

Steel Valley School District

Financial Statements and
Required Supplementary and
Supplementary Information

Year Ended June 30, 2018
with Independent Auditor's Reports

MaherDuessel

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STEEL VALLEY SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2018

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Independent Auditor's Report

Board of Directors
Steel Valley School District

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 Steel Valley School District (School District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Change in Accounting Principle

As described in Note 1 to the financial statements, the School District adopted Governmental Accounting Standards Board (GASB) Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*," which requires the School District to record its proportionate share of the Public School Employees' Retirement System (PSERS) net OPEB liability and related items on the government-wide financial statements and to record the School District's total OPEB liability. 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 and required supplementary information on pages i through viii and 55 through 60, 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.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2019 on our consideration of the 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 solely 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 the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Maher Duessel

Pittsburgh, Pennsylvania
March 25, 2019

**Steel Valley School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018**

Our Management's Discussion and Analysis of Steel Valley School District's (School District) financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2018. Please review in conjunction with the School District's financial statements.

Financial Highlights

The School District's governmental activities recognized revenues of approximately \$32.8 million for fiscal year ending June 30, 2018, and net position decreased by approximately \$5.1 million.

The School District's General Fund fund balance was approximately \$2.5 million at June 30, 2018, a decrease of approximately \$2.7 million from the prior year primarily due to increased expenditures.

Actual revenues exceeded budgeted revenues by \$378,293, or 1.17% for 2017-2018. Actual expenditures exceeded budgeted expenditures by \$663,667 or 1.90% for 2017-2018.

The final tax rate millage for 2018 fiscal year was 22.0132 mills, which represents an increase of .7478 mills from the 2017 fiscal year.

Using the Basic Financial Statement Report

This Basic Financial Statement Report consists of a Financial Section. Within the Financial Section is the Management's Discussion and Analysis (this section), a series of financial statements, and notes to those statements. The Statement of Net Position and Statement of Activities provide information about the activities of the School District as a whole and present a longer-term view of the School District's finances. Fund Financial Statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term, as well as what remains for future spending. For the School District, the General Fund, Capital Projects Fund, and the Food Service Fund are the most significant funds. Lastly, the financial statements include notes that explain some of the information in the financial statements and provide more detailed data.

Reporting the School District as a Whole

While the Fund Financial Statements contain the majority of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2018?" The Statement of Net Position and the Statement of Activities answer this question.

These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net position and changes in those assets. This change in net position is important because it tells the reader, for the School District as a whole, whether the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Pennsylvania restricting revenue growth, facility conditions, required educational programs, and other factors.

Overview of Financial Statements

The Government-Wide Financial 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, with the difference reported as net position. 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.

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

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

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required by state law and by bond requirements.

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

Proprietary fund – This fund is used to account for the School District activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the School District charges for services it provides – whether to outside customers or to other units in the School District – these services are generally reported in proprietary funds. The Food Service Fund is the School District's only proprietary fund and uses the same basis of accounting as business-type activities; therefore, these statements will essentially match.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position – Government-Wide Financial Statements – Governmental Activities

At June 30, 2018, the value of the School District's assets totaled \$24.7 million, of which 39.3%, or approximately \$9.7 million, consisted of cash, investments, intergovernmental receivables, and taxes receivable.

Deferred outflows of resources totaled \$12,137,351, which relates to the School District's deferred outflows of resources for pension and OPEBs.

The liabilities total of \$75,873,119 consisted of accounts payable and other current liabilities, accrued payroll and benefits, accrued interest payable, unearned revenue, and other non-current liabilities including bonds and notes outstanding, retirement incentive, OPEB obligation, and net pension liability.

Deferred inflows of resources totaled \$393,237, which relates to the School District's deferred inflows of resources for pension and OPEBs.

Total unrestricted net position is approximately (\$39.1) million and net investment in capital assets is approximately (\$0.399) million at June 30, 2018, for a total net deficit of (\$39,458,675).

Revenues and Expenses – Government-Wide Financial Statements – Governmental Activities

Program revenues consist mainly of operating grants and contributions. Operating grants and contributions totaled \$3,258,068 and \$3,532,996 in fiscal years 2018 and 2017, respectively.

General revenues for governmental activities as displayed in the Statement of Activities for fiscal years ended June 30, 2018 and 2017 are as follows:

Description	2018	2017	Increase (Decrease)
Property taxes, levied for general purposes	\$ 14,026,707	\$ 13,712,491	\$ 314,216
Taxes levied for general purposes	1,880,539	1,813,346	67,193
Grants/subsidies	13,374,976	13,189,069	185,907
Investment earnings	74,784	38,323	36,461
Miscellaneous income	152,772	209,113	(56,341)
Transfers	(45,000)	-	(45,000)

Property taxes increased by \$314,216, or 2.3%, due to a .7478 increase in the real estate tax millage. Other taxes levied for general purposes include earned income, delinquent/liened taxes, amusement, and emergency municipal services. Grants/subsidies include basic subsidy, grants from foundations, and grants from the state and federal governments. Grants/subsidies increased by \$185,907, or 1.4% due to increased State retirement revenue. Miscellaneous income comes from tuition paid by other school districts for students attending the School District’s schools, telephone commissions, truancy, refunds from Steel Center Vocational School for prior years, and vendor contributions to the School District for allowing use of their vending machines in our school buildings. Miscellaneous income decreased by \$56,341, or 26.9% as the School District received E-rate refunds from prior years technology expense for the fiscal year ending 2017 totaling \$135,244.

Expenses for governmental activities as displayed in the Statement of Activities for the fiscal years ended June 30, 2018 and 2017 are as follows:

Description	2018	2017	Increase (Decrease)
Instructional services	\$ 26,088,414	\$ 25,497,548	\$ 590,866
Support services	10,545,663	10,723,932	(178,269)
Non-instructional services	706,786	768,005	(61,219)
Debt service and authority obligations	556,870	662,807	(105,937)

Instructional services expenses increased by \$590,866, or 2.3% primarily due to increases in the retirement contribution rate from 30.03 to 32.57 percent, an increase of 2.54% from fiscal year 2017, an increase in salaries, and an increase in pension expenses related to the School District's net pension liability. Support services expenses decreased by \$178,269, or 1.7% primarily due to an increase in pension expenses related to the School District's net pension liability. Debt service and authority obligations decreased by \$105,937, or 16.0% percent primarily due to a decrease in the School District's debt service requirements for its General Obligation Notes.

Overall, the School District experienced a decrease in net position of approximately \$5.1 million in fiscal year 2018 compared to a decrease in net position of \$4.6 million for fiscal year 2017.

Revenues and Expenditures – Fund Statements

The revenue of the School District for the fiscal year ended June 30, 2018 came from three sources – local, state, and federal. Revenues from local sources, which include real estate, earned income tax, delinquent/liened taxes, amusement, and other sources, accounted for \$16,619,213 of total revenue received. The major source of revenue on the local level is current year real estate taxes, which represented \$12,869,820 of the total local revenue, which exceeded budget projections by \$392,100. The revenue received from delinquent/liened real estate tax collections totaled \$1,196,654, which came in under budget projections by \$213,346.

