

ERIE COUNTY TECHNICAL SCHOOL
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2019

	<u>Student Activities</u>	<u>Foundation</u>
<u>Assets</u>		
Cash	\$ 11,152	\$ 58,127
Undivided interest in Foundation Assets	-	240,640
Prepaid Expenses	-	110
Accounts Receivable	-	183
<u>Total Assets</u>	<u>\$ 11,152</u>	<u>\$ 299,060</u>
<u>Liabilities</u>		
Accounts Payable	\$ 2,708	\$ 5,654
Due to ECTS	-	2,000
<u>Total Liabilities</u>	<u>2,708</u>	<u>7,654</u>
<u>Deferred Inflow of Resources</u>	<u>-</u>	<u>5,000</u>
<u>Net Position</u>		
Held in Trust	<u>8,444</u>	<u>286,406</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 11,152</u>	<u>\$ 299,060</u>

ERIE COUNTY TECHNICAL SCHOOL
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Foundation</u>
<u>Additions</u>	
Membership dues	\$ 39,000
Contributions	68,993
Investment income (loss)	12,840
Other revenue	817
<u>Total Additions</u>	121,650
<u>Deductions</u>	
Awards and scholarships	5,500
Program expenses	66,356
Marketing and communications	13,848
School functions	192
General and administrative	20,067
<u>Total Deductions</u>	105,963
<u>Change in Net Position</u>	15,687
<u>Total Net Position - July 1, 2018</u>	270,719
<u>Total Net Position - June 30, 2019</u>	\$ 286,406

ERIE COUNTY TECHNICAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Erie County Technical School is an area vocational - technical school comprised of eleven participating districts and is governed by an operating committee made up of representatives of the districts. The School is organized for the purpose of providing a program of vocational and technical education to secondary pupils, out-of-school youth, and adults who are residents of the participating districts.

For financial reporting purposes, Erie County Technical School includes all funds that are controlled by or dependent on the School. Control by or dependence on the School was determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligation of the School, obligation of the School to finance any deficits that may occur or receipt of significant subsidies from the School. As required by generally accepted accounting principles, the financial statement of the reporting entity includes those of the primary government (Erie County Technical School) and its component unit, the Erie County Vocational Technical School Foundation. Separately issued financial statements for the Foundation are available at the Erie County Technical School.

B. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the school. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

C. Basis of Presentation - Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds and component units. Separate statements for each fund category - governmental, proprietary, and fiduciary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The School reports the following major governmental funds:

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

The Capital Projects Fund accounts for transfers from other funds and related investment earnings for capital outlays not accounted for in another fund.

Additionally, the School reports the following other fund types:

Proprietary Funds account for a government's activities that are operated like private businesses, charging customers a fee in return for goods or services. Proprietary funds employ the economic resources measurement focus and accrual basis of accounting. The School's food service fund ceased operations as of June 30, 2018 due to lack of participation by the sending districts.

Trust Funds account for the activities of the government that are fiduciary in nature, except those reported as agency funds. The government acts as a trustee for resources that belong to others. Trust funds employ the economic resources measurement focus and accrual basis of accounting.

Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are merely clearing accounts for assets held by a government as an agent for individuals, private organizations, or other governments.

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

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Interest associated with the current fiscal period is all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

F. Budgetary Information

An annual budget is adopted for the General Fund. The budget is adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year-end. Project length financial plans are adopted for the capital projects funds.

The School follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 30, a proposed operating budget is submitted to the Operating Committee for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to June 30, the budget is legally adopted through passage of an ordinance.
3. The Administration is authorized to transfer budgeted amounts within a specific budget object; any other transfers or revisions that alter the total expenditures of any fund must be approved by the Operating Committee.

4. Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgetary integration is not employed by other funds because effective budgetary control is alternatively achieved through direct authorization by the Operating Committee or the expenditures are all fixed in nature.

G. Assets, Liabilities, Deferred Inflows, and Net Position/Fund Balance

1. Cash and cash equivalents and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, pooled for investment purposes in the Pennsylvania School District Liquid Assets Fund (PSDLAF), investments, and short-term investments with original maturities of three months or less.

