

**Indiana Area School District  
Indiana, Pennsylvania**

**Single Audit as required by  
the Uniform Guidance**

**For the Year Ended  
June 30, 2018**

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**List of Report Distribution**

December 18, 2018

To the Members of the Board  
Indiana Area School District  
Indiana, Pennsylvania 15701

Board Members:

Not later than thirty days after receipt of the audit report, Indiana Area School District must distribute the audit report as follows:

One (1) copy to: Commonwealth of Pennsylvania –  
Bureau of Audits  
(submitted electronically)

One (1) copy to: Single Audit Clearinghouse  
(submitted electronically)

Sincerely,

Kotzan CPA & Associates, P.C.



## **Independent Auditors' Report**

To the Members of the Board  
Indiana Area School District  
Indiana, Pennsylvania 15701

### **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 the Indiana Area School 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**

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.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Indiana Area School 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.

## **Change in Accounting Principle**

As discussed in Note 24 to the financial statements, in fiscal year 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

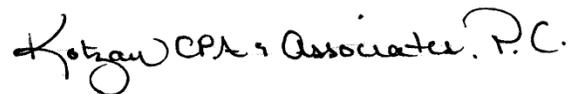
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, historical pension and OPEB information, and budgetary comparison information on pages 5-14, pages 63-65, and page 66, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards and certain state grants is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the basic financial statements. The schedule of expenditures of federal awards and certain state grants is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 and certain state grants 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 December 18, 2018 on our consideration of Indiana Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Indiana Area School District's internal control over financial reporting and compliance.



Kotzan CPA & Associates, P.C.  
Johnstown, Pennsylvania  
December 18, 2018

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# Management's Discussion and Analysis

## *Indiana Area School District*

2017-2018

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

This section of the Indiana Area School District annual financial report provides a discussion and analysis of the School District's financial performance during the fiscal year ended June 30, 2018. This discussion and analysis should be read in conjunction with the School District's accompanying financial statements, which immediately follow this section.

### FINANCIAL HIGHLIGHTS

General Fund expenditures were \$54,081,271, which was an increase over last year of \$636,255 or 1%. Salary and benefit costs, which comprise almost three-fourths of total expenditures, increased by \$204,075 or 0.5%. The increase in expenditures was primarily due to: the increase in salary and benefits, and outside placements, including cyber schools and transportation. General Fund revenue of \$54,702,504 was an increase of \$987,055 or 1.8% over last year. The local revenue increased by \$844,618, with the increase in the real estate taxes playing the biggest part. State revenue increased by \$250,527, mainly due to an increase in the Retirement Reimbursement and Basic Education Subsidy. Federal revenue decreased by \$108,090 because of a decrease in the District's Title allocation recognized.

The General Fund Balance for fiscal year ended 2017-2018 of \$6,888,279 is an increase from the prior year of \$621,233 and equates to 12% of 2018-2019 budgeted expenditures.

### USING THE ANNUAL FINANCIAL REPORT

The annual financial report includes the Management's Discussion and Analysis and a series of financial statements and notes to those statements. These statements are organized so that the reader can understand Indiana Area School District as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

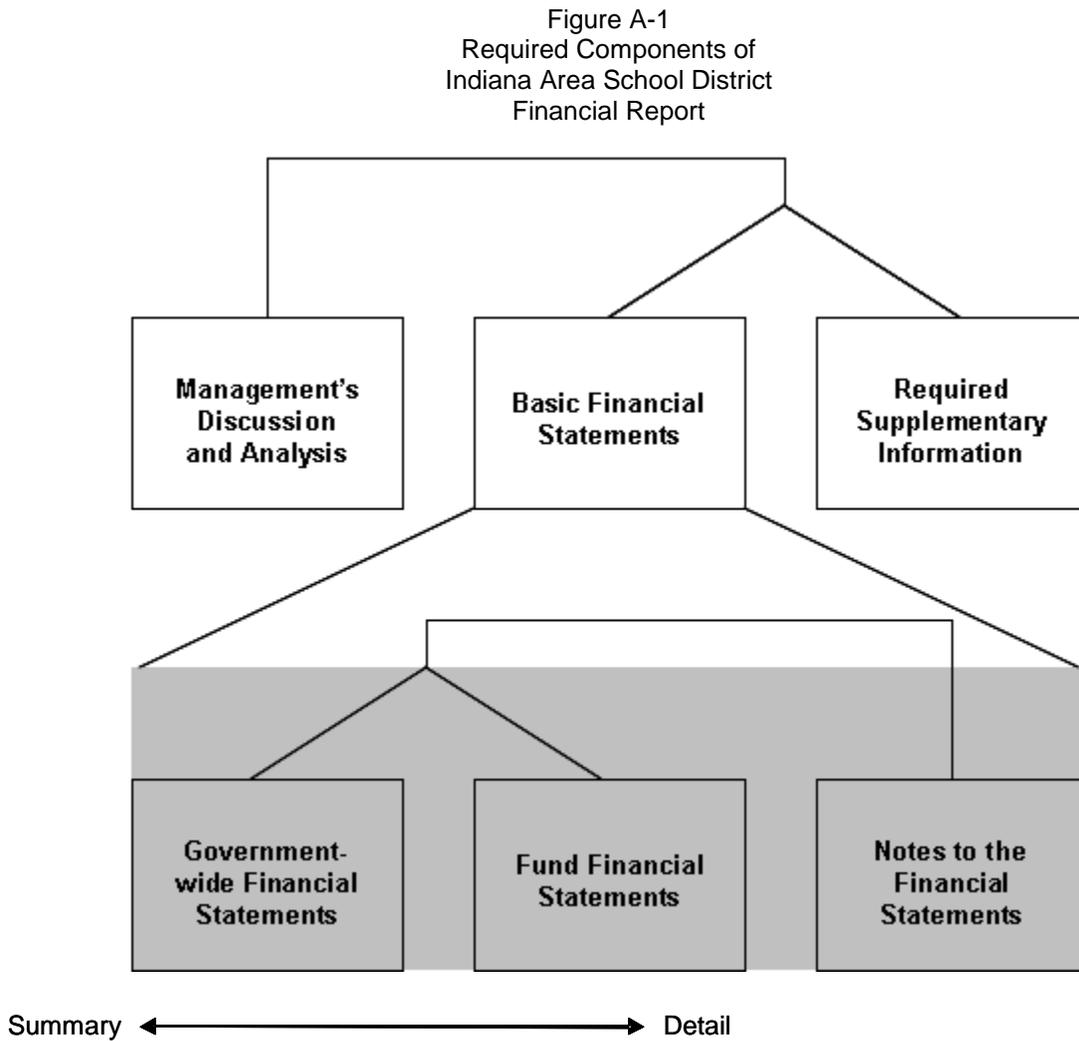
The first two statements are government-wide financial statements – the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the School District's overall financial status.

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

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

**Indiana Area School District**  
*Management's Discussion and Analysis (MD&A)*

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



**Indiana Area School District**  
**Management's Discussion and Analysis (MD&A)**

Figure A-2 summarizes the major features of the School District's financial statements. The remainder of this overview section of the Management's Discussion and Analysis highlights the structure and contents of each of the statements.

**Figure A-2**

| <b>Major Features of the Government-wide and Fund Financial Statements</b> |  |   |   |  |
|--|--|---|---|--|
|  | Government-wide Statements   | Fund Financial Statements   |   |  |
|  |  | Governmental Funds  | Proprietary Funds   | Fiduciary Funds  |
| Scope  | Entire School District (except fiduciary funds)  | Activities of the School District that are not proprietary or fiduciary, such as general operating, special revenue, capital projects and debt service        | Activities the School District operates similar to private businesses, such as food services  | Instances in which the School District administers resources on behalf of someone else such as scholarship programs and student activities monies                |
| Required financial statements  | <ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>     | <ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>                | <ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenues, expenses, and changes in fund net position (deficit)</li> <li>• Statement of cash flows</li> </ul> | <ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of changes in fiduciary net position</li> </ul>                |
| Accounting basis and measurement focus                                     | Accrual accounting and economic resources focus  | Modified accrual accounting and current financial focus   | Accrual accounting and economic resources focus   | Accrual accounting and economic resources focus  |
| Type of asset/liability information  | All assets, deferred outflows, liabilities and deferred inflows both financial and capital, short-term and long-term | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets, deferred outflows, liabilities and deferred inflows, both financial and capital, and short-term and long-term   | All assets, deferred outflows, liabilities and deferred inflows, both short-term and long-term; funds do not currently contain capital assets, although they can |
| 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 the year; expenditures when goods or services have been received and the related liability is due and payable      | All revenues and expenses during the year, regardless of when cash is received or paid  | All additions and deductions during the year, regardless of when cash is received or paid  |

## Government-wide Statements

The Government-wide statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The *Statement of Net Position* includes all of the School District's assets, deferred outflows of resources, liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when cash is received or paid.

The Government-wide statements report the School District's *net position* and how it has changed. Net position – the difference between the School District's assets and deferred outflows and liabilities and deferred inflows – are one way of measuring the School District's financial health or position. Over time, increases or decreases in the School District's net position are an indicator of whether its financial position is improving or deteriorating. To assess the School District's overall health, non-financial factors, such as changes in the School District's property tax base and the condition of existing school facilities should be considered.

In the Government-wide financial statements, the School District's activities are divided into two categories as follows:

- **Governmental Activities:** Most of the School District's basic services are included here, such as regular and special education, maintenance and operation of plant services, transportation services and administrative services. Property taxes, along with state formula aid finance most of these activities.
- **Business-type Activities:** The School District charges fees to cover the cost of certain services such as Food Services programs.

## Fund Financial Statements

The fund financial statements provide more detailed information about the School District's funds. These statements focus on the School District's most significant or "major" funds – not the School District as a whole. Funds are accounting components the School District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law and by bond covenants. The School District may establish other funds to control and manage money for particular purposes, such as repaying its long-term debts.

The School District has three types of funds as follows:

**Governmental Funds:** Most of the School District's basic services are included in Governmental Funds, which generally focus on (1) how cash and other financial assets can readily be converted into cash inflows and outflows and (2) balances left at year-end that are available for spending. Consequently, the Governmental Funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, a reconciliation between the two types of statements is provided to explain the relationship (or differences) between them.

**Proprietary Funds:** Services for which the School District charges a fee are generally reported in Proprietary Funds. Proprietary Funds are reported in the same way as the Government-wide financial statements. The School District's *Enterprise Funds* (one type of Proprietary Fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. The School District currently has one Enterprise Fund, the Food Service Fund.

**Indiana Area School District**  
**Management's Discussion and Analysis (MD&A)**

**Fiduciary Funds:** The School District is the trustee, or *fiduciary*, for assets that belong to others, such as student activity funds. The School District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The School District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

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

The School District's total net position was a deficit of (\$74,859,119) at June 30, 2018.

Figure A-3  
 Fiscal Years ended June 30, 2018 and 2017  
 Condensed Statement of Net Position

|  | Governmental Activities |                        | Business-Type Activities |                   | Total                  |                        |
|--|-------------------------|------------------------|--------------------------|-------------------|------------------------|------------------------|
|  | 2017                    | 2018                   | 2017                     | 2018              | 2017                   | 2018                   |
| Current assets   | \$ 23,729,016           | \$ 23,396,496          | \$ 48,166                | \$ 125,639        | \$ 23,777,182          | \$ 23,522,135          |
| Noncurrent assets  | 35,445,183              | 33,582,837             | 147,059                  | 170,148           | 35,592,242             | 33,752,985             |
| <b>Total assets</b>  | <b>\$ 59,174,199</b>    | <b>\$ 56,979,333</b>   | <b>\$ 195,225</b>        | <b>\$ 295,787</b> | <b>\$ 59,369,424</b>   | <b>\$ 57,275,120</b>   |
| <b>Deferred Outflows of Resources</b>                        | <b>\$ 16,494,400</b>    | <b>\$ 16,818,645</b>   | <b>\$ 0</b>              | <b>\$ 0</b>       | <b>\$ 16,494,400</b>   | <b>\$ 16,818,645</b>   |
| Current liabilities  | \$ 9,217,564            | \$ 8,478,088           | \$ 90,800                | \$ 70,341         | \$ 9,308,364           | \$ 8,548,429           |
| Long-term liabilities  | 132,031,712             | 137,831,455            | 0                        | 0                 | 132,031,712            | 137,831,455            |
| <b>Total liabilities</b>                                     | <b>\$ 141,249,276</b>   | <b>\$ 146,309,543</b>  | <b>\$ 90,800</b>         | <b>\$ 70,341</b>  | <b>\$ 141,340,076</b>  | <b>\$ 146,379,884</b>  |
| <b>Deferred Inflows of Resources</b>                         | <b>\$ 2,286,000</b>     | <b>\$ 2,573,000</b>    | <b>\$ 0</b>              | <b>\$ 0</b>       | <b>\$ 2,286,000</b>    | <b>\$ 2,573,000</b>    |
| Net position invested in capital assets, net of related debt | \$ 4,907,016            | \$ 5,699,158           | \$ 147,059               | \$ 170,148        | \$ 5,054,075           | \$ 5,869,306           |
| Restricted for capital projects                              | 1,713,656               | 1,121,514              | 0                        | 0                 | 1,713,656              | 1,121,514              |
| Restricted - other   | 22,259                  | 12,888                 | 0                        | 0                 | 22,259                 | 12,888                 |
| Unrestricted   | (74,509,608)            | (81,918,125)           | (42,634)                 | 55,298            | (74,552,242)           | (81,862,827)           |
| <b>Total net position</b>                                    | <b>\$ (67,866,677)</b>  | <b>\$ (75,084,565)</b> | <b>\$ 104,425</b>        | <b>\$ 225,446</b> | <b>\$ (67,762,252)</b> | <b>\$ (74,859,119)</b> |

Most of the School District's net position is invested in capital assets (buildings, land, and equipment). The restricted balances are amounts set aside to fund future purchases or capital projects as planned by the School District or restricted by donors. The unrestricted deficit is the result of the District's proportionate share of the PSERS pension and OPEB liabilities at June 30, 2018 which amounted to \$89,788,000 and \$12,975,423, respectively.

**Indiana Area School District**  
**Management's Discussion and Analysis (MD&A)**

Assets decreased due largely to the decrease in capital assets of approximately \$1.8 million over prior year. This decrease was the result of depreciation expense of \$2,350,721 vs. capital additions of only \$488,375. Liabilities increased over \$5 million due to the increase in the OPEB liability of over \$9 million, which was offset by the \$1.4 million decrease in the net pension liability and the \$2.2 million decrease in long-term debt. The OPEB liability was affected by the implementation of GASB Statement No. 75 in the current year, which resulted in a prior year restatement of net position not reflected in the comparative statements above. See Note 24.

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

Figure A-4 takes the information from the Statement of Activities, rearranges it slightly, so you can see our total revenues for the year.