Revenue from state sources during fiscal year 2017 totaled \$15,191,807, which was \$303,153 over budget due to an under budgeted State share of retirement contribution of \$259,604 and under budgeted transportation funding of \$113,195. The major subsidies received from state sources are basic subsidy of \$8,996,812 and special education subsidy of \$1,426,884. Of the \$1,025,516 revenue from federal sources, \$823,630 is from Title I improving basic programs and Title I set aside, and \$7,292 also from Title I for the Keystones to Opportunities funding. The remaining funds represent minor grants for improving teacher quality and medical assistance.

School District revenues for the fiscal year ended June 30, 2018 were used to pay expenditures of approximately \$35.6 million for instruction, support services, student activities, community services, facilities acquisition construction and improvements services, debt service, and other financing uses. The following is a comparison of costs for the fiscal years ended June 30, 2018 and 2017:

Program	2018 Expenditures	2017 Expenditures	Increase/(Decrease) from Prior Year
Instruction programs	\$ 23,656,209	\$ 23,025,792	\$ 630,417
Support services	9,717,456	8,809,693	907,763
Non-instruction services	656,901	710,520	(53,619)
Building improvement services	15,000	-	15,000
Debt service	1,472,045	1,452,572	19,473
Facilities/improvement	39,820	795,361	(755,541)

The variance for the fiscal year 2018 compared with the prior year concerning instruction programs is primarily the result of increases in the retirement contribution rate from 30.03 to 32.57 percent, an increase of 2.54% from fiscal year 2017, and an increase in salaries. The variance for the fiscal year 2018 compared with the prior year concerning support services is a result of increase in the amount of purchased special education services.

Capital Project Fund activity consisted of various land and building improvements at the School District's schools totaling \$39,820.

Business-Type Activity

The only business-type activity of the School District is the Food Service operations. This program had revenues, operating and non-operating of \$1,119,700 and total operating and non-operating expenses of \$1,029,263 for fiscal year 2018. The cafeteria operation is designed to be self-sustaining; however, funds are provided by the General Fund whenever revenue is lagging from the state/federal subsidies. Approximately 90% of the revenue of the food service operation comes from the state and federal government. Subsidies received represent lunch and breakfasts served for free, reimbursed under the Community Eligibility Provision (CEP). For fiscal year 2018, the School District's school lunch and breakfast program operated under CEP, in which all students in the School District received free breakfast and lunch.

Capital Assets

At June 30, 2018, the School District's governmental funds had \$14,684,453 invested in a broad range of capital assets, including land, site improvements, buildings, furniture and equipment, and vehicles. This amount represents a net decrease (including additions, deletions, and depreciation) of \$757,283 or 4.90% from last year.

Government Activities
Fiscal Years Ended June 30, 2018 and 2017
Capital Assets - Net of Depreciation

	2018	2017
Land and land improvements	\$ 2,125,485	\$ 2,349,082
Buildings and building improvements	11,961,180	12,457,906
Equipment, furniture, and fixtures	487,733	508,429
Vehicles	110,055	126,319
Library and textbooks	-	-

More detailed information about our capital assets is included in Note 4 to the financial statements.

Debt Administration

As of July 1, 2018, the School District had bonds and notes payable of \$15,083,362. During the year, the School District incurred additional accretion of \$454,140 and made principal payments totaling \$1,369,000. The total outstanding bonds and notes payable as of June 30, 2018 is \$15,083,362.

Outstanding Debt		
General Obligation Bond/Note	As of June 30, 2018	As of June 30, 2017
Series of 1993 Capital Appreciation	\$ -	\$ 1,182,506
Series of 2005	9,010,502	8,643,905
Series of 2015	6,072,860	6,171,811
Total	<u>\$ 15,083,362</u>	<u>\$ 15,998,222</u>

Other obligations include accrued sick leave for specific employees of the School District, pension and other post-employment benefits, and retirement incentive. More detailed information about the School District's long-term liabilities is included in Notes 5, 6, 7, 8, and 9 to the financial statements.

Major Financial Issues

At June 30, 2017, the General Fund fund balance had a surplus of approximately \$2.46 million, consisting of non-spendable of \$258,142, assigned of \$2,000,000, and unassigned of \$200,398. The \$2,000,000 assigned was for real estate tax refunds, health insurance increases, charter

school challenge to include federal fund expenditures in the tuition calculation, future debt service payments, and for future CBA-collective bargaining agreements.

Strategic Plan

The School District's strategic plan was approved by the PDE in September of 2006. The School District's mission is to educate students who come from diverse communities with an array of abilities and interests and prepare them to be the most productive citizens of tomorrow in a global marketplace. The areas which formed the School District's strategic direction include planned instruction, assessment, professional development, technology, and external partnerships.

Labor Relations

The bargaining groups for employees of the School District consist of the Steel Valley Education Association for the teachers, whose five-year contract was signed during fiscal year 2015 and ends on June 30, 2019. A second CBA with the Steel Valley Educational Support Personnel was ratified during fiscal year 2016 and ends on June 30, 2020, and covers the secretaries and the aides/paraprofessionals. A third CBA with Support Personnel Association, was ratified during fiscal year 2017 and ends on June 30, 2021.

The teachers and administrative agreements provide a benefit for retirees who have retired under certain contracts, an amount of \$12,000 or \$15,000 per year for a 10-year period.

Contacting the School District's Financial Management

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the School District's finances and to show the Board of the Directors' accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Mr. Edward Wehrer, Superintendent for the Steel Valley School District, 220 East Oliver Road, Munhall, PA 15120, (412) 464-3600.

STEEL VALLEY SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2018

Assets	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	\$ 5,413,283	\$ 83,873	\$ 5,497,156
Investments	301,141	-	301,141
Taxes receivable, net of allowance for uncollectibles	1,340,031	-	1,340,031
Internal balances	(62,621)	65,671	3,050
Due from other governments	2,735,901	16,277	2,752,178
Inventory	-	9,394	9,394
Other assets	-	967	967
Prepaid expenses	258,142	-	258,142
Capital assets, not being depreciated	1,453,427	-	1,453,427
Capital assets, net of accumulated depreciation	13,231,026	68,938	13,299,964
Total Assets	24,670,330	245,120	24,915,450
Deferred Outflows of Resources			
Deferred outflows of resources for pension	11,955,839	-	11,955,839
Deferred outflows of resources for OPEBs	181,512	-	181,512
Total Deferred Outflows of Resources	12,137,351	-	12,137,351
Liabilities			
Accounts payable and other current liabilities	1,001,842	1,698	1,003,540
Accrued payroll and benefits	4,635,826	-	4,635,826
Accrued interest payable	19,348	-	19,348
Unearned revenue	129,768	3,004	132,772
Noncurrent liabilities:			
Other noncurrent liabilities due within one year	1,910,470	-	1,910,470
Other noncurrent liabilities due in more than one year	15,634,735	-	15,634,735
Net OPEB liability	3,054,130	-	3,054,130
Net pension liability	49,487,000	-	49,487,000
Total Liabilities	75,873,119	4,702	75,877,821
Deferred Inflows of Resources			
Deferred inflows of resources for pension	299,000	-	299,000
Deferred inflows of resources for OPEBs	94,237	-	94,237
Total Deferred Inflows of Resources	393,237	-	393,237
Net Position			
Net investment in capital assets	(398,909)	68,938	(329,971)
Unrestricted	(39,059,766)	171,480	(38,888,286)
Total Net Position	\$ (39,458,675)	\$ 240,418	\$ (39,218,257)