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

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

Deposits in savings accounts, 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.

All investments are reported at fair value. Fair value is determined using selected basis as follows: securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value.

2. Prepaid Items and Inventories

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

On government-wide financial statements, inventories are presented at the lower of 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; however, an estimated value of inventories is reported as an asset in the General Fund. The inventories in the General Fund are equally offset by a fund balance reserve which indicates they do not constitute "available spendable resources" even though they are a component of net current assets. The General Fund is the only governmental fund that has an inventory balance as of June 30, 2019.

3. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The School does not have any infrastructure assets. The School maintains a \$1,500 threshold for additions to equipment. Buildings and improvements are capitalized when the value is \$25,000 or greater. Vehicles are capitalized if over \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Land and construction in progress are not depreciated. Depreciation has been provided using the straight-line method for all other property, plant, and equipment of the primary government. The estimated useful lives of the various classes of depreciable capital assets are as follows:

	<u>Life – Years</u>
Buildings	30-40
Equipment	5-20
Autos, trucks, vans	8
Improvements	20

4. Deferred Outflows of Resources

The Statement of Net Position report separate sections for deferred outflows and deferred inflows of resources. These separate financial statement elements represent a consumption or acquisition of net position that applies to a future period(s) and so will not be recognized as an outflow or inflow of resources (expense/revenue) until then. The District has two items that qualify for reporting in these categories: deferred outflows related to OPEB, deferred outflows and inflows related to pensions, and unavailable tax revenue.

Deferred outflows of resources related to OPEB is described further in Note 8. Deferred outflows of resources should be recognized in OPEB expense, beginning in the current reporting period, using a systematic and rational method over a closed period equal to the average of the expected remaining services lives of all employees that are provided with OPEB through the OPEB plan (active employees and inactive employees) determined as of the beginning of the measurement period. The recognition period for the OPEB Plan's change in assumption is 11 years.

Deferred outflows and inflows of resources related to pensions are described further in Note 7. Annual changes to the net pension liability resulting from differences between expected and actual experience with regard to economic and demographic factors and from changes of assumptions about future economic or demographic factors or other inputs are deferred and amortized over a closed period equal to the average of the expected service lives of all employees that are provided with pension benefits determined for the period during which the changes occurred. Differences between projected and actual earnings on pension plan investments are amortized over a closed five-year period.

In the governmental funds balance sheet, the District only has one type of item, which arises under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable tax revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

5. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted - net position to have been depleted before unrestricted -net position is applied.

6. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow consumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

7. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing council (operating committee) has by resolution authorized the business manager to assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, an additional action is essential to either remove or revise a commitment.

At June 30, 2019, fund balances have been assigned/committed by Board resolution as follows:

Assigned:

General Fund

Future PSERS rate increases	\$	318,800
Regional career and technical center		222,904
New program		250,000

Capital Projects Fund

		782,179
	\$	<u>1,573,883</u>

H. Revenues and Expenditures/Expense

1. Program Revenues

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

2. Encumbrances

Encumbrance accounting, under which purchase orders and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed as an extension of formal budgetary integration in the General Fund. All encumbrances lapse at year end.

3. Compensated Absences

The School does not permit the carryover of unused vacation days. Accordingly, the financial statements do not contain any provision for unused vacation time.

Employees are allowed unlimited accumulation of unused sick days and upon retirement can elect to receive compensation as follows:

	<u>Sick Pay Rate/Day</u>	<u>Maximum Benefit</u>
Administrators	\$125	\$34,375
Professional educators	70	15,000
Support personnel	60	12,000

4. Use of 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

5. Joint Venture

Erie County Area Vocational Technical School exists for the purpose of operating vocational and technical programs for high school students, out of school youths, and adults who are residents of participating districts. The School is a joint venture of eleven member school districts located in the County of Erie, Pennsylvania. Each district elects one member to the Operating Committee (Joint Board). Each district is responsible for a portion of the School's operating budget based on each district's share of student enrollment and market value of real estate.

6. Pensions

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

7. Other Post-Employment Benefits

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

NOTE 2 - CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The School does not have a policy for custodial credit risk. As of June 30, 2019, \$410,314 of the School's bank balance of \$1,160,314 was exposed to custodial credit risk.