Figure A-4  
Fiscal Years ended June 30, 2018 and 2017  
Condensed Statement of Activities

|   | Governmental Activities |                     | Business-Type Activities |                   | Total                 |                     |
|---|-------------------------|---------------------|--------------------------|-------------------|-----------------------|---------------------|
|   | 2017                    | 2018                | 2017                     | 2018              | 2017                  | 2018                |
| <b>Revenues</b>                                   |                         |                     |                          |                   |                       |                     |
| Charges for services                              | \$ 387,604              | \$ 377,836          | \$ 541,015               | \$ 545,485        | \$ 928,619            | \$ 923,321          |
| Operating grants and contributions                | 9,385,669               | 9,430,380           | 765,000                  | 794,906           | 10,150,669            | 10,225,286          |
| Taxes   | 33,053,635              | 33,753,575          | 0                        | 0                 | 33,053,635            | 33,753,575          |
| Grants, subsidies and contributions, unrestricted | 10,258,538              | 10,398,206          | 0                        | 0                 | 10,258,538            | 10,398,206          |
| Cap Grants and contributions                      | 505,051                 | 440,004             | 0                        | 0                 | 505,051               | 440,004             |
| Other   | 186,973                 | 140,212             | 2,422                    | 49,219            | 189,395               | 189,431             |
| <b>Total revenues</b>                             | <u>53,777,470</u>       | <u>54,540,213</u>   | <u>1,308,437</u>         | <u>1,389,610</u>  | <u>55,085,907</u>     | <u>55,929,823</u>   |
| <b>Expenses</b>                                   |                         |                     |                          |                   |                       |                     |
| Instruction                                       | \$ 40,445,848           | \$ 37,530,037       | \$ 0                     | \$ 0              | \$ 40,445,848         | \$ 37,530,037       |
| Support services                                  | 17,994,543              | 15,296,756          | 0                        | 0                 | 17,994,543            | 15,296,756          |
| Student activities                                | 1,178,142               | 1,198,147           | 0                        | 0                 | 1,178,142             | 1,198,147           |
| Interest on long-term debt                        | 813,716                 | 914,415             | 0                        | 0                 | 813,716               | 914,415             |
| Food services                                     | 0                       | 0                   | 1,238,112                | 1,268,589         | 1,238,112             | 1,268,589           |
| <b>Total expenses</b>                             | <u>60,432,249</u>       | <u>54,939,355</u>   | <u>1,238,112</u>         | <u>1,268,589</u>  | <u>61,670,361</u>     | <u>56,207,944</u>   |
| Increase (decrease) in net position               | <u>\$ (6,654,779)</u>   | <u>\$ (399,142)</u> | <u>\$ 70,325</u>         | <u>\$ 121,021</u> | <u>\$ (6,584,454)</u> | <u>\$ (278,121)</u> |

**Indiana Area School District**  
**Management's Discussion and Analysis (MD&A)**

Revenues are up over approximately \$850,000 in fiscal year 2018 due primarily to a tax increase. Expenses decreased over \$5 million in fiscal year 2018 due in part to decreased capital costs. Prior year capital additions totaled nearly \$1.3 million vs. less than \$500,000 in the current year. Further, the implementation of GASB No. 75 in the current year had a significant impact on the recognition of OPEB expense which totaled \$985,000 in 2017-18 vs. over \$3.1 million in the 2016-17 year. Again, the prior year information in the comparative statements above has not been restated for the impact of GASB No. 75. See Note 24 for effect of prior year restatement.

Figure A-5 shows the School District's six largest functions – instruction, support services, other non-instructional services, student activities, community services, and debt service as well as each program's net cost (total cost less revenues generated by the activities). Also presented are the net costs offset by the other unrestricted grants, subsidies and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

Figure A-5  
Fiscal Years ended June 30, 2018 and 2017  
Governmental Activities

| Functions/Programs                                     | Total Cost of Services |                      | Net Cost of Services |                      |
|--|------------------------|----------------------|----------------------|----------------------|
|  | 2017                   | 2018                 | 2017                 | 2018                 |
| Instruction  | \$ 40,445,848          | \$ 37,530,037        | \$ 31,761,497        | \$ 28,920,811        |
| Support services                                       | 17,994,543             | 15,296,756           | 16,469,857           | 13,750,944           |
| Student activities                                     | 1,178,142              | 1,198,147            | 1,108,855            | 1,104,965            |
| Interest on long-term debt                             | 813,716                | 914,415              | 813,716              | 914,415              |
| <b>Total governmental activities</b>                   | <b>\$ 60,432,249</b>   | <b>\$ 54,939,355</b> | 50,153,925           | 44,691,135           |
| Less:  |                        |                      |                      |                      |
| Unrestricted grants, subsidies                         |                        |                      | 10,258,538           | 10,398,206           |
| <b>Total needs from local taxes and other revenues</b> |                        |                      | <b>\$ 39,895,387</b> | <b>\$ 34,292,929</b> |

Figure A-6 reflects the activities of the Food Service program, the only Business-type activities of the School District.

Figure A-6  
Fiscal Years ended June 30, 2018 and 2017  
Business-type Activities

| Functions/Programs                    | Total Cost of Services |                     | Net Cost of (Income from) Services |                  |
|---------------------------------------|------------------------|---------------------|------------------------------------|------------------|
|                                       | 2017                   | 2018                | 2017                               | 2018             |
| Food services                         | \$ 1,238,112           | \$ 1,268,589        | \$ (69,103)                        | \$ 71,802        |
| <b>Total business-type activities</b> | <b>\$ 1,238,112</b>    | <b>\$ 1,268,589</b> | <b>\$ (69,103)</b>                 | <b>\$ 71,802</b> |

The Statement of Revenues, Expenses and Changes in Net Position for this Proprietary Fund will further detail the actual results of operations.

**Indiana Area School District**  
*Management's Discussion and Analysis (MD&A)*

THE SCHOOL DISTRICT FUNDS

At June 30, 2018, the School District's Governmental Funds reported a combined fund balance of \$16,286,114, which is an increase of \$116,838 over last year. An analysis of this change is detailed in the following paragraphs:

General Fund

The General Fund balance increased by \$621,233. When the 2017-2018 budget was adopted, a deficit of \$1,358,295 was projected. By spending \$1,226,231 less than budgeted while receiving \$753,297 more revenue than projected, the School District was able to eliminate the deficit and end the year positive.

Capital Reserve Fund

The Capital Reserve Fund balance decreased by \$516,158. The reason for this decrease was expenditures of \$532,443 and the only revenue for the year was interest income of \$8,362 and transfers from General Fund of \$7,923.

Capital Projects

The Capital Projects Fund balance was \$8,276,321 at June 30, 2018. In November of 2016 the Board authorized the issuance of \$9,925,000 in General Obligation Bonds to fund the possible construction of a new Ben Franklin Elementary and Renovations/Additions to East Pike Elementary. The balance of the bond issue less expenditures for the projects that are not moving forward at this time is sitting in the Capital Projects Fund.

Proprietary Fund

The Proprietary Fund Type is used to report the results of operations of the Food Service Program. This year, the results of Food Service Program before contributions and transfers resulted in net income of \$71,895. The net position balance is \$225,446.

The School District opted to contract with a management company 19 years ago in an effort to improve the efficiency and quality of the program. Since then the financial performance of the program has improved.

In analyzing food and labor costs, which represent most of the Food Service Program costs, it appears that the School District is operating within industry standards. Increasing prices may be required to maintain breakeven financial status annually.

General Fund Budget

Budget transfers are required by state law and have been required since the Public School Code was adopted in 1949. Transfers are permitted from one class of expenditures to another without limit, so long as total expenditures of the School District do not exceed the original budget.

Over the years, there have been a number of different interpretations on how funds should be transferred and when. Presently, transfers are permitted to be made after the year-end audit adjustments are completed and are not required in connection with Federal program funds. To avoid confusion, we do transfers to cover all account categories regardless of whether or not Federal funds are involved and all transfers are done after the audit is complete.

The budget transfer practice we use lends itself to greater management control. Whenever certain classes of expenditures exceed original budget appropriations, it is easier to manage if original budget

**Indiana Area School District**  
**Management's Discussion and Analysis (MD&A)**

figures remain intact. Whenever funds are transferred several times per year, it tends to mask areas where close scrutiny should be exercised, generally weakening management control.

The administration authorizes expenditures of budget categories to be exceeded whenever expenditures vital to the program are required which may not have been contemplated at the time the budget was originally adopted. Examples of these types of expenditures are the addition of employees due to shifts in class sizes, increased textbook orders due to enrollment increases, purchases of equipment vital to the program unforeseen at budget time, emergency maintenance and repair requirements and other expenditures of this nature.

The administration realizes that a certain amount of flexibility is necessary in this regard to effectively deliver the educational program. However, prudent management control must be exercised to avoid adverse financial consequences.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

At June 30, 2018, the School District has investments of \$33,752,985 in a broad range of capital assets, including land, school buildings, administrative offices, athletic fields, a maintenance building, fixtures and equipment. See Figure A-7. This is a decrease over prior year as depreciation expense exceeded capital additions in the current year. More detailed information about capital assets can be found in Note 8 to the financial statements. Total District depreciation expense for the year amounted to \$2,376,716.

Figure A-7  
Capital Assets – Net of Depreciation

|                                       | Governmental Activities |                      | Business Activities |                   | Totals               |                      |
|---------------------------------------|-------------------------|----------------------|---------------------|-------------------|----------------------|----------------------|
|                                       | 2017                    | 2018                 | 2017                | 2018              | 2017                 | 2018                 |
| <b>Government activities</b>          |                         |                      |                     |                   |                      |                      |
| Land                                  | \$ 1,202,315            | \$ 1,202,315         | \$ 0                | \$ 0              | \$ 1,202,315         | \$ 1,202,315         |
| Construction<br>in progress           | <u>0</u>                | <u>0</u>             | <u>0</u>            | <u>0</u>          | <u>0</u>             | <u>0</u>             |
| Non-depreciable                       | <u>1,202,315</u>        | <u>1,202,315</u>     | <u>0</u>            | <u>0</u>          | <u>1,202,315</u>     | <u>1,202,315</u>     |
| <b>Depreciable</b>                    |                         |                      |                     |                   |                      |                      |
| Land and site<br>improvements         | 1,767,760               | 1,996,128            | 0                   | 0                 | 1,767,760            | 1,996,128            |
| Building and building<br>improvements | 77,978,116              | 78,182,377           | 0                   | 0                 | 77,978,116           | 78,182,377           |
| Machinery and<br>equipment            | <u>500,032</u>          | <u>527,388</u>       | <u>371,803</u>      | <u>420,887</u>    | <u>871,835</u>       | <u>948,275</u>       |
| Depreciable<br>capital assets         | 80,245,908              | 80,705,893           | 371,803             | 420,887           | 80,617,711           | 81,126,780           |
| Accumulated<br>depreciation           | <u>(46,003,040)</u>     | <u>(48,325,371)</u>  | <u>(224,744)</u>    | <u>(250,739)</u>  | <u>(46,227,784)</u>  | <u>(48,576,110)</u>  |
| Net book value                        | <u>34,242,868</u>       | <u>32,380,522</u>    | <u>147,059</u>      | <u>170,148</u>    | <u>34,389,927</u>    | <u>32,550,670</u>    |
| <b>Total</b>                          | <u>\$ 35,445,183</u>    | <u>\$ 33,582,837</u> | <u>\$ 147,059</u>   | <u>\$ 170,148</u> | <u>\$ 35,592,242</u> | <u>\$ 33,752,985</u> |

**Indiana Area School District**  
**Management's Discussion and Analysis (MD&A)**

Debt Administration

As of June 30, 2018, the School District had \$36,160,000 in general obligation bonds and notes outstanding. This is a net decrease of \$2,589,000 as shown in Figure A-8.

Figure A-8  
Outstanding Debt

| General Obligation Notes/Bonds          | 2017                 | 2018                 |
|---|----------------------|----------------------|
| General Obligation Bonds Series of 2012 | \$ 9,895,000         | 3,255,000            |
| General Obligation Bonds Series of 2013 | 6,905,000            | 3,775,000            |
| General Obligation Bonds Series of 2014 | 3,840,000            | 1,221,000            |
| General Obligation Note Series of 2015  | 5,185,000            | 5,066,000            |
| General Obligation Note Series of 2015A | 2,999,000            | 2,998,000            |
| General Obligation Bonds Series of 2016 | 9,925,000            | 9,925,000            |
| General Obligation Note Series of 2017  | 0                    | 9,920,000            |
| <b>Total</b>                            | <b>\$ 38,749,000</b> | <b>\$ 36,160,000</b> |

**ECONOMIC FACTORS IMPACTING THE FUTURE**

At the time these financial statements were prepared, the School District was aware of the following issues that could have significant future fiscal impact:

- Increases in the employer contribution rate to fund the Public School Employees Retirement System is the most significant economic factor facing the School District. The rate is projected to increase gradually from 32.57% in the 2017-2018 fiscal year to 36.32% for 2022-20223, and remain near that rate until 2035-2036. The 2018-2019 rate is 33.43% and the 2019-2020 rate is projected to be 34.79%. The Commonwealth of Pennsylvania reimburses 50% of the School District's contribution, which raises a concern over the amount of state funding that will be available for other purposes.
- The District has been able to minimize the overall increase in healthcare cost over the past couple of years through attrition and plan changes. The big unknown that could have a significant impact on the District financially is the implementation of the regulations of the Affordable Healthcare Act. Future plan changes with employees may be needed to help control costs.
- In November 2016 the Board authorized the borrowing of \$9,925,000 for the potential building of a new elementary school and the renovation/addition of another. Then in June 2017 the Board voted to stop all plans for moving forward with any elementary building project. Over the next year the Board will be deciding what will be done with the current elementary building and how to best use the funds remaining from the 2016 Bond issue.
- A local commercial property was assessed at \$22,500,000 for the 2018 tax year. The entity appealed this assessment with an appraisal for \$6,500,000 for the 2019 tax year. A status conference was held on December 14, 2018 regarding this matter. The outcome of this litigation could have a material impact on the tax revenue of the Indiana Area School District.

**CONTACTING THE SCHOOL DISTRICT FINANCIAL MANAGEMENT**

The financial report is designed to provide the School District's citizens, taxpayers, parents, students, investors and creditors with a general overview of the School District's finances and to demonstrate the Board's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Jared Cronauer, Business Manager, Indiana Area School District, 501 East Pike, Indiana, PA 15701.

## **BASIC FINANCIAL STATEMENTS**

**Indiana Area School District  
Statement of Net Position  
June 30, 2018**

|   | Governmental<br>Activities | Business-Type<br>Activities | Total         |
|---|----------------------------|-----------------------------|---------------|
| <b>Assets</b>                                   |                            |                             |               |
| Current assets:                                 |                            |                             |               |
| Cash and equivalents                            | \$ 8,759,953               | \$ 118,100                  | \$ 8,878,053  |
| Investments                                     | 8,856,000                  | 0                           | 8,856,000     |
| Taxes receivable                                | 2,714,777                  | 0                           | 2,714,777     |
| Intergovernmental receivables                   | 2,739,935                  | 0                           | 2,739,935     |
| Other receivables                               | 325,250                    | 0                           | 325,250       |
| Inventories                                     | 0                          | 7,539                       | 7,539         |
| Prepaid expenses                                | 581                        | 0                           | 581           |
| Total current assets                            | 23,396,496                 | 125,639                     | 23,522,135    |
| Noncurrent assets:                              |                            |                             |               |
| Land  | 1,202,315                  | 0                           | 1,202,315     |
| Depreciable capital assets, net                 | 32,380,522                 | 170,148                     | 32,550,670    |
| Total noncurrent assets                         | 33,582,837                 | 170,148                     | 33,752,985    |
| Total assets                                    | 56,979,333                 | 295,787                     | 57,275,120    |
| <b>Deferred Outflows of Resources</b>           |                            |                             |               |
| Defined benefit pension plan                    | 13,550,708                 | 0                           | 13,550,708    |
| Other post-employment benefits                  | 3,267,937                  | 0                           | 3,267,937     |
| Total deferred outflows of resources            | 16,818,645                 | 0                           | 16,818,645    |
| Total assets and deferred outflows of resources | \$ 73,797,978              | \$ 295,787                  | \$ 74,093,765 |

See accompanying notes to the basic financial statements.

**Indiana Area School District  
Statement of Net Position  
June 30, 2018**

|  | Governmental<br>Activities | Business-Type<br>Activities | Total         |
|--|----------------------------|-----------------------------|---------------|
| <b>Liabilities</b>   |                            |                             |               |
| Current liabilities:   |                            |                             |               |
| Internal balances  | \$ (22,507)                | \$ 22,507                   | \$ 0          |
| Accounts payable   | 581,314                    | 17,693                      | 599,007       |
| Accrued salaries and wages   | 3,246,475                  | 0                           | 3,246,475     |
| Payroll deductions and withholdings                                  | 1,748,825                  | 0                           | 1,748,825     |
| Accrued interest payable   | 300,727                    | 0                           | 300,727       |
| Unearned revenues  | 11,702                     | 30,141                      | 41,843        |
| Current portion of long-term liabilities                             | 2,611,552                  | 0                           | 2,611,552     |
| Total current liabilities  | 8,478,088                  | 70,341                      | 8,548,429     |
| Noncurrent liabilities:  |                            |                             |               |
| Bonds and notes payable, net   | 33,731,947                 | 0                           | 33,731,947    |
| Long-term portion of compensated absences                            | 509,869                    | 0                           | 509,869       |
| Other long-term financing  | 826,216                    | 0                           | 826,216       |
| Net other post-employment benefits (OPEB)                            | 12,975,423                 | 0                           | 12,975,423    |
| Net pension liability  | 89,788,000                 | 0                           | 89,788,000    |
| Total noncurrent liabilities   | 137,831,455                | 0                           | 137,831,455   |
| Total liabilities  | 146,309,543                | 70,341                      | 146,379,884   |
| <b>Deferred Inflows of Resources</b>                                 |                            |                             |               |
| Defined benefit pension plan   | 2,360,000                  | 0                           | 2,360,000     |
| Net other post-employment benefits (OPEB)                            | 213,000                    | 0                           | 213,000       |
| Total deferred inflows of resources                                  | 2,573,000                  | 0                           | 2,573,000     |
| <b>Net Position</b>  |                            |                             |               |
| Invested in capital assets, net of debt                              | 5,699,158                  | 170,148                     | 5,869,306     |
| Restricted for capital projects                                      | 1,121,514                  | 0                           | 1,121,514     |
| Restricted - other   | 12,888                     | 0                           | 12,888        |
| Unrestricted   | (81,918,125)               | 55,298                      | (81,862,827)  |
| Total net position   | (75,084,565)               | 225,446                     | (74,859,119)  |
| Total liabilities, deferred inflows of resources<br>and net position | \$ 73,797,978              | \$ 295,787                  | \$ 74,093,765 |

See accompanying notes to the basic financial statements.