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental activities:							
Instructional services:							
Regular instruction	\$ 20,138,204	\$ -	\$ 938,153	\$ 450	\$ (19,199,601)	\$ -	\$ (19,199,601)
Special instruction	5,543,021	-	1,929,968	-	(3,613,053)	-	(3,613,053)
Vocational instruction	318,858	-	-	-	(318,858)	-	(318,858)
Other instructional programs	88,331	-	-	-	(88,331)	-	(88,331)
Total instructional services	26,088,414	-	2,868,121	450	(23,219,843)	-	(23,219,843)
Support services:							
Pupil personnel	1,090,611	-	-	-	(1,090,611)	-	(1,090,611)
Instructional staff	1,253,509	-	-	-	(1,253,509)	-	(1,253,509)
Administration	2,533,422	-	-	-	(2,533,422)	-	(2,533,422)
Pupil health	315,020	-	2,479	-	(312,541)	-	(312,541)
Business	551,396	-	-	-	(551,396)	-	(551,396)
Operation and maintenance of plant services	3,235,645	-	-	-	(3,235,645)	-	(3,235,645)
Student transportation services	865,668	-	243,195	-	(622,473)	-	(622,473)
Central services	286,951	-	-	-	(286,951)	-	(286,951)
Other support services	413,441	-	-	-	(413,441)	-	(413,441)
Total support services	10,545,663	-	245,674	-	(10,299,989)	-	(10,299,989)
Noninstructional services:							
Student activities	672,700	30,021	-	-	(642,679)	-	(642,679)
Community services	11,130	-	-	-	(11,130)	-	(11,130)
Scholarship awards	22,956	-	-	-	(22,956)	-	(22,956)
Total noninstructional services	706,786	30,021	-	-	(676,765)	-	(676,765)
Unallocated expenses - excluding direct expenses reported as a function above:							
Interest, amortization, and accretion on long-term debt	556,870	-	144,273	-	(412,597)	-	(412,597)
Total governmental activities	37,897,733	30,021	3,258,068	450	(34,609,194)	-	(34,609,194)

(Continued)

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

(Continued)

<u>Functions/Programs</u>	Program Revenues			Net (Expense) Revenue and Change in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Business-Type Activities:							
Food services	1,029,263	77,874	1,041,105	-	89,716	89,716	
Total Primary Government	<u>\$ 38,926,996</u>	<u>\$ 107,895</u>	<u>\$ 4,299,173</u>	<u>\$ 450</u>	<u>(34,609,194)</u>	<u>(34,519,478)</u>	
General revenues:							
Taxes:							
Property taxes, levied for general purposes				14,026,707	-	14,026,707	
Taxes levied for general purposes				1,880,539	-	1,880,539	
Grants, subsidies, and contributions not restricted to specific programs				13,374,976	-	13,374,976	
Investment earnings				74,784	721	75,505	
Miscellaneous income				152,772	-	152,772	
Transfers				(45,000)	-	(45,000)	
Total general revenues				<u>29,464,778</u>	<u>721</u>	<u>29,465,499</u>	
Change in Net Position				(5,144,416)	90,437	(5,053,979)	
Net Position:							
Beginning of year, as restated				<u>(34,314,259)</u>	<u>149,981</u>	<u>(34,164,278)</u>	
End of year				<u>\$ (39,458,675)</u>	<u>\$ 240,418</u>	<u>\$ (39,218,257)</u>	

(Concluded)

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2018

	General Fund	Capital Projects	Total
Assets			
Cash and cash equivalents	\$ 4,672,815	\$ 740,468	\$ 5,413,283
Investments	301,141	-	301,141
Taxes receivable, net of allowance for uncollectibles	1,340,031	-	1,340,031
Due from other funds	3,050	-	3,050
Due from other governments	2,735,901	-	2,735,901
Prepaid expenses	258,142	-	258,142
Total Assets	\$ 9,311,080	\$ 740,468	\$ 10,051,548
Liabilities, Deferred Inflows of Resources, and Fund Balance			
Liabilities:			
Accounts payable	\$ 1,001,842	\$ -	\$ 1,001,842
Accrued payroll and benefits	4,635,826	-	4,635,826
Unearned revenue	129,768	-	129,768
Due to other funds	65,671	-	65,671
Total Liabilities	5,833,107	-	5,833,107
Deferred Inflows of Resources:			
Unavailable revenue - taxes	1,019,433	-	1,019,433
Fund Balance:			
Nonspendable	258,142	-	258,142
Assigned	2,000,000	740,468	2,740,468
Unassigned	200,398	-	200,398
Total Fund Balance	2,458,540	740,468	3,199,008
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 9,311,080	\$ 740,468	\$ 10,051,548

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

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

JUNE 30, 2018

Total Fund Balance - Governmental Funds \$ 3,199,008

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$31,679,366, and the accumulated depreciation is \$16,994,913. 14,684,453

Property taxes receivable are expected to be collected, but are not considered available soon enough to pay for the current period's expenditures and, therefore, are unavailable in the funds. 1,019,433

The actuarially accrued net OPEB liability and deferred inflows and outflows of resources for OPEBs for the School District employees is not recorded on the fund financial statements. (2,966,855)

The actuarially accrued net pension liability and deferred inflows and outflows of resources for pension for the School District's employees are not recorded on the fund financial statements. (37,830,161)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the fund. Additionally, accrued interest payable is not reported as a liability in the fund. Long-term liabilities at year-end consist of:

Bonds and notes payable, net	\$ (15,083,362)	
Accrued interest on bonds	(19,348)	
Retirement incentive program	(1,774,184)	
Compensated absences	(687,659)	
	(17,564,553)	(17,564,553)

Total Net Position - Governmental Activities \$ (39,458,675)

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2018

	General Fund	Capital Projects	Total
Revenues:			
Local sources	\$ 16,619,213	\$ 1,548	\$ 16,620,761
State sources	15,191,807	-	15,191,807
Federal sources	1,025,516	-	1,025,516
Total revenues	32,836,536	1,548	32,838,084
Expenditures:			
Instructional services	23,656,209	-	23,656,209
Support services	9,717,456	-	9,717,456
Operation of noninstructional services	656,901	-	656,901
Building improvement services	15,000	-	15,000
Debt service:			
Principal and interest payments	1,472,045	-	1,472,045
Capital outlay	-	39,820	39,820
Total expenditures	35,517,611	39,820	35,557,431
Excess (Deficiency) of Revenues Over Expenditures	(2,681,075)	(38,272)	(2,719,347)
Other Financing Sources (Uses):			
Interfund transfers	(45,000)	-	(45,000)
Total other financing sources (uses)	(45,000)	-	(45,000)
Net Change in Fund Balance	(2,726,075)	(38,272)	(2,764,347)
Fund Balance:			
Beginning of year	5,184,615	778,740	5,963,355
End of year	\$ 2,458,540	\$ 740,468	\$ 3,199,008

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

Net Change in Fund Balance - Governmental Funds \$ (2,764,347)

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 and reported as depreciation expense. This is the amount by which capital outlays (net of deletions) exceeded depreciation expense:

	\$	25,198	
Capital outlays (net of deletions)			
Less: depreciation expense		(782,481)	(757,283)

In the statement of activities, certain operating expenses for accumulated employee benefits (vacations and sick days) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used. 91,175

The issuance of long-term obligations (e.g., bonds, leases, loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term obligations and related items. 915,175

Pension benefits not payable from current year resources are not reported as expenditures of the current year. In the statement of activities, these costs represent expenses in the current year. (2,673,008)

Some taxes and grants will not be collected for several months after the School District's year-end; they are not considered "available" revenues in the governmental funds. Unavailable revenues decreased by this amount during the year. (39,767)

The actuarially accrued other post-employment benefits (OPEB) obligation for the School District's employees is not recorded on the fund financial statements. The value of this obligation changed by this amount during the year. 83,639

Change in Net Position of Governmental Activities \$ (5,144,416)

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

YEAR ENDED JUNE 30, 2018

	Budget		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Local sources	\$ 16,368,820	\$ 16,368,820	\$ 16,619,213	\$ 250,393
State sources	14,888,654	14,888,654	15,191,807	303,153
Federal sources	1,200,769	1,200,769	1,025,516	(175,253)
Total revenues	<u>32,458,243</u>	<u>32,458,243</u>	<u>32,836,536</u>	<u>378,293</u>
Expenditures:				
Instructional services:				
Regular instruction	16,580,591	16,580,591	18,039,610	(1,459,019)
Special instruction	5,454,160	5,454,160	5,219,384	234,776
Vocational instruction	400,000	400,000	318,138	81,862
Other instructional programs	87,350	87,350	79,077	8,273
Pre-kindergarten	17,085	17,085	-	17,085
Total instructional services	<u>22,539,186</u>	<u>22,539,186</u>	<u>23,656,209</u>	<u>(1,117,023)</u>
Support services:				
Pupil personnel	1,148,644	1,148,644	1,005,445	143,199
Instructional staff	1,274,669	1,274,669	1,166,862	107,807
Administration	2,283,989	2,283,989	2,396,308	(112,319)
Pupil health	410,477	410,477	294,262	116,215
Business	474,431	474,431	448,119	26,312
Operation and maintenance of plant services	2,814,584	2,814,584	2,846,601	(32,017)
Student transportation services	884,000	884,000	859,467	24,533
Central services	197,350	197,350	286,951	(89,601)
Other support services	418,000	418,000	413,441	4,559
Total support services	<u>9,906,144</u>	<u>9,906,144</u>	<u>9,717,456</u>	<u>188,688</u>
Operation of noninstructional services:				
Student activities	842,293	842,293	623,522	218,771
Community services	13,500	13,500	10,423	3,077
Scholarship awards	20,735	20,735	22,956	(2,221)
Total operation of noninstructional services	<u>876,528</u>	<u>876,528</u>	<u>656,901</u>	<u>219,627</u>
Building improvement services	18,000	18,000	15,000	3,000
Other expenditures and financing uses:				
Debt service	1,514,086	1,514,086	1,472,045	42,041
Interfund transfers - out	45,000	45,000	45,000	-
Total other expenditures and financing uses	<u>1,559,086</u>	<u>1,559,086</u>	<u>1,517,045</u>	<u>42,041</u>
Total expenditures	<u>34,898,944</u>	<u>34,898,944</u>	<u>35,562,611</u>	<u>(663,667)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,440,701)</u>	<u>(2,440,701)</u>	<u>(2,726,075)</u>	<u>(285,374)</u>
Net Change in Fund Balance	<u>\$ (2,440,701)</u>	<u>\$ (2,440,701)</u>	<u>\$ (2,726,075)</u>	<u>\$ (285,374)</u>

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

STATEMENT OF NET POSITION PROPRIETARY FUND

JUNE 30, 2018

	<u>Food Service Fund</u>
Assets	
<hr/>	
Current assets:	
Cash and cash equivalents	\$ 83,873
Due from other governments	16,277
Due from other funds	65,671
Inventory	9,394
Other assets	967
	<hr/>
Total current assets	176,182
	<hr/>
Non-current assets:	
Capital assets	272,625
Less accumulated depreciation	(203,687)
	<hr/>
Total non-current assets	68,938
	<hr/>
Total Assets	245,120
	<hr/>
Liabilities	
<hr/>	
Accounts payable	1,698
Unearned revenue	3,004
	<hr/>
Total Liabilities	4,702
	<hr/>
Net Position	
<hr/>	
Net investment in capital assets	68,938
Unrestricted	171,480
	<hr/>
Total Net Position	\$ 240,418
	<hr/> <hr/>

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUND

YEAR ENDED JUNE 30, 2018

	Food Service Fund
Operating Revenues:	
<u>Food service revenue</u>	<u>\$ 77,874</u>
Operating Expenses:	
Personnel services - salaries	311,379
Personnel services - employee benefits	248,007
Purchased property services	7,802
Other purchased services	2,807
Food and supplies	442,597
Depreciation	13,500
Miscellaneous	3,171
	<u>1,029,263</u>
Net Operating Loss	<u>(951,389)</u>
Non-Operating Revenues (Expenses):	
Interest income	721
Local grants	500
State subsidies	160,752
Federal:	
Subsidies	766,147
Donated commodities	68,706
Transfer from other funds	45,000
	<u>1,041,826</u>
Change in Net Position	90,437
Net Position:	
<u>Beginning of year</u>	<u>149,981</u>
End of year	<u><u>\$ 240,418</u></u>

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS PROPRIETARY FUND

YEAR ENDED JUNE 30, 2018

	Food Service Fund
Cash Flows From Operating Activities:	
Cash received from users	\$ 78,884
Cash payments to employees for services	(559,386)
Cash payments to suppliers for goods and services	(432,674)
Net cash used in operating activities	(913,176)
Cash Flows From Noncapital Financing Activities:	
Local grants	500
State subsidies	160,752
Federal subsidies	762,656
Transfers from other funds	45,000
Net cash provided by noncapital financing activities	968,908
Cash Flows From Investing Activities:	
Earnings on investments	721
Net Increase (Decrease) in Cash and Cash Equivalents	56,453
Cash and Cash Equivalents:	
Beginning of year	27,420
End of year	\$ 83,873
Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities:	
Net operating loss	\$ (951,389)
Adjustments to reconcile net operating loss to net cash used in operating activities:	
Depreciation	13,500
Donated commodities	68,706
Change in:	
Due from other funds	373
Inventories	(4,424)
Other assets	1,010
Accounts payable	(42,179)
Other liabilities	1,227
Net cash used in operating activities	\$ (913,176)
Non-Cash, Non-Capital Financing Transactions:	
The Food Service Fund received donated commodities from the U.S. Department of Agriculture in the amount of \$69,933 during the year.	