Reconciliation of Financial Statements

Total Cash	\$ 1,160,314
Add: Deposits in transit	77,885
Less: Outstanding checks	<u>(361,735)</u>
Carrying amount of bank balances	876,464
Plus: Petty Cash	150
Total cash per financial statements	<u>\$ 876,614</u>

Uninsured and uncollateralized	\$ -
Collateralized with securities held by the pledging financial institution	-
Uninsured and collateral held by the pledging bank's trust department not in the School's name	<u>410,314</u>
TOTAL	<u>\$ 410,314</u>

Investments

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

Erie Bank - CD's (all with investment maturity 1-5 years)	\$ 535,982
PA School District Liquid Asset Fund-PSDMAX	<u>704,668</u>
	<u>\$ 1,240,650</u>

Interest Rate Risk

The School does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The School follows the Pennsylvania School Code's investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2019, the School's investments were rated as:

PA School District Liquid Asset Fund

AAAm

Concentration of Risk

The School places no limit on the amount the School may invest in any one issuer. All of the School's investments are in Erie Bank and PA School District Liquid Asset Fund.

Custodial Credit Risk

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

NOTE 3 – RECEIVABLES

Receivables as of June 30, 2019, for the government's individual major funds and business-type activities in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

<u>Receivables</u>	<u>General</u>
Federal and state grants	\$ 144,527
Other	166,231
Gross receivables	<u>\$ 310,758</u>

At June 30, 2019, management does not believe any of its receivables are non-collectable.

NOTE 4 - INTERFUND TRANSFERS

Transfers are used to move fund revenues to finance various other programs and projects in other funds.

Interfund Transfers

	<u>Transfer to Other Funds</u>	<u>Transfer from Other Funds</u>
General Fund	\$ 405,900	\$ -
Capital projects Fund		405,900
	<u>\$ 405,900</u>	<u>\$ 405,900</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year was as follows:

	June 30, 2018	Additions	Deletions/ Additions	June 30, 2019
Governmental Activities				
Capital assets not depreciated:				
Land	\$ 272,111	\$ -	\$ -	\$ 272,111
Capital assets depreciated:				
Building and improvements	\$ 11,298,789	\$ -	\$ -	\$ 11,298,789
Machinery and equipment	2,732,208	83,428	(16,899)	2,798,737
Vehicles	58,318	-	-	58,318
<u>Total Assets Depreciated</u>	<u>14,089,315</u>	<u>83,428</u>	<u>(16,899)</u>	<u>14,155,844</u>
Less accumulated depreciation				
Building and improvements	(8,487,590)	(179,615)	-	(8,667,205)
Machinery and equipment	(2,028,319)	(124,910)	2,762	(2,150,467)
Vehicles	(43,550)	(4,664)	-	(48,214)
<u>Total Accumulated Depreciation</u>	<u>(10,559,459)</u>	<u>(309,189)</u>	<u>2,762</u>	<u>(10,865,886)</u>
<u>Total Capital Assets, Being</u>				
<u>Depreciated, Net</u>	<u>\$ 3,529,856</u>	<u>\$ (225,761)</u>	<u>\$ (14,137)</u>	<u>\$ 3,289,958</u>

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

Governmental Activities:

Instruction:

Vocation \$ 247,351

Support Services:

Administration 30,919

Operation and maintenance 30,919

\$ 309,189

NOTE 6 - LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2019 was as follows:

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Net Pension Liability	\$ 9,828,000	\$ -	\$ (253,000)	\$ 10,081,000	\$ -
Compensated absences	286,216	-	(45,090)	241,126	14,467
	<u>\$ 10,005,245</u>	<u>\$ -</u>	<u>\$ (298,090)</u>	<u>\$ 10,322,126</u>	<u>\$ 14,467</u>

The liability for compensated absences is normally liquidated by the General Fund.

NOTE 7 - RETIREMENT PLAN

A. Plan Description

The Erie County Technical School contributes to the Public School Employees' Retirement System (the System), a governmental cost-sharing multiple-employer defined benefit pension plan. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.pa.gov.

