (Continued)

Finding 2018-001 Financial Statement Adjustments and Presentation (Continued)

Effect: The District's financial position and financial activity as of and for the year ended June 30, 2018, was not properly stated until the adjustments were posted to the general ledger. There is a greater opportunity for error in financial reporting as the District's management has determined it is more cost-beneficial to utilize services of auditors to assist in drafting financial statements, as opposed to hiring a professional accountant trained in such matters.

Questioned Costs: Unknown

Recommendation: Although progress has been made, the District should evaluate whether it is beneficial to reconcile and post the additional entries required as part of the year-end closing process and not as audit adjustments. Year-end closing procedures should be adopted by the District to ensure all activity and entries are recorded prior to the audit engagement.

Prior Year Finding: Yes, see Finding 2017-001

**Auditee Response
and Corrective**

Action Plan: See attached response.

Shamokin Area School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section II – Financial Statement Findings (Continued)

B. Compliance Findings

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

Section III – Federal Award Findings and Questioned Costs

A. Significant Deficiency(ies) in Internal Control

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

B. Compliance Findings

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

SHAMOKIN AREA SCHOOL DISTRICT

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Chris Venna
Superintendent

Karen A. Colangelo
Business Manager

Shamokin Area School District

For Year Ended June 30, 2018

A. Material Weakness in Internal Control
Finding 2018-001 Financial Statement Adjustments and Presentation

Corrective Action Response

Management Response

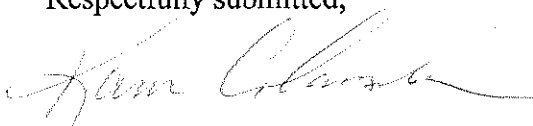
The School District has determined at this time that it is not beneficial to reconcile and prepare all of the material standard and non-standard entries as required as part of the year-end closing process due to staffing limitations and materiality of the entries. The School District has made progress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

Individual Response

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

Timeline: on-going

Respectfully submitted,



Karen Colangelo
Business Manager

Shamokin Area School District
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2018

**Finding 2017-001 INTERNAL CONTROL DEFICIENCY OVER ADJUSTING ENTRIES
AND PRESENTATION OF THE FINANCIAL STATEMENTS –
MATERIAL WEAKNESS**

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

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

Conclusion: Finding unresolved. See finding 2018-001.