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION FIDUCIARY FUNDS

JUNE 30, 2018

	Scholarship Private-Purpose Trust Fund	Activity Funds
<hr/> Assets <hr/>		
Cash and cash equivalents	\$ 36,555	\$ 281,713
<hr/> Liabilities and Net Position <hr/>		
Liabilities:		
Due to other funds	\$ 3,050	\$ -
Deposits held for others	-	281,713
Total Liabilities	3,050	281,713
Net Position:		
Held in trust for scholarships	33,505	-
Total Liabilities and Net Position	\$ 36,555	\$ 281,713

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION FIDUCIARY FUND

YEAR ENDED JUNE 30, 2018

	Scholarship Private-Purpose Trust Fund
Additions:	
Revenues:	
Local sources	\$ 4,114
Deductions:	
Current:	
Operation of noninstructional services	3,050
Change in Net Position	1,064
Net Position:	
Beginning of year	32,441
End of year	\$ 33,505

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

1. Summary of Significant Accounting Policies

The financial statements are prepared in accordance with the accounting system and procedures prescribed for school districts by the Commonwealth of Pennsylvania, Department of Education, which conforms to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

Steel Valley School District (School District) is governed by an elected nine-member Board of Directors (Board). As required by accounting principles generally accepted in the United States of America, these financial statements present the School District as the entire reporting entity (primary government and component unit). Management has addressed all potential component units. Consistent with applicable guidance, the criteria used by the School District to evaluate the possible inclusion of related entities within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given situation, the School District reviews the applicability of the following criteria:

The School District is financially accountable for:

1. Organizations that make up the legal entity.
2. Legally separate organizations if the School District Board appoints a voting majority of the organization's governing body and the School District is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the School District.
 - a. Impose its Will – If the School District can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.
 - b. Financial Benefit or Burden – Exists if the School District (1) is entitled to the organization's resources, (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization, or (3) is obligated in some manner for the debt of the organization.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

3. Organizations that are fiscally dependent on the School District. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the School District.
4. In management's judgment, exclusion of the component unit would render the financial statements mislead.

Certain potential component units were assessed to determine if the significance of their operational or financial relationship with the School District would require inclusion in the reporting entity. The School District presently has no component units that meet the above criteria.

The Boroughs of Munhall, Homestead, and West Homestead (Boroughs) (areas served by the School District) by themselves are primary governments due to the following: the members of their governing bodies are chosen in general elections; each Borough functions as a separate legal entity; and each Borough is fiscally independent. Accordingly, the Boroughs are not a component unit of the School District.

The School District participates in two joint ventures as described in Note 14.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the School District and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the School District is reported separately from the legally separate component unit for which the School District is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a particular function or segment. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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 a current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. State and federal grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District. Expenditures are generally recorded when a liability is incurred, under accrual accounting. However, debt service expenditures, as well as expenditures related to pension, post-employment benefits, compensated absences and claims and judgments, are recorded only when payment is due.

Amounts reported as program revenues include 1) charges to parents for tuition, 2) operating grants and contributions as required by the Pennsylvania Department of Education, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the School District's proprietary fund are charges to

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

students and faculty for the sale of food. Operating expenses for the proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

Governmental Funds:

The School District presents the following major governmental funds:

General Fund

The General Fund is the principal operating fund of the School District that is used to account for all financial transactions except those required to be accounted for in other funds, covering the majority of School District operations.

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to be used for the acquisition, construction, or repair of major capital facilities other than those financed by the proprietary fund.

Proprietary Fund:

Enterprise (Food Service) Fund

The Enterprise Fund is used to account for the food service department operations, which are conducted on a charge for service basis in a manner similar to commercial enterprises. The School District's intent is that the costs of meals to the School District's population be recovered primarily through consumer charges and government subsidies.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

Fiduciary Funds:

Scholarship Private-Purpose Trust Fund

The Scholarship Private-Purpose Trust Fund is used to account for the School District's Scholarship Trust Funds.

Agency Funds

The Student Activity Funds, Middle School Fund, and the PTO Fund are custodial in nature and do not involve measurement of results of operations. These funds account for the receipt and disbursement of monies for student activity organizations and outside groups. These organizations exist with the explicit approval of, and are subject to revocation by, the Board.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the School District.

Fair Value Measurement

The School District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Currently, the School District does not have any investments which require categorization.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statement as "internal balances."

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

Tax receivables are shown net of an allowance, where applicable, for uncollectible amounts. There is no allowance for the other receivables, since they are deemed fully collectible by management.

Inventory and Prepaid Items

Inventory used in governmental fund types, principally supplies, are accounted for as expenditures when purchased. Materials, supplies, and food commodities of the proprietary fund are recorded at latest invoice cost and are subsequently charged to expenditures when consumed. Amounts on hand at year-end are not significant.

Certain payments to vendors reflects costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost and donated capital assets are recorded at estimated acquisition value at the date of donation. The School District maintains a capitalization threshold of \$5,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

All reported capital assets except for land are depreciated. Depreciation is computed using the straight-line method, over the following useful lives:

Land improvements	5 years
Buildings and improvements	20-50 years
Machinery, equipment, furniture, and vehicles	3-15 years

Deferred Inflows/Outflows of Resources

In addition to assets and liabilities, the government-wide statement of net position and/or the governmental fund balance sheet will sometimes report a separate section for deferred

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

outflows of resources or deferred inflows of resources. These separate financial statement elements represent a consumption (acquisition) of net position and/or fund balance that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) or an inflow of resources (revenue) until then. The School District reports the following deferred inflows/outflows of resources:

- Unavailable revenue represents delinquent property taxes which will not be collected within the available period. This amount is reported as a deferred inflow of resources on the balance sheet.
- In conjunction with pension and OPEB accounting requirements, differences between expected and actual experience, changes in assumptions, the effect of the change in the School District's proportion, the net difference between expected and actual investment earnings, and payments made to the plans subsequent to the measurement date are recorded as a deferred inflow or outflow of resources related to pensions and OPEBs on the government-wide financial statements. These amounts are determined based on the actuarial valuation performed for each plan. Notes 7 through 9 present additional information about the School District's pension and OPEB plans.

Long-Term Obligations

In the government-wide statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums, discounts, and deferred charges on refunding are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses.

In both the fund and government-wide financial statements, issue costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

It is expected that the General Fund will continue to provide funds for the debt service payments.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

Postemployment Benefits

Certain employees are entitled to medical, dental, and vision coverage for various years after retirement as well as term-life insurance coverage and pension benefits. In the government-wide financial statements, long-term liabilities related to postemployment benefits, including pensions, health insurance, and life insurance are calculated based on actuarial valuations as described in Notes 7 through 9.

Fund Balance

In the fund financial statements, governmental funds report fund balance in categories based on the level of restriction placed upon the funds. These levels are as follows:

Nonspendable – This category represents funds that are not in spendable form and includes prepaid expenditures.

Restricted – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties. The School District does not currently have restricted fund balance.

Committed – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending imposed by the Board. Such commitment is made via a Board resolution and must be made prior to the end of the fiscal year. Removal of this commitment requires a Board resolution. This category includes funds committed for future PSERS obligations of the School District.

Assigned – This category represents intentions of the School District to use the funds for specific purposes. The Board delegates the authority to assign amounts to be used for specific purposes to the Business Manager. This authority is granted solely for the purpose of reporting these amounts in the annual financial statements. This category includes amounts set aside for real estate tax refunds, health insurance increases, charter school payments, future collective bargaining agreements, future debt service payments, and amounts set aside for capital improvements costs.

Unassigned – This category represents all other funds not otherwise defined.