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

|  | Program Revenues |                         |                                       |                                     | Net (Expenses) Revenues and<br>Changes in Net Position |                             |                 |
|--|------------------|-------------------------|---------------------------------------|-------------------------------------|--|-----------------------------|-----------------|
|  | Expenses         | Charges for<br>Services | Operating Grants<br>and Contributions | Capital Grants<br>and Contributions | Governmental<br>Activities                             | Business-Type<br>Activities | Total           |
| <b>Governmental Activities:</b>                          |                  |                         |                                       |                                     |  |                             |                 |
| Instruction  | \$ 37,530,037    | \$ 284,654              | \$ 8,324,572                          | \$ 0                                | \$ (28,920,811)  | \$ 0                        | \$ (28,920,811) |
| Instructional student support                            | 3,536,311        | 0                       | 168,244                               | 0                                   | (3,368,067)  | 0                           | (3,368,067)     |
| Administration and financial<br>support services         | 5,399,734        | 0                       | 54,528                                | 0                                   | (5,345,206)  | 0                           | (5,345,206)     |
| Operations and maintenance<br>of plant services          | 4,300,562        | 0                       | 18,215                                | 440,004                             | (3,842,343)  | 0                           | (3,842,343)     |
| Pupil transportation                                     | 2,060,149        | 0                       | 864,821                               | 0                                   | (1,195,328)  | 0                           | (1,195,328)     |
| Student activities                                       | 1,198,147        | 93,182                  | 0                                     | 0                                   | (1,104,965)  | 0                           | (1,104,965)     |
| Interest on long-term debt                               | 914,415          | 0                       | 0                                     | 0                                   | (914,415)  | 0                           | (914,415)       |
| Total governmental activities                            | 54,939,355       | 377,836                 | 9,430,380                             | 440,004                             | (44,691,135)   | 0                           | (44,691,135)    |
| <b>Business-Type Activities:</b>                         |                  |                         |                                       |                                     |  |                             |                 |
| Food service   | 1,268,589        | 545,485                 | 794,906                               | 0                                   | 0  | 71,802                      | 71,802          |
| Total primary government                                 | \$ 56,207,944    | \$ 923,321              | \$ 10,225,286                         | \$ 440,004                          | (44,691,135)   | 71,802                      | (44,619,333)    |
| <b>General Revenues:</b>                                 |                  |                         |                                       |                                     |  |                             |                 |
| Taxes levied   |                  |                         |                                       |                                     | 33,753,575   | 0                           | 33,753,575      |
| Grants, subsidies and contributions, not restricted      |                  |                         |                                       |                                     | 10,398,206   | 0                           | 10,398,206      |
| Investment earnings                                      |                  |                         |                                       |                                     | 134,861  | 93                          | 134,954         |
| Miscellaneous  |                  |                         |                                       |                                     | 54,477   | 0                           | 54,477          |
| Transfers between governmental, business-type activities |                  |                         |                                       |                                     | (49,126)   | 49,126                      | 0               |
| Total general revenues and transfers                     |                  |                         |                                       |                                     | 44,291,993   | 49,219                      | 44,341,212      |
| Change in net position                                   |                  |                         |                                       |                                     | (399,142)  | 121,021                     | (278,121)       |
| Net position beginning of year, restated                 |                  |                         |                                       |                                     | (74,685,423)   | 104,425                     | (74,580,998)    |
| Net position end of year                                 |                  |                         |                                       |                                     | \$ (75,084,565)  | \$ 225,446                  | \$ (74,859,119) |

See accompanying notes to the basic financial statements.

**Indiana Area School District  
Balance Sheet  
Governmental Funds  
June 30, 2018**

|  | General Fund        | Major Fund<br>Capital<br>Projects Fund | Major Fund<br>Debt Service<br>Fund | Total<br>Governmental<br>Funds |
|--|---------------------|--|------------------------------------|--------------------------------|
| <b>Assets</b>  |                     |  |                                    |                                |
| Cash and cash equivalents  | \$ 7,081,585        | \$ 1,678,368                           | \$ 0                               | \$ 8,759,953                   |
| Investments  | 1,000,000           | 7,856,000                              | 0                                  | 8,856,000                      |
| Taxes receivable   | 2,714,777           | 0                                      | 0                                  | 2,714,777                      |
| Due from other funds   | 76,335              | 0                                      | 0                                  | 76,335                         |
| Due from other governments   | 2,739,935           | 0                                      | 0                                  | 2,739,935                      |
| Other receivables  | 325,250             | 0                                      | 0                                  | 325,250                        |
| Prepaid expenses   | 581                 | 0                                      | 0                                  | 581                            |
| Total assets   | 13,938,463          | 9,534,368                              | 0                                  | 23,472,831                     |
| <b>Deferred Outflows of Resources</b>                              |                     |  |                                    |                                |
|  | 0                   | 0                                      | 0                                  | 0                              |
| Total assets and deferred outflows of resources                    | <u>\$13,938,463</u> | <u>\$ 9,534,368</u>                    | <u>\$ 0</u>                        | <u>\$ 23,472,831</u>           |
| <b>Liabilities</b>   |                     |  |                                    |                                |
| Due to other funds   | \$ 0                | \$ 53,828                              | \$ 0                               | \$ 53,828                      |
| Accounts payable   | 498,609             | 82,705                                 | 0                                  | 581,314                        |
| Accrued salaries and benefits                                      | 3,246,475           | 0                                      | 0                                  | 3,246,475                      |
| Payroll deductions and withholding                                 | 1,748,825           | 0                                      | 0                                  | 1,748,825                      |
| Unearned revenue   | 11,702              | 0                                      | 0                                  | 11,702                         |
| Total liabilities  | 5,505,611           | 136,533                                | 0                                  | 5,642,144                      |
| <b>Deferred Inflows of Resources</b>                               |                     |  |                                    |                                |
| Delinquent taxes receivable  | 1,544,573           | 0                                      | 0                                  | 1,544,573                      |
| Total deferred inflows of resources                                | 1,544,573           | 0                                      | 0                                  | 1,544,573                      |
| <b>Fund Balance</b>  |                     |  |                                    |                                |
| Nonspendable   | 581                 | 0                                      | 0                                  | 581                            |
| Restricted   | 12,888              | 9,397,835                              | 0                                  | 9,410,723                      |
| Committed  | 791,732             | 0                                      | 0                                  | 791,732                        |
| Assigned   | 7,000               | 0                                      | 0                                  | 7,000                          |
| Unassigned   | 6,076,078           | 0                                      | 0                                  | 6,076,078                      |
| Total fund balance   | 6,888,279           | 9,397,835                              | 0                                  | 16,286,114                     |
| Total liabilities, deferred inflows of resources, and fund balance | <u>\$13,938,463</u> | <u>\$ 9,534,368</u>                    | <u>\$ 0</u>                        | <u>\$ 23,472,831</u>           |

See accompanying notes to the basic financial statements

**Indiana Area School District  
Reconciliation of the Governmental Funds Balance Sheet  
To the Statement of Net Position  
June 30, 2018**

**Total fund balance – governmental funds** \$ 16,286,114

**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 governmental funds. The cost of assets is \$81,908,208 and the accumulated depreciation is \$48,325,371. 33,582,837

Property taxes receivable will be collected in the future, but are not available soon enough to pay for current period's expenditures, and therefore, are recorded as deferred inflows of resources in the funds. 1,544,573

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

|                            |                     |               |
|----------------------------|---------------------|---------------|
| Bonds/notes payable        | \$(36,160,000)      |               |
| Unamortized bond discounts | 50,573              |               |
| Unamortized bond premiums  | (73,520)            |               |
| Accrued interest payable   | (300,727)           |               |
| Compensated absences       | (542,262)           |               |
| Technology Center debt     | (954,375)           |               |
| Net OPEB obligation        | (12,975,423)        |               |
| Net pension liability      | <u>(89,788,000)</u> | (140,743,734) |

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

|                                       |                  |                   |
|---------------------------------------|------------------|-------------------|
| Deferred outflows related to pensions | \$13,550,708     |                   |
| Deferred inflows related to pensions  | (2,360,000)      |                   |
| Deferred outflows related to OPEB     | 3,267,937        |                   |
| Deferred inflows related to OPEB      | <u>(213,000)</u> | <u>14,245,645</u> |

**Net position of governmental activities** \$ (75,084,565)

See accompanying notes to the basic financial statements.

**Indiana Area School District**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2018**

|  | General Fund        | Major Fund<br>Capital<br>Projects Fund | Major Fund<br>Debt Service<br>Fund | Total<br>Governmental<br>Funds |
|--|---------------------|--|------------------------------------|--------------------------------|
| <b>Revenues</b>                              |                     |  |                                    |                                |
| Local sources                                | \$ 35,187,516       | \$ 38,095                              | \$ 0                               | \$ 35,225,611                  |
| State sources                                | 18,799,696          | 0                                      | 0                                  | 18,799,696                     |
| Federal sources                              | 715,292             | 0                                      | 0                                  | 715,292                        |
| Total revenues                               | <u>54,702,504</u>   | <u>38,095</u>                          | <u>0</u>                           | <u>54,740,599</u>              |
| <b>Expenditures</b>                          |                     |  |                                    |                                |
| Instruction                                  | 34,945,539          | 0                                      | 0                                  | 34,945,539                     |
| Support services                             | 14,207,941          | 60,576                                 | 81,395                             | 14,349,912                     |
| Non-instructional services                   | 1,118,718           | 0                                      | 0                                  | 1,118,718                      |
| Capital outlay                               | 0                   | 440,752                                | 0                                  | 440,752                        |
| Debt service (principal and interest)        | 148,634             | 0                                      | 3,646,555                          | 3,795,189                      |
| Refund prior year receipts                   | 10,775              | 0                                      | 0                                  | 10,775                         |
| Total expenditures                           | <u>50,431,607</u>   | <u>501,328</u>                         | <u>3,727,950</u>                   | <u>54,660,885</u>              |
| Excess of revenues over (under) expenditures | <u>4,270,897</u>    | <u>(463,233)</u>                       | <u>(3,727,950)</u>                 | <u>79,714</u>                  |
| <b>Other financing sources (uses)</b>        |                     |  |                                    |                                |
| Interfund transfers                          | (3,649,664)         | (41,162)                               | 3,641,700                          | (49,126)                       |
| Bond proceeds                                | 0                   | 0                                      | 9,920,000                          | 9,920,000                      |
| Refunded bonds                               | 0                   | 0                                      | (9,833,750)                        | (9,833,750)                    |
| Total other financing sources (uses)         | <u>(3,649,664)</u>  | <u>(41,162)</u>                        | <u>3,727,950</u>                   | <u>37,124</u>                  |
| Net change in fund balance                   | 621,233             | (504,395)                              | 0                                  | 116,838                        |
| Fund balance beginning of year, restated     | <u>6,267,046</u>    | <u>9,902,230</u>                       | <u>0</u>                           | <u>16,169,276</u>              |
| Fund balance end of year                     | <u>\$ 6,888,279</u> | <u>\$ 9,397,835</u>                    | <u>\$ 0</u>                        | <u>\$ 16,286,114</u>           |

See accompanying notes to the basic financial statements.

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

**Total net change in fund balance – governmental funds** \$ 116,838

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

|                      |                    |             |
|----------------------|--------------------|-------------|
| Capital outlays      | \$ 488,375         |             |
| Depreciation expense | <u>(2,350,721)</u> | (1,862,346) |

Because some property taxes will not be collected for several months after the District’s year end, they are not considered as “available” revenues in the governmental funds. Deferred inflows of resources from tax revenues decreased by this amount this year. (140,485)

Interest on long-term debt is recognized in the governmental funds when it is due. In the statement of activities, expense is recognized as interest accrues. Accrued interest expense decreased by this amount this year. 80,410

In the governmental funds, compensated absences are measured by the amounts used. The statement of activities measures by the amount earned. The liability for compensated absences increased by this amount this year. (47,471)

Governmental funds report District pension contributions as expenditures in the year required to be made. However, pension expense, which is the change in the net pension liability, adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the statement of activities.

|                                |                    |             |
|--------------------------------|--------------------|-------------|
| District pension contributions | \$ 7,458,708       |             |
| Pension expense                | <u>(9,079,400)</u> | (1,620,692) |

Governmental funds report District payments for other post-employment benefits (OPEB) in the year such benefits are used. However, OPEB expense, which is the change in the net OPEB liability, adjusted for changes in deferred outflows and inflows of resources related to OPEB, is reported in the statement of activities.

|                                |                  |         |
|--------------------------------|------------------|---------|
| District OPEB benefit payments | \$1,358,201      |         |
| OPEB expense                   | <u>(985,126)</u> | 373,075 |

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

Bond proceeds and principal payments on long-term debt provide and consume current financial resources of governmental funds, respectively. However, they respectively increase and reduce long-term liabilities on the statement of net position. Further, the effect of bond discounts and premiums are reported in the funds in the year of issue but are deferred and amortized in the statement of activities. The effect is shown below:

|  |              |                     |
|--|--------------|---------------------|
| Series 2017 net bond proceeds                            | \$ (180,000) |                     |
| Debt principal payments                                  | 2,769,000    |                     |
| Technology Center principal payments                     | 125,114      |                     |
| Amortization of discounts                                | (18,468)     |                     |
| Accretion of bond premium                                | <u>5,883</u> | <u>2,701,529</u>    |
| <b>Change in net position of governmental activities</b> |              | <u>\$ (399,142)</u> |

See accompanying notes to the basic financial statements.

**Indiana Area School District  
Statement of Net Position  
Proprietary Funds  
June 30, 2018**

|  | Major Fund<br>Food Service |
|--|----------------------------|
| <b>Assets</b>  |                            |
| Current assets:  |                            |
| Cash and cash equivalents  | \$ 118,100                 |
| Inventory  | 7,539                      |
| Total current assets   | 125,639                    |
| Noncurrent assets:   |                            |
| Machinery and equipment, net   | 170,148                    |
| Total noncurrent assets  | 170,148                    |
| Total assets   | 295,787                    |
| <b>Deferred Outflows of Resources</b>                                |                            |
|  | 0                          |
| Total assets and deferred outflows of resources                      | \$ 295,787                 |
| <b>Liabilities</b>   |                            |
| Current liabilities:   |                            |
| Due to other funds   | \$ 22,507                  |
| Accounts payable   | 17,693                     |
| Unearned revenues  | 30,141                     |
| Total current liabilities  | 70,341                     |
| Total liabilities  | 70,341                     |
| <b>Deferred Inflows of Resources</b>                                 |                            |
|  | 0                          |
| <b>Net Position</b>  |                            |
| Invested in capital assets   | 170,148                    |
| Unrestricted   | 55,298                     |
| Total net position   | 225,446                    |
| Total liabilities, deferred inflows of resources<br>and net position | \$ 295,787                 |

See accompanying notes to the basic financial statements.