Benefits Provided

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

Participants are eligible for disability retirement benefits, after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined by 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.

Member Contributions

Public School Employees' Retirement System has four membership classes: T-C, T-D, T-E and T-F. The rate of the contribution an employee pays toward his account is based on the date of hire and/or membership class selected as follows:

- Active members who joined the System prior to July 22, 1983, contribute at 5.25 percent. (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.250% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.

- Members who joined the System after June 30, 2001 and before July 1, 2011, contribute 7.50% (automatic membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.
- Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50% (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 the 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 School's contractually required contribution rate for fiscal year ended June 30, 2019 was 32.60% of covered payroll, actuarially determined as an amount that, when combined with the employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School were \$911,024 for the year ended June 30, 2019.

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

At June 30, 2019, the School reported a liability of \$10,081,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2017 to June 30, 2018. The District's proportion of the net pension liability was calculated utilizing the employer's one year reported covered payroll as it relates to the total one year reported covered payroll. At June 30, 2019, the School's proportion was .0210%, which was an increase from their prior year proportion of .0199% measured at June 30, 2018.

For the year ended June 30, 2019, the School recognized pension expense of \$1,997,171 in the general fund. At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions	\$ 463,000	\$ -
Net difference between projected and actual investment earnings	176,000	128,800
Net difference between expected and actual earnings	382,400	78,600
Change in proportion	742,200	1,243,000
Contributions subsequent to the measurement date	911,024	-
	<u>\$ 2,674,624</u>	<u>\$ 1,450,400</u>

\$911,024 reported as deferred outflows of resources related to pension resulting from School 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 pension expense as follows:

Year Ended June 30:

2019	\$ 230,000
2020	4,000
2021	(110,000)
2022	(39,000)
	<u>\$ 85,000</u>

Actuarial Assumptions

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

- Actuarial cost method – Entry Age normal – level % of pay.
- Investment return - 7.25%, includes inflation of 2.75%.
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females - Adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	20.0%	5.2%
Fixed income	36.0%	2.2%
Commodities	8.0%	3.2%
Absolute return	10.0%	3.5%
Risk parity	10.0%	3.9%
Infrastructure/MLPs	8.0%	5.2%
Real estate	10.0%	4.2%
Alternative investments	15.0%	6.7%
Cash	3.0%	0.4%
Financing (LIBOR)	-20.0%	0.9%
	<u>100%</u>	

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

Discount Rate

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

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

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

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
School's proportionate share of the net pension liability	\$ 12,496,000	\$ 10,081,000	\$ 8,039,000

Pension plan fiduciary net position

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

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS

A. Plan Description

In addition to the pension benefits described in Note 7, the School provides other post-employment health, dental, vision, prescription and life insurance benefits to its retirees. The other post-employment benefits are through a single-employer defined benefit plan. The benefits are established in accordance with the requirements set forth by the bargaining unit contracts. The Benefit Plan is not allocated for as a trust fund, an irrevocable trust has not been established, the Plan does not issue a separate report and activity of the Plan is reported in the School's General Fund.

Plan Membership

At June 30, 2019, Plan membership consisted of the following:

Active employees	42
Inactive employees currently receiving benefits	<u>6</u>
	<u>48</u>

Funding Policy

No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement No. 75. The benefits are expensed when incurred and are financed on a pay-as-you-go basis. Retirees currently pay a portion of the monthly premium. The School covers the balance of the premium not paid by the retiree. Retiree and dependent coverage, group plans, and costs to the retiree are subject to change. A spouse may be covered as a dependent until the death of the retiree; thereafter, they are eligible to continue coverage by paying 100% of the monthly insurance premium. The School's net contributions to the plan were \$19,874 for June 30, 2019.

Total OPEB Liability

At June 30, 2019, the School reported a liability of \$144,571 for its share of the OPEB liability. The net OPEB liability was measured as of July 1, 2017 and the total OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2017 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Interest Rate:	3.13% Based on S&P Municipal Bond 20 Year High Grade Rate Index at 7/1/2017
Salary increases:	2.5% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75 to 0%
Retiree Contributions:	Assumed to increase at the same rate as the health Care Cost Trend Rate
Health Care Cost Trend Rate:	6.0% in 2018, and 5.5% in 2019 through 2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model

Mortality Rates were assumed using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into the tables are rates projected generationally by the Buck Modified 2016 scale to reflect mortality improvement.