If funds are available in more than one fund balance level, the School District's policy is to use funds in the order of the most restrictive to the least restrictive.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

Net Position

The government-wide and proprietary fund financial statements are required to report three components of net position:

Net investment in capital assets – This component of net position consists of capital assets net of accumulated depreciation and is reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflow of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

Restricted – The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. The School District does not currently have restricted net position.

Unrestricted – The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of “net investment in capital assets” or the “restricted” components of net position.

Budgets and Budgetary Accounting

The School District is required by state law to adopt an annual budget for the General Fund. The budget is presented on the modified accrual basis of accounting.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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

1. Prior to May of the preceding fiscal year, the School District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. This meeting is held after 30 of days of public notification.
3. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board.
4. The budget must be filed with the Pennsylvania Department of Education by July 31 of the fiscal year.

The Public School Code allows the Board to authorize budget transfer amendments between functions during the year. The budget data reflected in the budgetary comparison information includes the effect of such approved budget transfer amendments. The School District's management does not have the authority to approve the budget or any budget transfer amendments. The School District's expenditures may not legally exceed the revised budget amounts by function and object. Accordingly, the legal level of budgetary control is at the object level within each function and fund. Function is defined as a program area such as instructional services, and object is defined as the nature of the expenditure, such as salaries or supplies.

Annual appropriations lapse at year-end. No supplemental appropriations were required during the current fiscal year.

Budgetary control for the Capital Projects Fund is maintained through provisions of related grant agreements and bond indentures.

Expenditures in Excess of Appropriations

The School District exceeded certain budgetary appropriations in the regular instruction, administration, operation and maintenance of plant services, and central services categories of the General Fund. The excess was primarily covered by other favorable variances in expenditure categories.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

Estimates

The preparation of the 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.

Adoption of Accounting Pronouncements

Governmental Accounting Standards Board (GASB) Statement No. 75, *“Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions,”* was adopted in the current year by the School District. As a result of this implementation, the government-wide net position as of July 1, 2017 was restated with a decrease of \$2,840,172 to record the School District’s proportionate share of PSERS’ net OPEB liability and to record the School District’s total OPEB liability as it relates to their post-employment benefits plan. Both OPEB liabilities are further described in Notes 7 and 9.

The following GASB statements were also adopted for the year ended June 30, 2018: Statement Nos. 81 (Split-Interest Agreements), 82 (Pensions; requirements of paragraph 7), 85 (Omnibus), and 86 (Certain Debt Extinguishment issues). These statements had no significant impact on the School District’s financial statements for the year ended June 30, 2018.

Pending Pronouncements

GASB has issued statements that will become effective in future years, including Statement Nos. 83 (Certain Asset Retirement Obligations), 84 (Fiduciary Activities), 87 (Leases), 88 (Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements), 89 (Accounting for Interest Cost Incurred before the End of a Construction Period), and 90 (Majority Equity Interests). Management has not yet determined the impact of these statements on the School District’s financial statements.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

2. Cash and Cash Equivalents

Deposits

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

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania, or (c) 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 or time deposits or share accounts of institutions insured by Federal Deposit Insurance Corporation to the extent such deposits are so insured and, for any amounts above the insured maximum, 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 (a) the funds are invested in the investments listed above, (b) the investment company is managed to maintain its share at a constant net asset value, and (c) the investment company is rated in the highest category by a nationally recognized rating agency.

In March 2016, Act 10 was passed, which expanded the scope of investment options available to school districts including repurchase agreements, commercial paper, negotiable certificates of deposit, and bankers' acceptances. The School District elected to maintain its current investment policy due to the additional risk and oversight associated with the expanded investment options under Act 10.

The deposit and investment policy of the School District adheres to state statutes and prudent business practice. Deposits of the governmental funds are either maintained in demand deposits or savings accounts, certificates of deposit, or cash equivalents held by a Trustee of the School District. There were no deposits or investments during the year that violated either the state statutes or the policy of the School District.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

The following is a description of the School District's deposit and investment risks:

Credit Risk - The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. A portion of the School District's investments are held in U.S. Government Obligations and are therefore not exposed to this type of risk. These include investments in Pennsylvania School District Liquid Asset Fund (PSDLAF) (described below), which has received an AAA rating from Standard & Poor's.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a formal deposit policy for custodial credit risk. As of June 30, 2018, \$780,256 of the School District's bank balance of \$1,030,426 was exposed to custodial credit risk. Deposits are collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. These deposits have a carrying amount of \$1,030,426 as of June 30, 2018.

Investments

PSDLAF was established as common law trusts organized under laws of the Commonwealth of Pennsylvania. Shares of the funds are offered to certain Pennsylvania school districts, intermediate units, area vocational-technical schools, and municipalities. The purpose of these funds is to enable such governmental units to pool available funds for investment in instruments authorized by Section 440.1 of the Pennsylvania Public School Code of 1949, as amended. The School District's deposits in these pooled funds are not subject to direct custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. These investments are reflected as cash and cash equivalents on the balance sheet and the statement of net position. The fair value of the School District's position in the external investment pools is the same as the value of the pool shares. All investments in an external investment pool that is not SEC-registered are subject to oversight by the Commonwealth of Pennsylvania.

In accordance with GASB, investments in PSDLAF are valued at amortized cost, which approximates market value. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium, regardless of the impact of fluctuation interest rates on the market value of the investment. The net asset value per share for the purpose of calculating the price at which shares are issued and redeemed is determined by the Administrator each banking day. Such determination is made by subtracting the liabilities

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

from the value of the assets and dividing the remainder by the number of shares outstanding.

The School District can withdraw funds from the external investment pools without limitations or fees upon adequate notice. Otherwise, breakage fees may be charged.

The School District's pooled investment funds consist of the above-noted PSDLAF accounts. The School District's PSDLAF investments have a maturity of less than 90 days, and a fair market value of \$6,918,305 and carrying amount of \$4,767,871 as of June 30, 2018.

Included as investments on the balance sheet and statement of net position are certificates of deposit in the amount of \$301,141 (book and bank value) as of June 30, 2018.

Fiduciary Fund

The School District maintains bank accounts for the various student activities, PTO, and scholarship funds. The balance of these accounts is reflected in the statement of fiduciary net position. Revenues and expenditures for student activities, PTO, and the scholarship funds were \$545,569 and \$527,098, respectively, for the year ended June 30, 2018. As of June 30, 2018, \$16,958 of the various fiduciary funds' bank balances of \$34,286 was exposed to custodial credit risk. The uninsured bank balance is collateralized in accordance with Act 72 of the Pennsylvania State Legislature. The carrying amount of deposits for the fiduciary funds is \$38,247 as of June 30, 2018. PSDLAF investments described above include fiduciary fund fair market value of \$288,174 and a carrying amount of \$280,021 for the various student activities and PTO accounts as of June 30, 2018. Fiduciary fund amounts are not included in the PSDLAF amounts given above.

3. Real Estate Taxes

Real estate taxes are levied each July 1 on the assessed value listed as of January for all real estate located in the School District. These taxes are billed and collected by elected tax collectors of the individual Boroughs within the School District. Taxes paid through August 31st are given a 2% discount. Amounts paid after October 31st are assessed a 10% penalty. Taxpayers also have the option to pay on three installments at face value. The due dates are August 31, October 31, and December 31. An outside agency collects delinquent real estate taxes and handles the property liens. The lien date is approximately two years after the taxes were originally due.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

The levy for fiscal year 2018 was based on assessed value on January 1, 2017 of approximately \$722.4 million. The tax rate assessed for the year ended June 30, 2018 was equal to 22.7610 mills.