**Indiana Area School District**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended June 30, 2018**

|  | <u>Major Fund<br/>Food Service</u> |
|--|------------------------------------|
| <b>Operating revenues</b>                        |                                    |
| Food service revenue                             | \$ 545,485                         |
| Total operating revenues                         | <u>545,485</u>                     |
| <b>Operating expenses</b>                        |                                    |
| Salaries   | 133,853                            |
| Employee benefits                                | 129,562                            |
| Other purchased service                          | 969,944                            |
| Supplies   | 4,196                              |
| Depreciation                                     | 25,995                             |
| Dues and fees                                    | <u>5,039</u>                       |
| Total operating expenses                         | <u>1,268,589</u>                   |
| Operating income (loss)                          | <u>(723,104)</u>                   |
| <b>Nonoperating revenues (expenses)</b>          |                                    |
| Earnings on investments                          | 93                                 |
| Donations from private sources                   | 2,251                              |
| State sources                                    | 64,807                             |
| Federal sources                                  | <u>727,848</u>                     |
| Total nonoperating revenues (expenses)           | <u>794,999</u>                     |
| Income (loss) before contributions and transfers | 71,895                             |
| <b>Contributions and transfers</b>               |                                    |
| Interfund transfers in                           | <u>49,126</u>                      |
| Change in net position                           | 121,021                            |
| Total net position, beginning of year            | <u>104,425</u>                     |
| Total net position, end of year                  | <u><u>\$ 225,446</u></u>           |

See accompanying notes to the basic financial statements.

**Indiana Area School District  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2018**

|   | <u>Major Fund<br/>Food Service</u> |
|---|------------------------------------|
| <b>Cash flows from operating activities</b>   |                                    |
| Cash received from users  | \$ 548,772                         |
| Cash payments to employees for services   | (133,853)                          |
| Cash payments to suppliers for goods and services   | <u>(1,124,812)</u>                 |
| Net cash provided by (used for) operating activities  | <u>(709,893)</u>                   |
| <b>Cash flows from non-capital financing activities</b>   |                                    |
| Local donations   | 2,251                              |
| State sources   | 65,713                             |
| Federal sources   | 742,469                            |
| Operating transfers in  | <u>41</u>                          |
| Net cash provided by (used for)<br>non-capital financing activities   | <u>810,474</u>                     |
| <b>Cash flows from investing activities</b>   |                                    |
| Earnings on investments   | <u>93</u>                          |
| Net cash provided by (used for) investing activities  | <u>93</u>                          |
| Net increase (decrease) in cash and cash equivalents  | 100,674                            |
| Cash and cash equivalents, beginning of year  | <u>17,426</u>                      |
| Cash and cash equivalents, end of year  | <u><u>\$ 118,100</u></u>           |
| <b>Reconciliation of operating income (loss) to net cash provided by (used for)<br/>operating activities:</b> |                                    |
| Operating income (loss)   | <u>\$ (723,104)</u>                |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for)<br>operating activities:  |                                    |
| Depreciation  | 25,995                             |
| (Increase) decrease in accounts receivable  | 4,980                              |
| (Increase) decrease in inventories  | 2,694                              |
| Increase (decrease) in accounts payable   | (18,765)                           |
| Increase (decrease) in unearned revenue   | <u>(1,693)</u>                     |
| Total adjustments   | <u>13,211</u>                      |
| Net cash provided by (used for) operating activities  | <u><u>\$ (709,893)</u></u>         |

See accompanying notes to the basic financial statements.

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

|   | <u>Agency<br/>Fund</u> |
|---|------------------------|
| <b>Assets</b>   |                        |
| Cash and cash equivalents   | \$ 112,452             |
| Investments   | <u>10,000</u>          |
| Total assets  | 122,452                |
| <b>Deferred Outflows of Resources</b>                             |                        |
| Total assets and deferred outflows of resources                   | <u>0</u>               |
| <b>Liabilities</b>  |                        |
| Due to students   | <u>122,452</u>         |
| Total liabilities   | <u>122,452</u>         |
| <b>Deferred Inflows of Resources</b>                              |                        |
| Total liabilities, deferred inflows of resources and net position | <u>0</u>               |
| <b>Net Position</b>   |                        |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 122,452</u>      |

See accompanying notes to the basic financial statements.

**Indiana Area School District  
Notes to Financial Statements  
June 30, 2018**

**1. Description of School District and Reporting Entity**

The Indiana Area School District is a Local Education Agency of the second class, governed by a nine-member publicly elected board, located in the Commonwealth of Pennsylvania. The District has approximately 2,700 enrolled students and operates four elementary schools, one junior high school and one senior high school. The District also participates in a local area vocational/technical school with various other districts.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Indiana Area School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable or other organizations whose nature and significant relationship with the School District are such that exclusion would cause the School District's financial statements to be misleading. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (1) either the School District's ability to impose its will on the organization or (2) there is potential for the organization to provide a financial benefit to or impose a financial burden on the School District. The School District has no component units.

**2. Summary of Significant Accounting Policies**

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

**A. Basis of Presentation**

The School District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

**Indiana Area School District  
Notes to Financial Statements  
June 30, 2018**

Fund Financial Statements

Fund financial statements are also provided in the report for all governmental funds, proprietary funds, and the fiduciary funds of the School District. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund statements. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

**B. Fund Accounting**

The School District uses funds to maintain its financial record during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources, and liabilities and deferred inflows of resources, is reported as fund balance. The following are the School District's major governmental funds:

General Fund – The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund – Accounts for financial resources restricted for the acquisition, construction, renovation and deferred maintenance of major capital facilities or equipment, and for debt service.

Debt Service Fund – Accounts for resources accumulated to provide for payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds focus on the determination of net position, changes in net position and cash flows and are classified as either internal service or enterprise funds. Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the School District. There are no internal service funds. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods and services. The following is the School District's major enterprise fund:

Food Service Fund – This fund accounts for the financial transactions related to the food service operation of the School District.

**Indiana Area School District  
Notes to Financial Statements  
June 30, 2018**

Fiduciary Fund

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has no private purpose trust funds. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The School District's agency fund accounts for those student activity programs which have student participation in the activity and have students involved in the management of the program.

**C. Measurement Focus**

Government-wide Financial Statements

Government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the School District are included on the statement of net position.

Fund Financial Statements

Fund financial statements are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e. revenues and other financing sources) and uses (i.e. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the proprietary fund is accounted for on a flow of economic resources measurement focus. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e. revenues) and decreases (i.e. expenses) in total net position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Proprietary Fund types distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Food Service fund are charges for sales and services. Operating expenses for enterprise funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary funds are reported using the economic resources measurement focus.

**Indiana Area School District  
Notes to Financial Statements  
June 30, 2018**

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenue and deferred inflows and outflows of resources, and in the presentation of expenses versus expenditures. Unearned revenues are addressed in Note 2M, and deferred inflows and outflows of resources in Note 2N.

Revenues - Exchange and Non-Exchange Transactions

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 5). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: property taxes available as an advance, interest, tuition, grants, fees and rentals.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**E. Budgetary Data**

An operating budget is adopted each year for the General Fund on a modified accrual basis of accounting.

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.

**Indiana Area School District  
Notes to Financial Statements  
June 30, 2018**

The School District is required to adopt a proposed budget at least thirty (30) days prior to adoption of the annual budget. The proposed budget shall be printed or otherwise made available for public inspection to all persons and shall be made available for duplication to any person, on request, at least twenty (20) days prior to the date set for the adoption of the budget. Final action shall not be taken on the proposed budget until after ten (10) days of public notice.

The Board of Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action. An affirmative vote of two-thirds of all members of the board is required. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2018.

Fund balances in Budgetary Funds may be appropriated based on resolutions passed by the Board of Education, which authorized the School District to make expenditures. Appropriations lapse at the end of the fiscal period. 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.

Included in the General Fund budget are program budgets as prescribed by the State and Federal agencies funding the program. These budgets are approved on a program by program basis by the State or Federal funding agency.

Budgets are not legally required for capital improvements reported in the Special Revenue Funds. However, the Board formally adopts an internal budget. Additionally, transactions not included on the adopted budget are approved by the Board prior to commitment, thereby achieving further budgetary control.

An Enterprise fund budget is not adopted; however, a formal budget is prepared and approved by management and expenditures are controlled on the basis of this budget.

**F. Investment Valuation**

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The District's investments include long-term, non-negotiable certificates of deposit with various financial institutions. Similar to checking and savings accounts, non-negotiable certificates of deposit are not subject to fair value or the aforementioned fair value disclosures.

Although included in cash and cash equivalents on the District's financial statements, the District also invests in pooled funds with the Pennsylvania School District Liquid Asset Fund (PSDLAF) and the Pennsylvania Local Government Investment Trust (PLGIT). These funds represent investments held in 2a7-like pools. Portfolio securities are valued at amortized cost, which approximates market value. PSDLAF and PLGIT act like money market mutual funds in that their objective is to maintain a stable net asset value of \$1.00 per share. The District reports these funds at the pool's share price. These funds are further discussed in Note 3.

**Indiana Area School District  
Notes to Financial Statements  
June 30, 2018**

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. Inventory**

On government-wide financial statements inventories are presented at the lower cost or market on a first-in, first-out basis and are expensed when used.

Inventories in governmental funds are stated at cost by the first-in, first-out method. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased. Due to immateriality, an inventory balance is not reported for the governmental funds.

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2018. The inventory consisted of purchased commodities and supplies, valued at cost using the first-in, first-out (FIFO) method. The School District receives cash in lieu of government donated commodities.

**I. Capital Assets**

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets used by the proprietary fund are reported in both the business-type activities column on the government-wide statement of net position and in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of ten thousand dollars (\$10,000). The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

| Description                | Estimated Lives |
|----------------------------|-----------------|
| Buildings and improvements | 25 - 50 years   |
| Furniture and equipment    | 5 - 20 years    |
| Site improvements          | 15 - 20 years   |

**J. Original Issue Discounts and Premiums**

Bond premiums and discounts are reported as direct adjustments to the face amount of the bond and are deferred and amortized over the life of the bond using the straight-line method of amortization.

**Indiana Area School District  
Notes to Financial Statements  
June 30, 2018**

**K. Receivables and Payables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e. the current portion of interfund loans) or “advances to/from other funds” (i.e. the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” In governmental fund financial statements, advances between funds are offset by an amount reported as nonspendable fund balance to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are determined to be collectible, and no allowance has been established.

Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.

**L. Accrued Liabilities and Long-term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

**M. Unearned Revenues**

The District reports unearned revenue on its government-wide and fund financial statements. Unearned revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period (fund financial statements). Unearned revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures (fund financial statements and government-wide financial statements). In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the applicable financial statement and revenue is recognized.

**Indiana Area School District  
Notes to Financial Statements  
June 30, 2018**

**N. Deferred Outflows/Inflows of Resources**

Deferred Outflows of Resources

The District reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide statement of net position. The deferred outflows of resources reported in this year's financial statements include those related to the District's cost-sharing, multi-employer defined benefit pension plan, as well as those related to the District's other post-employment benefits (OPEB). Depending on the nature of the deferred outflow, they may be amortized to expense over 5 years, or over the average remaining service lives of employees. See further detail on deferred outflows of resources related to the pension plan at Note 10, and to OPEB at Notes 11 and 12.

No deferred outflows of resources affect the fund financial statements in the current year.

Deferred Inflows of Resources

The District's statement of net position and its governmental fund balance sheet report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period(s). The deferred inflows of resources reported on the District's statement of net position include those related to the District's cost-sharing, multi-employer defined benefit pension plan, as well as those related to the District's other post-employment benefits (OPEB). Depending on the nature of the deferred inflow, they may be amortized to expense over 5 years, or over the average remaining service lives of employees. See further detail on deferred inflows of resources related to the pension plan at Note 10, and to OPEB at Notes 11 and 12.

In the District's governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The District will not recognize the related revenues until they are available (collected not later than 60 days after the end of the District's fiscal year) under the modified accrual basis of accounting. Accordingly, unavailable revenues from property taxes are reported in the governmental funds balance sheet as a deferred inflow of resources (\$1,544,573).

**O. Fund Balance Classification**

GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*" provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- **Nonspendable Fund Balance:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form (i.e. inventory or prepaid items) or (b) are legally or contractually required to be maintained intact.
- **Restricted Fund Balance:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

**Indiana Area School District  
Notes to Financial Statements  
June 30, 2018**

- **Committed Fund Balance:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the School Board. These amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of formal action (i.e. resolution) that was employed when the funds were initially committed.
- **Assigned Fund Balance:** This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the School Board or by an official body to which the School Board delegates the authority. Assigned fund balance is established by the School Board.
- **Unassigned Fund Balance:** This classification includes amounts that are available for any purpose. Positive amounts are reported only in the general fund.

As of June 30, 2018, fund balance components consist of the following:

|                            | General<br>Fund          | Capital<br>Projects<br>Fund | Total<br>Governmental<br>Funds |
|----------------------------|--------------------------|-----------------------------|--------------------------------|
|                            | <u>          </u>        | <u>          </u>           | <u>          </u>              |
| Nonspendable:              |                          |                             |                                |
| Prepaid expenses           | \$      581              | \$          0               | \$      581                    |
| Restricted:                |                          |                             |                                |
| Escrow - Legal Settlement  | 7,717                    | 0                           | 7,717                          |
| Horace Mann Playground     | 3,867                    | 0                           | 3,867                          |
| Senior High Programs       | 220                      | 0                           | 220                            |
| Junior High Programs       | 788                      | 0                           | 788                            |
| Elementary Programs        | 296                      | 0                           | 296                            |
| Capital Projects           | 0                        | 9,397,835                   | 9,397,835                      |
| Committed:                 |                          |                             |                                |
| Retirement and health care | 750,000                  | 0                           | 750,000                        |
| Chromebooks                | 41,732                   | 0                           | 41,732                         |
| Assigned:                  |                          |                             |                                |
| Future capital costs       | 7,000                    | 0                           | 7,000                          |
| Unassigned                 | <u>6,076,078</u>         | <u>0</u>                    | <u>6,076,078</u>               |
| <br>Total Fund Balance     | <br><u>\$  6,888,279</u> | <br><u>\$  9,397,835</u>    | <br><u>\$ 16,286,114</u>       |

The District would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

**Indiana Area School District  
Notes to Financial Statements  
June 30, 2018**

**P. Net Position**

Net position represents assets and deferred outflows of resources, net of liabilities and deferred inflows of resources. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

The government-wide statement of net position reports \$1,134,402 of restricted net position, of which \$1,121,514 is restricted by enabling legislation for capital projects and \$12,888 has been restricted by donors as detailed in Note 2O.

**Q. Estimates**

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

**R. Multi-Employer Benefit Plans**

Pension Plan

Substantially all full-time and part-time employees of the District participate in a cost-sharing, multi-employer defined pension plan. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires cost-sharing employers such as the District to recognize a liability for their proportionate share of the collective net pension liability. The standard further requires the District to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate share of collective pension expense and collective deferred outflows and inflows of resources related to pensions.

Other Post-Employment Benefits (OPEB)

The Public School Employees Retirement System (PSERS) provides a health insurance premium assistance program, which is a governmental cost-sharing, multiple employer OPEB plan for all eligible District retirees who qualify and elect to participate. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, requires cost-sharing employers such as the District to recognize a liability for their proportionate share of the collective net OPEB liability. The Standard further requires the District to recognize OPEB expense and report deferred outflows of resources and deferred inflows of resources related to OPEB for its proportionate shares of collective OPEB expense and collective deferred outflows and inflows of resources related to OPEB.

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

**3. Cash and Cash Equivalents and Investments**

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

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

Deposits in savings 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.

Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided certain requirements are met.

Repurchase agreements with respect to U. S. Treasury bills or obligations.

Local Government Investment Pools (LGIPs) which include, but are not limited to, the Pennsylvania School District Liquid Asset Fund (PSDLAF) and the Pennsylvania Local Government Investment Trust (PLGIT).

Under Pennsylvania Act 10 of 2016, effective May 24, 2016, all Pennsylvania local governments, including school districts, have additional investment options including commercial paper, bankers' acceptances, and negotiable certificates of deposit. These additional investments are subject to maturity terms and credit rating requirements, as defined in the Act. However, due to the collateralization requirements of the Code and because negotiable certificates of deposit do not exist in the current investment market in a collateralized form to satisfy the requirements, they are not an investment lawfully available to school districts at this time.

The deposit and investment 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 checking and savings accounts at a local financial institution and cash on hand of \$650. The market values of deposits are equal to the cost of the deposits. Cash and cash equivalents also include pooled funds with the Pennsylvania School District Liquid Asset Fund (PSDLAF) and the Pennsylvania Local Government Investment Trust (PLGIT).