Changes in the total OPEB Liability

The District's total OPEB liability has been measured as of June 30, 2017. The total OPEB liability was determined by an actuarial valuation as of July 1, 2018, and by rolling forward the liabilities from the July 1, 2017 actuarial valuation through the measurement date. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end. The net OPEB liability is \$144,571, all of which is unfunded. As of June 30, 2019, the total OPEB liability of \$144,571 is related to the governmental funds and is recorded in the governmental activities in the governmentwide statement of net position.

The District's change in its total OPEB liability for the year ended June 30, 2019 was as follows:

	<u>Governmental Activities</u>
Service Cost	\$ 8,304
Interest	4,513
Changes of benefit terms	-
Changes of assumptions or other input	588
Benefit payments	<u>(10,292)</u>
Net change in total OPEB liability	3,113
Total OPEB liability - June 30, 2018	<u>141,458</u>
Total OPEB liability - June 30, 2019	<u>\$ 144,571</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources - OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$14,546. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Changes of assumptions	\$ 10,440
Payments subsequent to the Measurement date	<u>12,379</u>
Total Deferred Outflows	<u>\$ 22,819</u>

\$12,379 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 total OPEB liability in the year ended June 30, 2018. The amount reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:

2020	\$ 1,729
2021	1,729
2022	1,729
2023	1,729
2024	1,729
Thereafter	<u>1,795</u>
	<u>\$ 10,440</u>

Discount Rate

The discount rate used to measure the OPEB liability was 2.98%. The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	1% Decrease (1.98%)	Discount Rate 2.98%	1% Increase (3.98%)
Net OPEB Liability	\$ 139,393	\$ 144,571	\$ 149,981

Sensitivity of Net OPEB Liability to Changes in the Healthcare

The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liability would be if it were calculated using healthcare cost trend rates 1% lower or 1% point higher than the current healthcare cost trend rates:

	1% Increase 7.00%	Current Rate 6.00%	1% Decrease 5.00%
Net OPEB Liability	\$ 153,065	\$ 144,571	\$ 137,151

Health Insurance Premium Assistance Program

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

The administrative staff of PSERS administers the PSERS Plan. The control and management of PSERS, including the investment of its assets, is vested in the 15-member Board of Trustees (Board). The Commonwealth General Assembly has the authority to amend the benefit terms of the PSERS Plan by passing a bill in the Senate and House of Representatives and sending the bills to the Governor for approval. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

Premium Assistance Eligibility Criteria

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

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

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 Option Program. As of June 30, 2019, there were no assumed future benefit increases to participating eligible retirees.

Employer Contributions

The school districts' contractually required contribution rate for the fiscal year ended June 30, 2019 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$23,195 for the year ended June 30, 2019.

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

At June 30, 2019, the District reported a liability of \$438,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2017 to June 30, 2018. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2019, the District's proportion was .0210% which was an increase of .0011 from its proportion measured as of June 30, 2018.

For the year ended June 30, 2019, the District recognized OPEB expense of \$405,177. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 2,727	\$ -
Changes in assumptions	6,364	15,455
Net difference between projected and actual investment earnings	909	-
Changes in proportion	18,182	20,000
District contributions subsequent to the measurement date	23,195	-
Total	<u>\$ 51,377</u>	<u>\$ 35,455</u>

\$23,195 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 June 30:

2020	\$ (2,000)
2021	(2,000)
2022	(2,000)
2023	(3,000)
2024	(3,000)
	<u>\$ (12,000)</u>

Actuarial Assumptions

The total OPEB liability as of June 30, 2017 was determined by rolling forward the System's total OPEB liability as of the June 30, 2016 actuarial valuation to June 30, 2017 measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay.
- Investment return – 3.98% - S&P 20 Year Municipal Bond Rate.
- Salary growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit and seniority increases.
- Premium assistance reimbursement capped at \$1,200 per year.