There is an ongoing appeal process through which a taxpayer may contest the assessed value of their property. This process could result in the reduction of future assessed values and consequently a loss of tax revenues. Due to the nature of the real estate refund process, the School District generally records refunds at the time the refunds are made back to the taxpayer. At June 30, 2018, there is one major realty assessment appeal pending that has an assessed value of \$8,500,000. The appeal is located in the TIF District and any tax refund will come from TIF funds. As indicated on page 21, the School District has assigned \$1,000,000 of fund balance; a portion of that assigned fund balance is for potential real estate tax refunds.

The real estate tax receivable amount is net of an uncollectible allowance of approximately \$4.08 million.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

4. Capital Assets

The following represents the changes in the School District's governmental activities' capital assets:

	Balance at July 1, 2017	Additions	Deletions/ Transfers	Balance at June 30, 2018
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 1,453,427	\$ -	\$ -	\$ 1,453,427
Total capital assets, not being depreciated	<u>1,453,427</u>	<u>-</u>	<u>-</u>	<u>1,453,427</u>
Capital assets, being depreciated:				
Land and land improvements	2,502,094	-	-	2,502,094
Building and improvements	25,350,702	-	-	25,350,702
Equipment, furniture, and fixtures	1,120,769	25,198	-	1,145,967
Vehicles	277,322	-	-	277,322
Library and text books	949,854	-	-	949,854
Total capital assets, being depreciated	<u>30,200,741</u>	<u>25,198</u>	<u>-</u>	<u>30,225,939</u>
Less: accumulated depreciation for:				
Land and land improvements	(1,606,439)	(223,597)	-	(1,830,036)
Building and improvements	(12,892,796)	(496,726)	-	(13,389,522)
Equipment, furniture, and fixtures	(612,340)	(45,894)	-	(658,234)
Vehicles	(151,003)	(16,264)	-	(167,267)
Library and text books	(949,854)	-	-	(949,854)
Total accumulated depreciation	<u>(16,212,432)</u>	<u>(782,481)</u>	<u>-</u>	<u>(16,994,913)</u>
Governmental activities, capital assets, net	<u>\$ 15,441,736</u>	<u>\$ (757,283)</u>	<u>\$ -</u>	<u>\$ 14,684,453</u>

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

The following represents the changes in the School District's business-type activities' capital assets:

	Balance at July 1, 2017	Additions	Deletions/ Transfers	Balance at June 30, 2018
Business-Type Activities:				
Equipment	\$ 272,625	\$ -	\$ -	\$ 272,625
Less: accumulated depreciation for:	<u>(190,187)</u>	<u>(13,500)</u>	<u>-</u>	<u>(203,687)</u>
Business-type activities, capital assets, net	<u>\$ 82,438</u>	<u>\$ (13,500)</u>	<u>\$ -</u>	<u>\$ 68,938</u>

Depreciation expense for the governmental activities was charged to functions/programs of the School District as follows:

Governmental Activities:

Instructional services:

Regular \$ 510,831

Vocational 720

Support services:

Instructional staff 3,231

Administration 400

Operation of plant and maintenance services 254,047

Student transportation services 6,201

Noninstructional services:

Student activities 7,051

\$ 782,481

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

5. Long-Term Liabilities

Long-term liabilities at June 30, 2018 are comprised of the following items:

Description	Interest Rates	Final Maturity	Amount	Due Within One Year
1993 Capital Appreciation Bonds	5.95%-6.35%	2018	\$ -	\$ -
2005 Capital Appreciation Bonds	3.30% - 4.93%	2031	9,010,502	50,000
2015 General Obligation Notes	1.87%	2023	6,072,860	1,396,000
Total bonds and notes			15,083,362	1,446,000
Retirement incentive program	n/a	n/a	1,774,184	418,070
Compensated absences	n/a	n/a	687,659	-
Total long-term liabilities			\$ 17,545,205	\$ 1,864,070

6. Bonds and Notes Payable

The following is a summary of bonds and notes payable transactions of the School District for the year ended June 30, 2018:

Balance at July 1, 2017	\$ 15,998,222
Accretion on capital appreciation bonds	454,140
Principal payments	(1,369,000)
Balance at June 30, 2018	\$ 15,083,362

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

Debt service requirements, including interest, are as follows:

Years Ending June 30,	Principal Payment	Interest Payment	Total Payment
2019	\$ 1,446,000	\$ 102,014	\$ 1,548,014
2020	1,476,000	75,433	1,551,433
2021	1,507,000	47,936	1,554,936
2022	1,432,629	21,011	1,453,640
2023	1,386,181	3,930	1,390,111
2024-2028	6,975,000	-	6,975,000
2029-2032	5,560,000	-	5,560,000
	19,782,810	250,324	20,033,134
Unaccrued interest	(4,699,497)	4,699,497	-
	<u>\$ 15,083,313</u>	<u>\$ 4,949,821</u>	<u>\$ 20,033,134</u>

The Series of 1993 General Obligation Bonds (1993 Bonds) were issued to finance certain capital projects and refund all Series of 1991 Bonds and a portion of the Series of 1985 Bonds. During 2004, the School District issued General Obligation Bonds, Refunding Series A, B, and C of 2003 (2003 Bonds) to refund the Current Interest portion of the 1993 Bonds. The remaining 1993 Bonds consist of Capital Appreciation Bonds with an aggregate original issuance amount of \$5,287,879 with annual maturity values of \$1,220,000 due beginning in fiscal year 2008 through fiscal year 2018 to yield rates of 5.95% to 6.35%. The Capital Appreciation Bonds accrue and compound interest on a semiannual basis and are carried at cost plus accrued interest. The Capital Appreciation Bonds fully matured in fiscal year 2018.

During fiscal year 2006, the School District issued General Obligation Bonds, Capital Appreciation Series of 2005 (2005 Bonds) in the principal amount of \$5,398,416. The bond proceeds were issued for the purpose of construction and renovation of various school facilities. Annual maturity values beginning in fiscal year 2007 through fiscal year 2032 yield rates of 3.30% to 4.93%. The 2005 Bonds accrue and compound interest on a semiannual basis and are carried at cost plus accrued interest. Total maturity value of the Capital Appreciation Bonds is \$13,710,000 as of June 30, 2018.

During fiscal year 2016, the School District issued General Obligation Notes, Series A, Series B, and Series C of 2015 (2015 Notes) in the amount of \$6,191,811. The purpose of this issue was to currently refund the General Obligation Bonds, Series A, Series B, and Series C of 2010 and to pay all costs and expenses incurred by the School District in connection with

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

the issuance of the 2015 Notes. The 2015 notes bear interest at 1.87%. The Series A and Series B of 2015 Notes are scheduled to mature on November 21, 2021, and the Series C of 2015 Note is scheduled to mature on November 21, 2022. Total maturity value of the refunding notes is \$6,072,811 at June 30, 2018.