**Indiana Area School District  
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PSDLAF was established to enable school districts to pool funds for investment in instruments authorized by Section 440.1 of the Pennsylvania School Code of 1949, as amended. PLGIT insures that it will not place deposits with any single issuing institution if the largest participant’s pro rata share of such deposits exceeds the insurance limit unless such deposits are collateralized as prescribed by Act 72 of the Commonwealth of Pennsylvania. These funds have the characteristics of open-end mutual funds and are not subject to credit risk classification.

In accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, PSDLAF funds meet the requirements of investments held in 2a7-like pools, and accordingly, portfolio securities are valued at amortized cost, which approximates market value. Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF acts like money market mutual funds, in that, their objective is to maintain a stable net assets value of \$1.00 per share, are rated by a nationally recognized statistical rating organization, and are subject to an independent annual audit. Investments in PSDLAF are highly liquid, as deposits can be converted to cash within twenty-four hours without loss of principal or interest.

Also in accordance with GASB Statement No. 79, PLGIT “liquid portfolios” meet the requirements of investments held in 2a7-like pools, and accordingly, portfolio securities are valued at amortized cost, which approximates market value. Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PLGIT portfolios act like money market mutual funds, in that, their objective is to maintain a stable net asset value of \$1.00 per share, are rated by a nationally recognized statistical rating organization, and are subject to an independent annual audit. Investments in certain PLGIT portfolios are highly liquid, as deposits can be converted to cash within twenty-four hours without loss of principal or interest. However, other portfolios, although liquid, impose penalties for withdrawals prior to initial holding periods of 30 days or for exceeding limits on the number of withdrawals per month. Another has 7-day wait times, in the case of premature redemptions, in addition to a premature redemption penalty.

The District’s investments, as reported on the financial statements, include long-term, non-negotiable certificates of deposit with various financial institutions. These investments are stated at cost, including accrued interest which approximates market value.

**Cash**

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a policy for custodial credit risk, however the District’s deposits in excess of the FDIC limit are collateralized in accordance with the Pennsylvania Security for Public Deposit Act. As of June 30, 2018, \$7,131,938 of the District’s bank balance of \$15,237,938 was exposed to custodial risk as:

|   |    |                    |
|---|----|--------------------|
| Uninsured and uncollateralized  | \$ | 0                  |
| Collateralized with securities held by the pledging financial institution                           |    | 0                  |
| Uninsured and collateral held by the pledging bank’s trust department<br>not in the District’s name |    | <u>7,131,938</u>   |
| Total   |    | <u>\$7,131,938</u> |

**Indiana Area School District  
Notes to Financial Statements  
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Reconciliation to Financial Statements

|   |                     |
|---|---------------------|
| Uninsured amount above  | \$ 7,131,938        |
| Plus: Insured amount  | 8,106,000           |
| Plus: Deposits in transit                                     | 33,856              |
| Less: Outstanding checks                                      | <u>(774,132)</u>    |
| Carrying amount – bank balances                               | 14,497,662          |
| Plus: Cash on hand  | 650                 |
| Plus: Deposits in investment pool considered cash equivalents | 3,358,193           |
| Less: Certificates of deposit considered investments          | <u>(8,866,000)</u>  |
| Total cash per financial statements                           | <u>\$ 8,990,505</u> |

**Investments**

As of June 30, 2018, the District had the following investments and maturities:

| <u>Investment</u>                    | <u>Maturity</u> | <u>Value</u>        |
|--------------------------------------|-----------------|---------------------|
| Certificates of Deposit              | 6-17 months     | \$ 8,866,000        |
| PA School District Liquid Asset Fund | N/A             | 2,937,810           |
| PA Local Government Investment Trust | N/A             | <u>420,383</u>      |
| Total                                |                 | <u>\$12,224,193</u> |

Interest Rate Risk

In order to manage its interest rate risk, the School District’s investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. In addition, currently the School District’s excess funds are deposited into checking accounts with rates of return adjustable to the applicable federal funds rate (FFR).

Credit Risk

State law limits investments to those authorized by state statutes. However, the District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2018, the District’s investments were rated as:

| <u>Investment</u>                    | <u>Standard &amp; Poor’s</u> |
|--------------------------------------|------------------------------|
| PA School District Liquid Asset Fund | AAAm                         |
| PA Local Government Investment Trust | AAAm                         |

Concentration of Credit Risk

The School District places no limit on the amount the School District may invest in any one issuer. The School District’s investment policy minimizes credit risk by limiting investments to the safest types of securities, pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District does business.

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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 possession of an outside party. The District has no investment subject to custodial credit risk.

Reconciliation to Financial Statements

|   |                     |
|---|---------------------|
| Total investments above                                       | \$12,224,193        |
| Less: Deposits in investment pool considered cash equivalents | <u>(3,358,193)</u>  |
| Total investments per financial statements                    | <u>\$ 8,866,000</u> |

**4. Real Estate Taxes**

Real estate taxes for the School District are collected from the Boroughs of Indiana and Shelocta and the Townships of Armstrong and White. The tax on real estate for public school purposes for fiscal 2018 was 15.36 mills (\$15.36 per \$1,000 of assessed valuation) as levied by the Board. Assessed valuations of property (\$1,986,687,500) are determined by Indiana County, and the elected tax collectors are responsible for collection. The schedule for real estate taxes levied for each fiscal year is as follows:

|                            |                       |
|----------------------------|-----------------------|
| July 15                    | - Levy Date           |
| July 15 - September 15     | - 2% Discount Period  |
| September 16 - November 15 | - Face Payment Period |
| November 16 – December 31  | - 10% Penalty Period  |
| January 15                 | - Lien Date           |

**5. Taxes Receivable**

The elected tax collectors are required to return any uncollected taxes to the county's tax claim bureau by January 15. It has been determined the amount of outstanding taxes as of June 30, 2018 is \$2,714,777. The School District, in accordance with accounting principles generally accepted in the United States of America, recognized the delinquent and unpaid taxes receivable. An allowance for uncollectible taxes was not established by the administration. A portion of the amount estimated to be collectible which was measurable and available within 60 days was recognized as revenue and the balance recorded as a deferred inflow of resources in the fund financial statements.

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Uncollected taxes for the year ended June 30, 2018:

|  |                        |
|--|------------------------|
| Delinquent Earned Income Taxes   | \$ 5,503               |
| Delinquent Real Estate Taxes   | 334,444                |
| Earned Income Taxes  | 793,383                |
| Realty Transfer Taxes  | <u>36,874</u>          |
| <br>Uncollected Taxes Recognized<br>as Revenue (received within 60 days) | <br>1,170,204          |
| <br>Real Estate Taxes – Deferred Inflow of Resources                     | <br><u>1,544,573</u>   |
| <br>Total Taxes Receivable   | <br><u>\$2,714,777</u> |

**6. Unearned Revenues**

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. On the fund financial statements, general fund unearned revenues of \$11,702 represent unearned grant revenues of \$10,982 and prepaid Chromebook fees of \$720 at June 30, 2018. Unearned revenues of \$30,141 in the Proprietary Fund represent credits on student cafeteria accounts at June 30, 2018.

**7. Due From Other Governments**

Amounts due from other governments represent receivables for revenues earned by the School District or collections made by another governmental unit on behalf of the School District. At June 30, 2018, the following amounts are due from other governmental units:

| <u>Due From</u> | <u>General Fund</u> | <u>Proprietary Fund</u> |
|-----------------|---------------------|-------------------------|
| Federal         | \$ 242,871          | \$0                     |
| State           | 2,496,036           | 0                       |
| Local           | <u>1,028</u>        | <u>0</u>                |
|                 | <u>\$2,739,935</u>  | <u>\$0</u>              |

**Indiana Area School District  
Notes to Financial Statements  
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**8. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

|   | Beginning<br>Balance | Additions             | Deductions      | Transfers   | Ending<br>Balance    |
|---|----------------------|-----------------------|-----------------|-------------|----------------------|
| <b>Governmental Activities</b>                  |                      |                       |                 |             |                      |
| Capital assets, not being depreciated:          |                      |                       |                 |             |                      |
| Land  | \$ 1,202,315         | \$ 0                  | \$ 0            | \$ 0        | \$ 1,202,315         |
| Total capital assets,<br>not being depreciated  | <u>1,202,315</u>     | <u>0</u>              | <u>0</u>        | <u>0</u>    | <u>1,202,315</u>     |
| Capital assets, being depreciated:              |                      |                       |                 |             |                      |
| Buildings and improvements                      | 77,978,116           | 204,261               | 0               | 0           | 78,182,377           |
| Furniture and equipment                         | 500,032              | 55,746                | (28,390)        | 0           | 527,388              |
| Site improvements                               | <u>1,767,760</u>     | <u>228,368</u>        | <u>0</u>        | <u>0</u>    | <u>1,996,128</u>     |
| Total capital assets,<br>being depreciated      | <u>80,245,908</u>    | <u>488,375</u>        | <u>(28,390)</u> | <u>0</u>    | <u>80,705,893</u>    |
| Less accumulated depreciation:                  |                      |                       |                 |             |                      |
| Buildings and improvements                      | 45,135,838           | 2,220,045             | 0               | 0           | 47,355,883           |
| Furniture and equipment                         | 276,735              | 43,431                | (28,390)        | 0           | 291,776              |
| Site improvements                               | <u>590,467</u>       | <u>87,245</u>         | <u>0</u>        | <u>0</u>    | <u>677,712</u>       |
| Total accumulated depreciation                  | <u>46,003,040</u>    | <u>2,350,721</u>      | <u>(28,390)</u> | <u>0</u>    | <u>48,325,371</u>    |
| Total capital assets,<br>being depreciated, net | <u>34,242,868</u>    | <u>(1,862,346)</u>    | <u>0</u>        | <u>0</u>    | <u>32,380,522</u>    |
| Governmental activities<br>capital assets, net  | <u>\$ 35,445,183</u> | <u>\$ (1,862,346)</u> | <u>\$ 0</u>     | <u>\$ 0</u> | <u>\$ 33,582,837</u> |
| <b>Business-Type Activities</b>                 |                      |                       |                 |             |                      |
| Capital assets, being depreciated:              |                      |                       |                 |             |                      |
| Equipment                                       | \$ 371,803           | \$ 49,084             | \$ 0            | \$ 0        | \$ 420,887           |
| Total capital assets,<br>being depreciated      | <u>371,803</u>       | <u>49,084</u>         | <u>0</u>        | <u>0</u>    | <u>420,887</u>       |
| Less accumulated depreciation:                  |                      |                       |                 |             |                      |
| Equipment                                       | <u>224,744</u>       | <u>25,995</u>         | <u>0</u>        | <u>0</u>    | <u>250,739</u>       |
| Total accumulated depreciation                  | <u>224,744</u>       | <u>25,995</u>         | <u>0</u>        | <u>0</u>    | <u>250,739</u>       |
| Business-type activities<br>capital assets, net | <u>\$ 147,059</u>    | <u>\$ 23,089</u>      | <u>\$ 0</u>     | <u>\$ 0</u> | <u>\$ 170,148</u>    |

**Indiana Area School District  
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Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental Activities:**

|  |                        |
|--|------------------------|
| Instruction  | \$1,621,997            |
| Instruction support                                      | 164,550                |
| Administration and finance                               | 235,072                |
| Operation and maintenance of plant                       | 188,058                |
| Pupil transportation                                     | 94,029                 |
| Student activities                                       | <u>47,015</u>          |
| <br>Total depreciation expense - governmental activities | <br><u>\$2,350,721</u> |

**9. Defined Benefit Pension Plan**

Plan Description

The District contributes to a governmental cost-sharing multiple-employer defined benefit pension plan administered by Pennsylvania Public School Employee’s Retirement System (PSERS). Benefit provisions of the plan are established under the provisions of the Pennsylvania Public School Employees’ Retirement Code (the Code) and may be amended by an act of the Pennsylvania State Legislature. The plan provides retirement and disability, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying plan members and beneficiaries. It also provides for refunds of a member’s accumulated contribution upon termination of a member’s employment in the public school sector. The members eligible to participate in the plan include all full-time employees, part-time hourly employees who render at least 500 hours of service in the school year, and part-time per diem employees who render at least 80 days of service in the school year. PSERS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained at [www.psers.state.pa.us](http://www.psers.state.pa.us).

Funding Policy

The contribution policy is set by the Code and requires contributions by active members, employers, and the Commonwealth.

Benefits Provided

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

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

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

Contributions

Member Contributions:

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

Members who joined PSERS 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 PSERS after June 30, 2001 and before July 1, 2011, contribute at 7.5% (automatic Membership Class T-D). For all new hires and for new members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

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

Employer Contributions:

The contribution required of participating employers is based on an actuarial valuation and is expressed as a percentage of annual covered payroll during the period for which the amount is determined. Before July 1, 1995, the school district and the Commonwealth shared the employer contribution rate equally. Since July 1, 1995, the school districts are required to pay the entire employer contribution rate and are reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the market value/personal income aid ratio (as defined in Act 29 of 1994), which is at least one-half of the total employer rate.

The District's contractually required contribution rate, 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. For the fiscal year ended June 30, 2018, the rate of the employer's contribution was 32.57 percent of covered payroll. The 32.57 percent rate is composed of a pension contribution rate of 31.74 percent for pension benefits and 0.83 percent for healthcare insurance premium assistance. Indiana Area School District's contributions to PSERS for the year ending June 30, 2018 were \$7,653,753.

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**10. 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 \$89,788,000 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 PSERS' 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 relates to the total one-year reported covered payroll. At June 30, 2017, the District's proportion was 0.1818%, which was a decrease of 0.0022% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$9,079,400. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|--|-----------------------------------|----------------------------------|
| Difference between expected and actual experience  | \$ 936,000                        | \$ 543,000                       |
| Changes in assumptions   | 2,439,000                         | 0                                |
| Net difference between projected and actual investment earnings                          | 2,081,000                         | 0                                |
| Changes in proportions   | 636,000                           | 1,817,000                        |
| Difference between employer contributions and proportionate share of total contributions | 0                                 | 0                                |
| Contributions subsequent to the measurement date   | 7,458,708                         | 0                                |
|  | \$ 13,550,708                     | \$ 2,360,000                     |

\$7,458,708, reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts, reported as deferred outflows of resources and deferred inflows of resources related to pensions, will be recognized in the pension expense as follows:

| Year Ended<br>June 30: |              |
|------------------------|--------------|
| 2019                   | \$ 961,000   |
| 2020                   | 1,835,000    |
| 2021                   | 1,427,000    |
| 2022                   | (491,000)    |
| 2023                   | 0            |
| Thereafter             | 0            |
|                        | \$ 3,732,000 |

Actuarial Assumptions

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

**Indiana Area School District  
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- The Investment Rate of Return was 7.25%.
- The inflation assumption was 2.75%.
- Salary growth at an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and merit or seniority increases.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

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<br/>Allocation</u> | <u>Long-Term<br/>Expected Real<br/>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 investments | 15.0%                        | 6.2%  |
| Cash                    | 3.0%                         | 0.6%  |
| Financing (LIBOR)       | <u>-20.0%</u>                | 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.

**Indiana Area School District  
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Discount Rate

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

Sensitivity of the 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 one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

|  | 1% Decrease<br>6.25% | Current<br>Discount<br>Rate<br>7.25% | 1% Increase<br>8.25% |
|--|----------------------|--------------------------------------|----------------------|
| District's proportionate share<br>of the net pension liability | \$ 110,521,000       | \$ 89,788,000                        | \$ 72,283,000        |

Pension Plan Fiduciary Net Position

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

**11. Post-employment Benefit Plans – PSERS Health Insurance Premium Assistance Program**

Plan Description

PSERS provides Premium Assistance, which is a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB), for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2018 there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria

Retirees of the PSERS 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.

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Benefits Provided

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

Employer Contributions

The school district's contractually required rate for the fiscal year ended June 30, 2018 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$195,045 for the year ended June 30, 2018.

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

At June 30, 2018 the District reported a liability of \$3,704,000 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 PSERS' 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 relates to the total one-year reported covered payroll. At June 30, 2017, the District's proportion was 0.1818%, which was a decrease of 0.0022% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized OPEB expense of \$151,000. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|  | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|--|---|--|
| Difference between expected and actual experience  | \$ 0                                      | \$ 0                                     |
| Changes in assumptions   | 0   | 172,000                                  |
| Net difference between projected and actual investment earnings                          | 4,000                                     | 0  |
| Changes in proportions   | 0   | 41,000                                   |
| Difference between employer contributions and proportionate share of total contributions | 0   | 0  |
| Contributions subsequent to the measurement date   | 195,045                                   | 0  |
|  | <u>\$ 199,045</u>                         | <u>\$ 213,000</u>                        |

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\$195,045 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. 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<br>June 30: |                     |
|------------------------|---------------------|
| 2019                   | \$ (35,000)         |
| 2020                   | (35,000)            |
| 2021                   | (35,000)            |
| 2022                   | (35,000)            |
| 2023                   | (35,000)            |
| Thereafter             | <u>(34,000)</u>     |
|                        | <u>\$ (209,000)</u> |

Actuarial Assumptions

The Total OPEB Liability as of June 30, 2017 was determined by rolling forward PSERS' Total OPEB Liability as of June 30, 2016 to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay.
- Investment return – 3.13% - S&P 20-Year Municipal Bond Rate.
- Salary growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables of Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Participate rate:
  - Eligible retirees will elect to participate Pre-age 65 at 50%
  - Eligible retirees will elect to participate Post-age 65 at 70%

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015 determined the employer contribution rate for fiscal year 2017.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables, with age set back 3 years for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables, with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables, with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

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

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

| <u>OPEB - Asset Class</u> | <u>Target<br/>Allocation</u> | <u>Long-Term<br/>Expected Real<br/>Rate of Return</u> |
|---------------------------|------------------------------|---|
| Cash                      | 76.4%                        | 0.6%  |
| Fixed income              | <u>23.6%</u>                 | 1.5%  |
|                           | <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 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 at June 30, 2017, was applied to all projected benefit payments to measure the total OPEB liability.

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:

|   | <u>1% Decrease<br/>2.13%</u> | <u>Current<br/>Discount<br/>Rate<br/>3.13%</u> | <u>1% Increase<br/>4.13%</u> |
|---|------------------------------|--|------------------------------|
| District's proportionate share of<br>the net OPEB liability | \$ 4,210,000                 | \$ 3,704,000                                   | \$ 3,283,000                 |

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Sensitivity of the District’s Proportionate Share of the Net OPEB Liability to Changes 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 from the PSERS system were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2016, 1,354 PSERS members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on healthcare cost trends as depicted below.

The following presents the District’s net OPEB liability for June 30, 2017, calculated using current healthcare cost trends as well as what the District’s net OPEB liability would be if the healthcare cost trends were 1 percentage point lower or 1 percentage point higher than the current rate:

|                             | <u>1% Decrease</u> | <u>Current<br/>Trend<br/>Rate</u> | <u>1% Increase</u> |
|-----------------------------|--------------------|-----------------------------------|--------------------|
| District net OPEB liability | \$ 3,703,000       | \$ 3,704,000                      | \$ 3,705,000       |

OPEB Plan Fiduciary Net Position

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

**12. Post-employment Benefit Plan – District Specific Plan**

Plan Description

The District School Board of Directors administers a single-employer defined benefit postemployment benefit (OPEB) plan (the “Plan”) that is used to provide continuation of medical, dental and vision benefits to employees who retire from the District. Plan provisions are established based on bargaining agreements negotiated by the District. The plan is unfunded and no financial report is prepared.

Eligibility

Age and service requirements for retirement vary by group as shown below. No benefits are provided upon termination of employment if retirement conditions are not met at termination. No benefits are provided to surviving dependents upon death if employee has not retired.

- Teachers:                   25 years of PSERS service, including at least 20 years with the Indiana Area School District
- Administrators:           Eligibility for PSERS superannuation retirement
- Support Staff:            Eligibility for PSERS superannuation retirement
- Confidential Group:      Eligibility for PSERS superannuation retirement

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Duration of Healthcare Benefits

- Teachers: Retirees receive coverage for the lesser of 5 years or until age 65 or qualification for Medicare. Spouse coverage ceases with the cessation of retiree coverage, or upon spouse's attainment of age 65 if earlier. Retiring teachers may extend coverage at the rate of one year for each block of 30, 35, 40 or 45 unused sick days relinquished upon retirement, depending on years of service and hire date. Note that, for purposes of purchasing additional years of retiree health care, the years of service are frozen as of July 1, 2014.
- Administrators: Retirees receive coverage until the earlier of age 65 or qualification for Medicare. Spouse coverage ceases with the cessation of retiree coverage, or upon spouse's attainment of age 65 if earlier. Administrators are the only group that is eligible for post-retirement dental and vision coverages. Any other retiree enrolled in either dental or vision coverage must contribute 100% of the premium rate.
- Support Staff: Retiring support staff may obtain coverage at the rate of one year for each block of 40 unused sick days relinquished upon retirement, until the earlier of age 65 or qualification for Medicare. Retirees are eligible for single coverage only. New employees remain eligible to purchase retiree medical benefits at retirement.
- Confidential Group: Retirees may purchase one year of healthcare coverage for each block of 40 unused sick days. Under the current contract, no new employees in this group are eligible to purchase retiree medical benefits with unused sick time.

Participant Contributions

- Teachers: While within the initial 5 year time period, teachers are required to contribute the \$100 PSERS premium assistance amount in order to maintain coverage. After the 5 year period has expired and during the period in which unused sick time is being used, teachers are not required to contribute.
- Administrators: Under the District incentive the retiree contributes the PSERS premium assistance amount and the spouse makes no contribution.
- Support Staff: None
- Confidential Group: None

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The number of participants as of July 1, 2017, the effective date of the most recent OPEB valuation, follows. There have been no significant changes in the number covered or the type of coverage since that date.

|                              | District   |
|------------------------------|------------|
| Active employees             | 305        |
| Retired employees            | 63         |
| Spouses of retired employees | <u>31</u>  |
| Total                        | <u>399</u> |

Funding Policy

The contribution requirements of the plan members and the District are established and may be amended by the School Board of Directors. No assets are accumulated in a trust that meets the criteria of GASB Statement No. 75. The plan is funded on a pay-as-you-go basis, i.e. premiums are paid annually to fund healthcare benefits provided to current retirees, primarily through annual appropriations from the General Fund.

Net OPEB Liability

The District's net OPEB liability of \$9,271,423 was measured as of June 30, 2016 and was rolled forward using actuarial assumptions to the valuation date of June 30, 2017.

Actuarial Assumptions and Other Inputs

- Discount Rate - 3.58% as of June 30, 2017.
- Healthcare Cost Trend Rates - 7.0% for 2018, decreasing to an ultimate rate of 4.50% by 2026.
- The discount rate was based on the Bond Buyer 20-year Bond GO Index at June 30, 2017.
- Mortality rates are assumed using the RPH-2014 Total Dataset Mortality Table projected using Scale MP-2017.

Changes in the District's net OPEB liability for the plan for the fiscal year ended June 30, 2018 (measurement date June 30, 2017) was as follows:

|  |                     |
|--|---------------------|
| Balance at July 1, 2017                            | \$ 7,595,953        |
| Service cost                                       | 375,509             |
| Interest   | 246,868             |
| Differences between expected and actual experience | 1,920,096           |
| Changes in assumptions                             | 197,389             |
| Benefit payments                                   | <u>(1,064,392)</u>  |
| Net changes  | <u>1,675,470</u>    |
| Balance at June 30, 2018                           | <u>\$ 9,271,423</u> |

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Sensitivity of the Net OPEB Liability to Changes in Discount Rate

The following presents the net OPEB liability, calculated using the valuation discount rate of 3.58%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58%) or 1 percentage point higher (4.58%) than the current discount rate.

|                               | 1% Decrease<br>2.58% | Current<br>Rate<br>3.58% | 1% Increase<br>4.58% |
|-------------------------------|----------------------|--------------------------|----------------------|
| District's net OPEB liability | \$ 9,486,725         | \$ 9,271,423             | \$ 8,950,576         |

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

The following presents the net OPEB liability, calculated using the valuation healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1 percentage point lower or 1 percentage point higher than the current trend rate.

|                               | 1% Decrease  | Current<br>Rate | 1% Increase  |
|-------------------------------|--------------|-----------------|--------------|
| District's net OPEB liability | \$ 8,757,109 | \$ 9,271,423    | \$ 9,865,632 |

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$834,126. At June 30, 2018, the District reported deferred outflows and inflows related to OPEB from the following sources:

|   | Deferred Outflows<br>Of Resources | Deferred Inflows<br>Of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience  | \$ 1,728,086                      | \$ 0                             |
| Changes in assumptions                              | 177,650                           | 0                                |
| Benefit payments subsequent to the measurement date | 1,163,156                         | 0                                |
|   | \$ 3,068,892                      | \$ 0                             |

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The \$1,163,156 amount reported as deferred outflows of resources resulting from the District's benefit payments subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. 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<br>June 30: |                     |
|------------------------|---------------------|
| 2019                   | \$ 211,749          |
| 2020                   | 211,749             |
| 2021                   | 211,749             |
| 2022                   | 211,749             |
| 2023                   | 211,749             |
| Thereafter             | <u>846,991</u>      |
|                        | <u>\$ 1,905,736</u> |

Economic/demographic (gains)/losses and assumption changes are recognized over the average remaining service life for all active and inactive members.

**13. Compensated Absences**

Employees of the School District are entitled to paid vacation and paid sick leave depending on length of service with the Pennsylvania Public School Employees' Retirement System and the School District. Unused vacation amounts are believed nominal; sick leave is granted as appropriate (medical evidence required) with budgetary provision being made annually for the estimated cost of substitute personnel. Contractual provisions with teachers require payment at the time of retirement, an amount computed by multiplying the number of such employee's unused accumulated sick days by the dollar amount of \$100 per day. Contractual provisions with support personnel require payment at the time of retirement, an amount computed by multiplying the number of such employee's unused accumulated sick days by \$50 per day. Similarly computed, the rate for administrative staff ranges from \$50-\$100 per day. Employees may elect at time of retirement to receive health insurance coverage, in lieu of cash payments. Employees may not receive the cash compensation for sick days used for additional insurance coverage.

The School District has accrued \$542,262 for accumulated sick leave for employees that have met the required length of service and are entitled to receive the benefits described above as of June 30, 2018. The current portion of the liability has been estimated at \$32,393 with the long-term portion at \$509,869 at June 30, 2018.

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**14. Long-Term Obligations**

During the fiscal year ended June 30, 2018, general long-term obligations changed as follows:

|                                    | Bonds/Notes<br>Payable | Other Long-Term<br>Financing | Compensated<br>Absences | Total General<br>Long-Term<br>Obligations |
|------------------------------------|------------------------|------------------------------|-------------------------|---|
| Beginning of the year              | \$ 38,749,000          | \$ 1,079,489                 | \$ 494,791              | \$ 40,323,280                             |
| Additions                          | 180,000                | 0                            | 0                       | 180,000                                   |
| Principal retirement               | (2,769,000)            | (125,114)                    | 0                       | (2,894,114)                               |
| Changes in compensated absences    | <u>0</u>               | <u>0</u>                     | <u>47,471</u>           | <u>47,471</u>                             |
| End of year                        | 36,160,000             | 954,375                      | 542,262                 | 37,656,637                                |
| Less: Current portion              | (2,451,000)            | (128,159)                    | (32,393)                | (2,611,552)                               |
| Less: Original issue discount, net | (50,573)               | 0                            | 0                       | (50,573)                                  |
| Add: Original issue premium, net   | <u>73,520</u>          | <u>0</u>                     | <u>0</u>                | <u>73,520</u>                             |
| Long-term liabilities              | <u>\$ 33,731,947</u>   | <u>\$ 826,216</u>            | <u>\$ 509,869</u>       | <u>\$ 35,068,032</u>                      |

The future annual payments required to amortize all outstanding debt and obligations, except for the compensated absences and the Technology Center debt, as of June 30, 2018, including total interest payments are as follows:

| Year Ended<br>June 30, | General Obligation Bonds |                      |                      |
|------------------------|--------------------------|----------------------|----------------------|
|                        | Interest                 | Principal            | Total                |
| 2019                   | \$ 839,378               | \$ 2,451,000         | \$ 3,290,378         |
| 2020                   | 806,189                  | 2,485,000            | 3,291,189            |
| 2021                   | 766,336                  | 2,676,000            | 3,442,336            |
| 2022                   | 715,325                  | 2,601,000            | 3,316,325            |
| 2023                   | 656,491                  | 2,659,000            | 3,315,491            |
| 2024-2028              | 2,334,777                | 13,803,000           | 16,137,777           |
| 2029-2033              | 1,185,925                | 5,645,000            | 6,830,925            |
| 2034-2036              | <u>252,200</u>           | <u>3,840,000</u>     | <u>4,092,200</u>     |
|                        | <u>\$ 7,556,621</u>      | <u>\$ 36,160,000</u> | <u>\$ 43,716,621</u> |

General Obligation Note, Series of 2017

The District issued General Obligation Note, Series of 2017, dated December 18, 2017, in the principal amount of \$9,920,000. The proceeds were used to refund portions of the Series of 2012 (\$6,615,000) and Series 2013 (\$3,125,000) General Obligation Bonds and to pay all costs incidental to the issuance of this note. The present value of the net economic gain the District realized as a result of refunding the Series of 2012 and Series of 2013 bonds was \$197,631. The note bears interest at a fixed rate of 2.240%, with principal payments commencing September 2018 and maturing September 2026. The balance outstanding at June 30, 2018 was \$9,920,000.

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General Obligation Bonds, Series of 2016

The District issued General Obligation Bonds, Series of 2016, dated December 20, 2016, in the principal amount of \$9,925,000 for the purpose of financing the elementary school construction project. The bonds bear interest rates ranging from 2.0% to 3.25%, with annual principal maturities from August 2018 through August 2035. The balance outstanding at June 30, 2018 was \$9,925,000.

General Obligation Note, Series of 2015

The District issued a General Obligation Note, Series of 2015, dated August 18, 2015, in the principal amount of \$5,249,000. The proceeds of this note were used to refund the District's General Obligation Bonds, Series of 2010 outstanding (\$5,115,000) and to pay all costs incidental to the issuance of this note. The present value of the net economic gain the District realized as a result of refunding the Series of 2010 bonds is \$213,032. The note bears interest at a fixed rate of 1.338%, with principal payments commencing September 2016 and maturing September 2020. The balance outstanding at June 30, 2018 was \$5,066,000.

General Obligation Note, Series A of 2015

The District issued a General Obligation Note, Series A of 2015, dated August 15, 2015, in the principal amount of \$3,000,000. The proceeds of the note were used to finance various District capital projects. The note bears interest at a fixed rate of 2.31%, with principal payments commencing September 2016 and maturing September 2027. The balance outstanding at June 30, 2018 was \$2,998,000.

General Obligation Bonds, Series of 2014

The District issued General Obligation Bonds, Series of 2014, dated March 3, 2014, in the principal amount of \$9,776,000. The proceeds of the bonds were used to refund the District's General Obligation Bonds, Series of 2009 outstanding (\$9,705,000) and to pay all costs incidental to the issuance of these bonds. The present value of the net economic gain the District realized as a result of refunding the Series of 2009 bonds is \$325,981. The bonds bear interest at the rate of 1.45% with annual maturities from September 2014 through September 2020. The balance outstanding at June 30, 2018 was \$1,221,000.

General Obligation Bonds, Series of 2013

The District issued General Obligation Bonds, Series of 2013, dated April 11, 2013, in the principal amount of \$6,920,000. The proceeds of the bonds were used to finance the costs of acquiring, constructing and installing repairs, improvements, modifications and equipment to various District facilities as part of a guaranteed energy savings project, and to pay the costs of issuing the bonds. These bonds were partially refunded (\$3,125,000) in December 2017 with the issuance of the General Obligation Note, Series of 2017. The remaining bonds bear interest rates ranging from 1.375% to 2.50% with annual principal maturities from September 2018 through September 2023. The balance outstanding at June 30, 2018 was \$3,775,000.

General Obligation Bonds, Series of 2012

The District issued General Obligation Bonds, Series of 2012, dated August 14, 2012, in the principal amount of \$9,995,000. The proceeds of the bonds were used to finance the costs of acquiring, constructing and installing repairs, improvements, modifications and equipment to various District facilities as part of a guaranteed energy savings project, and to pay the costs of issuing the bonds. These bonds were partially refunded (\$6,615,000) in December 2017 with the issuance of the General Obligation Note, Series of 2017. The remaining bonds bear interest rates ranging from 1.70% to 2.35% with annual principal maturities from September 2018 through September 2022. The balance outstanding at June 30, 2018 was \$3,255,000.

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Other Long-Term Financing: Indiana County Technology Center

On February 15, 2012, the State Public School Building Authority issued Guaranteed School Building Revenue Bonds (Indiana County Technology Center Project), Series of 2012 in the amount of \$3,810,000. The proceeds of the bonds were used to refund the Authority's outstanding School Building Revenue Bonds (Indiana County Technology Center Project), Series of 2004, and to pay related costs and expenses, including the costs of issuing the bonds. The bonds were issued pursuant to the State Public School Building Authority Act of 1947 and secured by a Trust Indenture entered into between the State Public School Building Authority (the Authority) and a financial institution as Trustee.

The bonds will be payable from, and are secured by, an assignment of the amounts payable to the Authority by the School District and four other area school districts, as named in the agreement, as borrowers under the Loan Agreement dated February 2012 among the Authority. The Authority entered into a Loan Agreement with the school districts and the Joint Operating Committee, pursuant to which the Authority will lend the proceeds of the bonds to the school districts for the purpose of financing the above project. Under the Loan Agreement, the school districts agree to repay such loan in such amounts and at such times as will provide sufficient funds to meet the debt service requirements on the bonds. Pursuant to the Articles of Agreement for the Establishment and Operation of the Indiana County Technology Center, dated March 1978, the school districts have agreed to a formula for the allocations of each of the school districts' share of the debt service payments, which are not joint but several obligations of the school districts.

The bonds bear interest rates ranging from 0.50% to 2.75% with annual principal maturities from October 2012 through October 2024.

Indiana Area School District's debt service payments on the Indiana County Technology Center debt totaled \$148,634 for the year ended June 30, 2018. Indiana Area School District's share of the outstanding balance at June 30, 2018 was \$954,375. The District estimated their current share of \$128,159 at June 30, 2018, however, due to the fluctuating nature of the allocation rate, no schedule of future debt payments is presented.

Accumulated Compensated Absences

In accordance with accounting principles generally accepted in the United States of America, the District accrues liabilities for compensated absences. The District's policy on compensated absences is discussed in Note 13. Due to the nature of the obligation for accrued separation benefits, annual requirements to amortize such obligations are not determinable and have not been presented.

General obligation bonds and notes issued for governmental activity purposes are liquidated by the debt service fund. The Technology Center debt is liquidated by the general fund. Compensated absences liabilities for governmental activities will be paid by the general fund.

**15. Interfund Transactions**

The following is a summary of interfund receivables and payables at June 30, 2018:

|   | <u>Receivables</u> | <u>Payables</u> |
|---|--------------------|-----------------|
| General Fund (Major Fund)                   | \$76,335           | \$ 0            |
| Enterprise Fund – Food Service (Major Fund) | 0                  | 22,507          |
| Capital Projects Fund (Major Fund)          | 0                  | 53,828          |
|   | <u>\$76,335</u>    | <u>\$76,335</u> |

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The School District typically pays employees of the Food Service Fund and subsequently charges the fund for reimbursement in order to assist the fund in providing meals. It is the District's intent to collect amounts owed by Food Service when adequate funds are available. The General Fund is further due reimbursement from the Capital Projects (Reserve) Funds for related costs paid by the General Fund in 2017-18.

Interfund transactions during the year ended June 30, 2018 consisted of the following:

|   | <u>Transfer in</u>     | <u>Transfer out</u>    |
|---|------------------------|------------------------|
| General Fund (Major Fund)                   | \$ 4,855               | \$3,654,519            |
| Debt Service Fund (Major Fund)              | 3,646,555              | 4,855                  |
| Capital Projects Fund (Major Fund)          | 7,923                  | 49,085                 |
| Enterprise Fund – Food Service (Major Fund) | <u>49,126</u>          | <u>0</u>               |
| <br>Total                                   | <br><u>\$3,708,459</u> | <br><u>\$3,708,459</u> |

The School District pays its debt service out of the Debt Service Fund. Therefore, the General Fund transfers amounts each year to pay the annual debt service. Further, the School District typically transfers funds each year from the General Fund to the Capital Reserve Fund for future capital improvements. Food service equipment in the amount of \$49,085 was purchased from the Capital Reserve Fund in 2017-18. The General Fund transferred \$41 to the Food Service Fund in fiscal year 2018 to cover receivables on student cafeteria accounts at June 30, 2018.

**16. Operating Leases**

The School District entered into noncancellable operating leases for office equipment. Rental expenditures under all operating lease agreements were \$98,836 for fiscal year 2018. Future minimum rental payments required under operating leases that have remaining lease terms as of June 30 are as follows:

| <u>For the year ended</u> | <u>Payment</u> |
|---------------------------|----------------|
| <u>June 30,</u>           |                |
| 2019                      | \$107,647      |
| 2020                      | 30,007         |
| 2021                      | 961            |

**17. Contingent Liabilities**

Grant Programs

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

Litigation

A local commercial property was assessed at \$22,500,000 for the 2018 tax year. The entity appealed this assessment with an appraisal for \$6,500,000 for the 2019 tax year. A status conference was held on December 14, 2018 regarding this matter. The outcome of this litigation could have a material impact on the tax revenue of the Indiana Area School District.

**Indiana Area School District  
Notes to Financial Statements  
June 30, 2018**

**18. Self-Insurance – Medical Insurance**

The School District is participating in the insurance consortium with the Armstrong-Indiana Insurance Trust to provide for the medical care for eligible employees and their dependents. The consortium, which administers the plan, monitors the District's deposit in the Trust to be held for the benefits described above and Crown Benefits, the plan administrator, processes and pays the claims. The consortium limits its liability by stop-loss insurance coverage. Indiana Area School District's liability at June 30, 2018, for unpaid claims incurred prior to fiscal year end is not readily determinable. No liability has been recorded for these claims at June 30, 2018, as the District recognizes medical claim expenses as claims are paid.

**19. Related Party Transactions**

Intermediate Unit Participation

The District is a member of the Armstrong Indiana (ARIN) Intermediate Unit 28. The District avails itself of various services provided by this membership including special education, curriculum development, and certain internal service functions. The total of services provided to Indiana Area School District for the year ended June 30, 2018 for ARIN programs amounted to \$786,249. The District reported a balance due to ARIN for services of \$87,742 at June 30, 2018.

Jointly Governed Organization

The School District governs, with six other school districts, the Indiana County Technology Center. Each district is represented on the Technology Center's school board. Students of the Indiana Area School District have available at the Technology Center courses and curriculums related to the technical training fields. Indiana Area School District's debt service and obligation with regards to the Technology Center is outlined in Note 14. The District's portion of tuition payments for its students attending the Technology Center for fiscal 2018 was \$728,952. The District reported a balance due to the Technology Center for tuition of \$0 at June 30, 2018.

**20. Risk Management**

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has purchased various insurance policies to safeguard its assets from risk of loss. Insurance coverage appears to be consistent with previous years. During the year ended June 30, 2018 and the two previous fiscal years, no settlements exceeded insurance coverage.

**21. Economic Dependency**

Indiana Area School District receives approximately 34.4% of its revenue from the State of Pennsylvania in the form of state subsidies. Changes in funding levels by the State could have a material effect on future operations of the District.

**Indiana Area School District  
Notes to Financial Statements  
June 30, 2018**

**23. Restatement of Net Position and Fund Balance**

The net position of the Governmental Activities and the Business-Type Activities was restated effective July 1, 2017 to reclassify the net position of the One-to-One Insurance Program Fund, formerly a Proprietary Fund, into the General Fund of the District. This reclassification resulted in a decrease in the net position of the Business-Type Activities and One-to-One Insurance Program Fund of \$34,721, and a corresponding increase in the net position of the Governmental Activities and General Fund.

**24. Changes in Accounting Principles and Restatement of Net Position**

For the year ended June 30, 2018, the District has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which replaces GASB Statement No. 45. This statement's primary objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. It establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and OPEB expense/expenditures.

District retirees have available to them a health insurance premium assistance program through PSERS, as well as medical, dental and vision benefits offered through a defined benefit OPEB plan by the District. In accordance with GASB No. 75, the District is required to recognize a liability for OPEB, measured as the portion of the present value of the projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past period of service, less the amount of the OPEB plan's fiduciary net position. The Total OPEB liability is generally required to be determined through an actuarial valuation. The District is further required to recognize OPEB expense and report deferred outflows of resources and deferred inflows of resources related to OPEB.

This change in accounting principle has resulted in a restatement (decrease) of the District's net position, effective July 1, 2017, in the amount of \$6,853,467. This restatement is comprised of the District's proportionate share of the prior year PSERS collective net OPEB liability, with regard to the health insurance premium assistance program (\$3,762,000), and the increase in the prior year liability for the District's defined benefit OPEB plan based on the measurement changes resulting from GASB Statement No. 75 (\$3,091,467). This restatement affects the governmental activities on the government-wide financial statement only.

**Indiana Area School District**  
**Required Supplementary Information – Pension Schedules**  
**June 30, 2018**

**Schedule of Proportionate Share of the Net Pension Liability**

|   | 2018          | 2017          | 2016          | 2015          | 2014          |
|---|---------------|---------------|---------------|---------------|---------------|
| District's proportion of net pension liability  | 0.1818%       | 0.1840%       | 0.1837%       | 0.1897%       | 0.1836%       |
| District's proportionate share of net pension liability   | \$ 89,788,000 | \$ 91,185,000 | \$ 79,570,000 | \$ 75,085,000 | \$ 75,159,000 |
| District's covered-employee payroll*  | \$ 24,208,069 | \$ 23,828,227 | \$ 23,633,183 | \$ 24,212,302 | \$ 23,563,963 |
| District's proportionate share of net pension liability as a percentage of its covered-employee payroll | 370.90%       | 382.68%       | 336.67%       | 310.11%       | 318.96%       |
| Plan fiduciary net position as a percentage of the total pension liability                              | 51.84%        | 50.14%        | 54.36%        | 57.24%        | 54.49%        |

\*The District's covered employee payroll noted above is as of the measurement date of the net pension liability (June 30, 2017, 2016, 2015, 2014 and 2013).

**Schedule of District Contributions**

|   | 2018               | 2017               | 2016               | 2015               | 2014               |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| Contractually required contributions                                  | \$ 7,458,708       | \$ 6,973,400       | \$ 5,860,701       | \$ 4,741,660       | \$ 3,779,861       |
| Contributions in relation to the contractually required contributions | <u>(7,458,708)</u> | <u>(6,973,400)</u> | <u>(5,860,701)</u> | <u>(4,741,660)</u> | <u>(3,779,861)</u> |
| Contribution deficiency (excess)                                      | <u>\$ 0</u>        |
| Covered-employee payroll  | \$ 23,499,395      | \$ 24,208,069      | \$ 23,828,227      | \$ 23,633,183      | \$ 24,212,302      |
| Contributions as a percentage of covered employee payroll             | 31.74%             | 28.81%             | 24.49%             | 20.01%             | 15.61%             |

Note: These schedules are intended to present information for ten years. Additional years will be displayed prospectively as information becomes available.

See accompanying notes to the basic financial statements.

**Indiana Area School District  
Required Supplementary Information-OPEB Schedules  
PSERS Health Insurance Premium Assistance Program  
June 30, 2018**

**Schedule of Proportionate Share of the Net OPEB Liability**

|   | <u>2018</u>   | <u>2017</u>   |
|---|---------------|---------------|
| District's proportion of net OPEB liability   | 0.1818%       | 0.1840%       |
| District's proportionate share of net OPEB liability  | \$ 3,704,000  | \$ 3,963,000  |
| District's covered-employee payroll*  | \$ 24,208,069 | \$ 23,828,227 |
| District's proportionate share of net OPEB liability<br>as percentage of its covered-employee payroll | 15.30%        | 16.63%        |
| Plan fiduciary net position as a percentage of the<br>total OPEB liability                            | 5.73%         | 5.47%         |

\*The District's covered employee payroll noted above is as of the measurement date of the net OPEB liability (June 30, 2017 and 2016).

**Schedule of District Contributions**

|   | <u>2018</u>      | <u>2017</u>      |
|---|------------------|------------------|
| Contractually required contributions                                  | \$ 195,045       | \$ 198,217       |
| Contributions in relation to the contractually required contributions | <u>(195,045)</u> | <u>(198,217)</u> |
| Contribution deficiency (excess)                                      | <u>\$ 0</u>      | <u>\$ 0</u>      |
| Covered-employee payroll  | \$ 23,499,395    | \$ 24,208,069    |
| Contributions as a percentage of covered-employee payroll             | 0.83%            | 0.82%            |

Note: These schedules are intended to present information for ten years. Additional years will be displayed prospectively as information becomes available.

See accompanying notes to the basic financial statements.

**Indiana Area School District  
Required Supplementary Information-OPEB Schedules  
District Specific Plan  
June 30, 2018**

**Schedule of Changes in District's OPEB liability:**

|  | 2018              |
|--|-------------------|
| Service cost   | \$ 375,509        |
| Interest   | 246,868           |
| Difference between expected and actual experience                                  | 1,920,096         |
| Changes of assumptions   | 197,389           |
| Benefit payments   | (1,064,392)       |
| Net change in total OPEB liability   | 1,675,470         |
| Total OPEB liability - beginning   | 7,595,953         |
| Total OPEB liability - ending  | \$ 9,271,423      |
| <br>Covered payroll*   | <br>\$ 20,318,330 |
| <br>District net OPEB liability as a percentage<br>of its covered-employee payroll | <br><br>45.63%    |

\*The District's covered employee payroll noted above is as of the measurement date of the net OPEB liability (June 30, 2017).

Note: This schedule is intended to present information for ten years. Additional years will be displayed prospectively as information becomes available.

See accompanying notes to the basic financial statements.

**Indiana Area School District**  
**Schedule of Revenues, Expenditures and Changes**  
**In Fund Balance – Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2018**

|   | Budgeted Amounts      |                       | Actual<br>(Budgetary<br>Basis) | Variance with Final<br>Budget Favorable<br>(Unfavorable) |
|---|-----------------------|-----------------------|--------------------------------|--|
|   | Original              | Final                 |                                |  |
| <b>Revenues</b>                                   |                       |                       |                                |  |
| Local sources                                     | \$ 34,813,487         | \$ 34,813,487         | \$ 35,187,516                  | \$ 374,029   |
| State sources                                     | 18,452,989            | 18,452,989            | 18,799,696                     | 346,707  |
| Federal sources                                   | 682,731               | 682,731               | 715,292                        | 32,561   |
| Total revenues                                    | <u>53,949,207</u>     | <u>53,949,207</u>     | <u>54,702,504</u>              | <u>753,297</u>   |
| <b>Expenditures</b>                               |                       |                       |                                |  |
| Instruction:                                      |                       |                       |                                |  |
| Regular programs                                  | 27,337,234            | 27,211,134            | 26,847,618                     | 363,516  |
| Special programs                                  | 6,498,273             | 6,498,273             | 6,447,333                      | 50,940   |
| Vocational education programs                     | 740,000               | 878,000               | 728,952                        | 149,048  |
| Other instructional programs                      | 624,761               | 624,761               | 554,947                        | 69,814   |
| Nonpublic school programs                         | 9,413                 | 11,413                | 11,314                         | 99   |
| Pre-kindergarten                                  | 364,016               | 364,016               | 355,375                        | 8,641  |
| Support services:                                 |                       |                       |                                |  |
| Pupil personnel                                   | 1,658,136             | 1,711,436             | 1,704,539                      | 6,897  |
| Instructional staff                               | 1,498,288             | 1,569,088             | 1,579,266                      | (10,178)   |
| Administration                                    | 2,762,174             | 2,762,174             | 2,661,785                      | 100,389  |
| Pupil health                                      | 808,521               | 808,521               | 771,646                        | 36,875   |
| Business  | 514,383               | 514,383               | 468,430                        | 45,953   |
| Operation and maintenance of plant                | 4,250,856             | 4,163,756             | 4,040,966                      | 122,790  |
| Student transportation                            | 1,881,957             | 1,969,057             | 1,964,978                      | 4,079  |
| Central   | 882,392               | 882,392               | 860,350                        | 22,042   |
| Other support services                            | 158,000               | 158,000               | 155,981                        | 2,019  |
| Operation of noninstructional services:           |                       |                       |                                |  |
| Student activities                                | 1,061,729             | 1,061,729             | 1,018,289                      | 43,440   |
| Community services                                | 107,528               | 106,728               | 100,429                        | 6,299  |
| Debt service                                      | 10,000                | 10,800                | 148,634                        | (137,834)  |
| Refund of prior year receipts                     | 0                     | 0                     | 10,775                         | (10,775)   |
| Total expenditures                                | <u>51,167,661</u>     | <u>51,305,661</u>     | <u>50,431,607</u>              | <u>874,054</u>   |
| Excess (deficiency) of revenues over expenditures | <u>2,781,546</u>      | <u>2,643,546</u>      | <u>4,270,897</u>               | <u>1,627,351</u>   |
| <b>Other financing sources (uses)</b>             |                       |                       |                                |  |
| Interfund transfers, net                          | (3,889,841)           | (3,751,841)           | (3,649,664)                    | 102,177  |
| Budgetary reserve                                 | (250,000)             | (250,000)             | 0                              | 250,000  |
| Total other financing sources (uses)              | <u>(4,139,841)</u>    | <u>(4,001,841)</u>    | <u>(3,649,664)</u>             | <u>352,177</u>   |
| Net change in fund balance                        | <u>\$ (1,358,295)</u> | <u>\$ (1,358,295)</u> | 621,233                        | <u>\$ 1,979,528</u>                                      |
| Fund balance beginning of year, restated          |                       |                       | <u>6,267,046</u>               |  |
| Fund balance end of year                          |                       |                       | <u>\$ 6,888,279</u>            |  |

See accompanying notes to the basic financial statements.

**Indiana Area School District**  
**Schedule of Expenditures of Federal Awards and Certain State Grants**  
**For the Year Ended June 30, 2018**

| Federal/Grant<br>Project Title                                | Source<br>Code | Federal<br>C.F.D.A.<br>Number | Pass<br>Through<br>Grantors<br>Number | Grant Period<br>Beginning/End Date | Program<br>Or<br>Award<br>Amount | Total<br>Received<br>For the<br>Year | Accrued<br>(Unearned)<br>Revenue at<br>July 1, 2017 | Revenue<br>Recognized | Expenditures | Passed<br>Through to<br>Subrecipients | Accrued<br>(Unearned)<br>Revenue<br>June 30, 2018 |
|---|----------------|-------------------------------|---------------------------------------|------------------------------------|----------------------------------|--------------------------------------|---|-----------------------|--------------|---------------------------------------|---|
| <b>U.S. DEPARTMENT OF EDUCATION</b>                           |                |                               |                                       |                                    |                                  |                                      |   |                       |              |                                       |   |
| Passed through the Pennsylvania Department of Education:      |                |                               |                                       |                                    |                                  |                                      |   |                       |              |                                       |   |
| ECIA Title I - Low Income                                     | I              | 84.010                        | 013-170196                            | 07/01/16-09/30/17                  | \$ 386,798                       | \$ 101,072                           | \$ 99,093   | \$ 1,979              | \$ 1,979     | \$ 0                                  | \$ 0  |
| ECIA Title I - Low Income                                     | I              | 84.010                        | 013-180196                            | 07/01/17-09/30/18                  | 436,545                          | 349,777                              | 0   | 435,653               | 435,653      | 0                                     | 85,876  |
| Title III Language Inst. LEP                                  | I              | 84.365                        | 010-170196                            | 07/01/16-09/30/17                  | 16,615                           | 5,538                                | 3,773   | 1,765                 | 1,765        | 0                                     | 0   |
| Title III Language Inst. LEP                                  | I              | 84.365                        | 010-180196                            | 07/01/17-09/30/18                  | 17,931                           | 17,931                               | 0   | 17,931                | 17,931       | 0                                     | 0   |
| Title II Improving Teacher Quality                            | I              | 84.367                        | 020-170196                            | 07/01/16-09/30/17                  | 163,472                          | 32,610                               | 32,610  | 0                     | 0            | 0                                     | 0   |
| Title II Improving Teacher Quality                            | I              | 84.367                        | 020-180196                            | 07/01/17-09/30/18                  | 91,624                           | 79,495                               | 0   | 89,419                | 89,419       | 0                                     | 9,924   |
| Title IV Student Support and<br>Academic Enrichment           | I              | 84.424                        | 144-180196                            | 07/05/17-09/30/19                  | 10,020                           | 2,672                                | 0   | 301                   | 301          | 0                                     | (2,371)   |
| Total passed through the Pennsylvania Department of Education |                |                               |                                       |                                    | 1,123,005                        | 589,095                              | 135,476   | 547,048               | 547,048      | 0                                     | 93,429  |
| Passed through ARIN Intermediate Unit #28:                    |                |                               |                                       |                                    |                                  |                                      |   |                       |              |                                       |   |
| IDEA Part B - Section 611                                     | I              | 84.027                        | 062-180028                            | 07/01/17-06/30/18                  | 355,676                          | 229,243                              | 0   | 355,676               | 355,676      | 0                                     | 126,433   |
| IDEA Part B - Section 619                                     | I              | 84.173                        | 131-170028B                           | 07/01/16-06/30/17                  | 7,690                            | 4,407                                | 4,407   | 0                     | 0            | 0                                     | 0   |
| IDEA Part B - Section 619                                     | I              | 84.173                        | 131-180028B                           | 07/01/17-06/30/18                  | 4,860                            | 0                                    | 0   | 4,860                 | 4,860        | 0                                     | 4,860   |
| Passed through Intermediate Unit #1:                          |                |                               |                                       |                                    |                                  |                                      |   |                       |              |                                       |   |
| IDEA Part B - Section 611                                     | I              | 84.027                        | 062-18-0-032                          | 10/01/17-06/30/18                  | 12,000                           | 0                                    | 0   | 5,395                 | 5,395        | 0                                     | 5,395   |
| Subtotal Special Education Cluster                            |                |                               |                                       |                                    | 380,226                          | 233,650                              | 4,407   | 365,931               | 365,931      | 0                                     | 136,688   |
| Passed through Montgomery County Intermediate Unit #23        |                |                               |                                       |                                    |                                  |                                      |   |                       |              |                                       |   |
| State Personnel Development Grant                             | I              | 84.323A                       | Unknown                               | 07/01/16-06/30/17                  | 5,000                            | 0                                    | (2,000)   | 1,452                 | 1,452        | 0                                     | (548)   |
| State Personnel Development Grant                             | I              | 84.323A                       | Unknown                               | 07/01/15-06/30/16                  | 5,000                            | 0                                    | (155)   | 155                   | 155          | 0                                     | 0   |
| Total U.S. Department of Education                            |                |                               |                                       |                                    | 1,513,231                        | 822,745                              | 137,728   | 914,586               | 914,586      | 0                                     | 229,569   |

See accompanying notes to the basic financial statements.

**Indiana Area School District**  
**Schedule of Expenditures of Federal Awards and Certain State Grants**  
**For the Year Ended June 30, 2018**

| Federal/Grant<br>Project Title                                   | Source<br>Code | Federal<br>C.F.D.A.<br>Number | Pass<br>Through<br>Grantors<br>Number | Grant Period<br>Beginning/End Date | Program<br>Or<br>Award<br>Amount | Total<br>Received<br>For the<br>Year | Accrued<br>(Unearned)<br>Revenue at<br>July 1, 2017 | Revenue<br>Recognized      | Expenditures               | Passed<br>Through to<br>Subrecipients | Accrued<br>(Unearned)<br>Revenue<br>June 30, 2018 |
|--|----------------|-------------------------------|---------------------------------------|------------------------------------|----------------------------------|--------------------------------------|---|----------------------------|----------------------------|---------------------------------------|---|
| <b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>       |                |                               |                                       |                                    |                                  |                                      |   |                            |                            |                                       |   |
| Passed through the Pennsylvania Department of Public Welfare:    |                |                               |                                       |                                    |                                  |                                      |   |                            |                            |                                       |   |
| Medical Assistance Program - Reimbursement                       |                |                               |                                       |                                    |                                  |                                      |   |                            |                            |                                       |   |
| SBAP Administration Reimbursement                                | I              | 93.778                        | N/A                                   | 07/01/17-06/30/18                  | N/A                              | \$ 6,184                             | \$ 0  | \$ 16,568                  | \$ 16,568                  | \$ 0                                  | \$ 10,384   |
| SBAP Administration Reimbursement                                | I              | 93.778                        | N/A                                   | 07/01/16-06/30/17                  | N/A                              | 7,798                                | 7,798   | 0                          | 0                          | 0                                     | 0   |
| Total U.S. Department of Health and Human Services               |                |                               |                                       |                                    |                                  | <u>13,982</u>                        | <u>7,798</u>  | <u>16,568</u>              | <u>16,568</u>              | <u>0</u>                              | <u>10,384</u>                                     |
| <b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>                     |                |                               |                                       |                                    |                                  |                                      |   |                            |                            |                                       |   |
| Passed through the Pennsylvania Department of Agriculture:       |                |                               |                                       |                                    |                                  |                                      |   |                            |                            |                                       |   |
| National School Lunch -<br>(Cash in lieu of donated commodities) |                |                               |                                       |                                    |                                  |                                      |   |                            |                            |                                       |   |
|  | I              | 10.555                        | N/A                                   | 07/01/17-06/30/18                  | N/A                              | 86,279                               | 0   | 86,279                     | 86,279                     | 0                                     | 0   |
| Passed through the Pennsylvania Department of Education:         |                |                               |                                       |                                    |                                  |                                      |   |                            |                            |                                       |   |
| National School Lunch  | I              | 10.555                        | N/A                                   | 07/01/17-06/30/18                  | N/A                              | 523,311                              | 11,155  | 512,156                    | 512,156                    | 0                                     | 0   |
| School Breakfast Program   | I              | 10.553                        | N/A                                   | 07/01/17-06/30/18                  | N/A                              | <u>132,879</u>                       | <u>3,466</u>  | <u>129,413</u>             | <u>129,413</u>             | <u>0</u>                              | <u>0</u>  |
| Subtotal Child Nutrition Cluster                                 |                |                               |                                       |                                    |                                  | 742,469                              | 14,621  | 727,848                    | 727,848                    | 0                                     | 0   |
| State Matching Funds   | S              | N/A                           | N/A                                   | 07/01/17-06/30/18                  | N/A                              | <u>40,345</u>                        | <u>906</u>  | <u>39,439</u>              | <u>39,439</u>              | <u>0</u>                              | <u>0</u>  |
| Total U.S. Department of Agriculture                             |                |                               |                                       |                                    |                                  | <u>782,814</u>                       | <u>15,527</u>                                       | <u>767,287</u>             | <u>767,287</u>             | <u>0</u>                              | <u>0</u>  |
| <b>TOTAL FINANCIAL ASSISTANCE</b>                                |                |                               |                                       |                                    | <b><u>\$ 1,513,231</u></b>       | <b><u>\$ 1,619,541</u></b>           | <b><u>\$ 161,053</u></b>                            | <b><u>\$ 1,698,441</u></b> | <b><u>\$ 1,698,441</u></b> | <b><u>\$ 0</u></b>                    | <b><u>\$ 239,953</u></b>                          |

See accompanying notes to the basic financial statements.

**Indiana Area School District**  
**Schedule of Expenditures of Federal Awards and Certain State Grants**  
**For the Year Ended June 30, 2018**

**Notes to Schedule of Expenditures of Federal Awards and Certain State Grants**

**Note A – Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Indiana 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* (CFR) 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 Indiana Area School District, it is not intended to and does not present the financial position, changes in financial position, or cash flows of Indiana Area School District.

**Note B – Summary of Significant Accounting Policies**

- (1) Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Indiana Area School District has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**Note C – Donated Commodities**

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2018, the District had food commodities totaling \$0 in inventory. The District receives cash in lieu of commodities.

**Note D – Direct/Indirect Funding**

The following source codes reflect program funding:

- D = Direct Funding
- I = Indirect Funding
- F = Federal Share
- S = State Share

**Indiana Area School District  
Schedule of Expenditures of Federal Awards and Certain State Grants  
For the Year Ended June 30, 2018**

**Notes to Schedule of Expenditures of Federal Awards and Certain State Grants**

**Note E – Reconciliation to Financial Statements**

|   |                    |  |
|---|--------------------|--|
| Total Federal Sources reported on the Statement of Revenues,<br>Expenditures, and Changes in Fund Balances – Governmental Funds | \$ 715,292         |  |
| Less: School Based Access Medicaid Reimbursement Program  | (151,676)          |  |
| Add: IDEA-B Section 611 passed through, recorded as Local Sources   | 361,071            |  |
| Add: IDEA-B Section 619 passed through, recorded as Local Sources   | 4,860              |  |
| Add: State Personnel Develop. Grant, passed through, recorded as Local Sources  | <u>1,607</u>       |  |
| Total Federal Expenditures – Governmental Funds   | 931,154            |  |
| Total Federal Sources reported on Statement of Revenues,<br>Expenses, and Changes in Fund Net Position – Proprietary Fund       | <u>727,848</u>     |  |
| Total Federal Expenditures - Proprietary Fund   | <u>727,848</u>     |  |
| Total Federal Expenditures  | <u>\$1,659,002</u> |  |

**Note F – Test of 20% Rule (Low Risk)**

|  |                    |       |
|--|--------------------|-------|
| Total Expenditures   | \$1,698,441        |       |
| Less: State’s share of National School<br>Lunch Program and Severe Need<br>Breakfast Program | <u>(39,439)</u>    |       |
| Total Federal Expenditures   | <u>\$1,659,002</u> |       |
| Special Education Cluster  | <u>\$ 365,931</u>  |       |
| Tested   | <u>\$ 365,931</u>  | = 22% |
| Total Federal Expenditures   | \$1,659,002        |       |



**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***

**Independent Auditors' Report**

To the Members of the Board  
Indiana Area School District  
Indiana, Pennsylvania 15701

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Indiana Area School District as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise Indiana Area School District's basic financial statements, and have issued our report thereon dated December 18, 2018.

**Internal Control Over Financial Reporting**

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

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

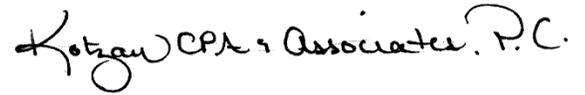
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

**Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



Kotzan CPA & Associates, P.C.  
Johnstown, Pennsylvania  
December 18, 2018

**Report on Compliance for Each Major Federal Program and on  
Internal Control Over Compliance Required by The Uniform Guidance**

**Independent Auditors' Report**

To the Members of the Board  
Indiana Area School District  
Indiana, Pennsylvania 15701

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

We have audited Indiana Area School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Indiana Area School District's major federal programs for the year ended June 30, 2018. Indiana Area School District's major federal programs are identified in the summary of auditors' 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.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of Indiana Area School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (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 Indiana Area School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

**Opinion on Each Major Federal Program**

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

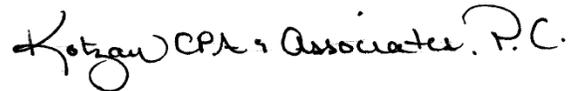
## Report on Internal Control Over Compliance

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

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

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

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



Kotzan CPA & Associates, P.C.  
Johnstown, Pennsylvania  
December 18, 2018

**Indiana Area School District  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2018**

**Section I - Summary of Auditors' Results**

Financial Statements

Type of auditors' report issued: *unmodified*

Internal control over financial reporting:

Material weakness(es) identified?            Yes     X     No

Significant deficiency identified not considered to be material weaknesses?            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 identified not considered to be material weakness(es)?            Yes     X     None reported

Type of auditors' report issued on compliance for major programs: *unmodified*

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

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 84.027/84.173         | Special Education Cluster                 |

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

Auditee qualified as low-risk auditee?     X     Yes            No

**Section II - Financial Statement Findings** No Findings

**Section III - Federal Award Findings and Questioned Costs** No Findings or Questioned Costs