7. Public School Employees' Retirement System (PSERS)

Plan Description

PSERS administers a governmental cost-sharing, multi-employer defined benefit pension plan (Pension Plan) and a governmental cost-sharing, multi-employer defined benefit Health Insurance Premium Assistance Program (Premium Assistance), an OPEB plan, to public school employees of the Commonwealth of Pennsylvania (Commonwealth). PSERS issues a publicly available financial report that can be obtained at www.psers.pa.gov.

Employees eligible for PSERS benefits 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.

Retirees can participate in the Premium Assistance 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 PSERS Health Options Program or an employer-sponsored health insurance program.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions or OPEBs, pension expense, and OPEB expense, information about the fiduciary net position of PSERS and additions to/deductions from PSERS' 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. The net pension liability and the net OPEB liability are recorded as governmental activities, as the future obligations are expected to be paid from the General Fund.

Benefits Provided – Pension Plan

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

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

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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.

Benefits Provided – Premium Assistance

Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible annuitants are entitled to receive Premium Assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. As of June 30, 2017, there were no assumed future benefit increases to participating eligible retirees.

Member Contributions

The following illustrates the member's contribution as a percent of the member's qualifying compensation:

Active members who joined PSERS prior to July 22, 1983:

- Membership Class T-C 5.25%
- Membership Class T-D 6.50%

Members who joined PSERS on or after July 22, 1983, and who were active or inactive as of July 1, 2001:

- Membership Class T-C 6.25%
- Membership Class T-D 7.50%

Members who joined PSERS after June 30, 2001, and before July 1, 2011:

- Membership Class T-D 7.50%

Members who joined PSERS after June 30, 2011:

- Membership Class T-E* 7.50%
- Membership Class T-F** 10.30%

*Shared risk program could cause future contribution rates to fluctuate between 7.50% and 9.50%.

**Shared risk program could cause future contribution rates to fluctuate between 10.30% and 12.30%.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

Employer Contributions

The School District's contractually required PSERS contribution rate for the fiscal year ended June 30, 2018 was 32.57% 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. This rate is composed of a 31.74% rate for the Pension Plan and a 0.83% rate for the Premium Assistance.

The combined rate for the fiscal year ended June 30, 2018 was an increase from the fiscal year ended June 30, 2017 combined rate of 30.03%. The combined contribution rate will increase to 33.43% in fiscal year 2019 and is projected to grow to 36.32% by fiscal year 2023.

The School District remits contributions to PSERS on a quarterly basis. Approximately \$2.4 million is owed to PSERS as of June 30, 2018, which represents the School District's required contribution for the end of year payroll. The School District's contributions which were recognized by PSERS for the year ended June 30, 2018 were as follows:

Pension Plan	\$	4,340,839
Premium Assistance		<u>113,512</u>
Total	\$	<u><u>4,454,351</u></u>

In accordance with Act 29, the Commonwealth reimburses school districts for at least one-half of contributions made to PSERS. The School District recorded reimbursements from the Commonwealth approximating \$2.2 million during the current year. Because the Commonwealth payments are received as a reimbursement, and are not made directly to PSERS, they do not qualify as a special funding situation.

Proportionate Share

The School District's proportion of PSERS' net pension liability and PSERS' net OPEB liability were calculated utilizing the School District's one-year reported covered payroll as it relates to PSERS' total one-year reported covered payroll. At June 30, 2017 (measurement date), the School District's proportion was 0.1491%, which was a decrease of 0.0063% from its proportion measured as of June 30, 2016.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

8. Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions

At June 30, 2018, the School District reported a liability of \$49,487,000 for its proportionate share of PSERS' 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 PSERS' total pension liability as of June 30, 2016 to June 30, 2017.

For the year ended June 30, 2018, the School District recognized pension expense of \$7,013,847. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 516,000	\$ 299,000
Changes in assumptions	1,344,000	-
Net difference between projected and actual earnings on pension plan investments	1,147,000	-
Changes in proportion	4,608,000	-
School District contributions subsequent to the measurement date	<u>4,340,839</u>	<u>-</u>
Total	<u>\$ 11,955,839</u>	<u>\$ 299,000</u>

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

\$4,340,839 reported as deferred outflows of resources resulting from the School District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30:</u>	
2019	\$ 2,465,000
2020	2,830,000
2021	1,854,000
2022	<u>167,000</u>
Total	<u>\$ 7,316,000</u>

Actuarial Assumptions

The total pension liability as of June 30, 2017 was determined by rolling forward 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:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.25%, includes inflation at 2.75%
- Salary increases – Effective average of 5.00%, comprised of 2.75% for inflation 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.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

Changes in Assumptions

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

- The investment rate of return was adjusted from 7.50% to 7.25%. The inflation assumption was decreased from 3.00% to 2.75%.
- Salary growth changed from an effective average of 5.50%, which was comprised of 3.00% for inflation and 2.50% for real wage growth and for merit or seniority increases, to an effective average of 5.00%, comprised of 2.75% for inflation and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Changes in Benefit Terms

With the passage of Act 5 on June 12, 2017, vested Class T-E and Class T-F members can now withdraw their accumulated contributions and interest from the Members' Savings Account upon their retirement. In addition, members hired on or after July 1, 2019 will be required to select one of three new plan design options: either one of two side-by-side hybrid defined benefit/defined contribution plans or a stand-alone defined contribution plan. No changes will be made to retirement benefits for current employees, but they would have the option to choose one of the new plan designs.

Pension Plan Investments

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

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public entity	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)	-20.0%	1.1%
	<u>100.0%</u>	

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 the contributions from plan members will be made at the current contribution rate and that the 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.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

Sensitivity of the School District's Proportionate Share of PSERS' Net Pension Liability to Changes in the Discount Rate

The following presents the School District's proportionate share of PSERS' net pension liability calculated using the discount rates described above, as well as what the School District's proportionate share of PSERS' net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
School District's proportionate share of PSERS' net pension liability	<u>\$ 60,914,000</u>	<u>\$ 49,487,000</u>	<u>\$ 39,839,000</u>

Pension Plan Fiduciary Net Position

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

9. Net OPEB Liability, OPEB Expense, and Deferred Outflows and Inflows of Resources Related to OPEB

The School District maintains two separate OPEB plans – the Premium Assistance previously described in Note 7 and the School District's retiree plan described below. At June 30, 2018, the School District reported a net OPEB liability composed of the following:

School District's proportionate share of PSERS' net OPEB liability	\$ 2,041,000
School District's total OPEB liability for its retiree plan	<u>1,013,130</u>
Net OPEB liability	<u>\$ 3,054,130</u>

PSERS' net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate PSERS' net OPEB liability was determined by rolling forward PSERS' total OPEB

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

liability as of June 30, 2016 to June 30, 2017. The School District's retiree plan's total OPEB liability was measured as of July 1, 2017, and the total OPEB liability used to calculate the retiree plan's total OPEB liability was determined by rolling forward the retiree plan's total OPEB liability as of July 1, 2017 to June 30, 2018.

For the year ended June 30, 2018, the School District recognized OPEB expense as follows:

OPEB expense related to PSERS		
Premium Assistance	\$	(13,000)
OPEB expense related to School		
District's retiree plan		<u>43,636</u>
Total OPEB expense	\$	<u><u>30,636</u></u>

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Deferred Outflows of Resources:	PSERS Premium Assistance	School District's Retiree Plan	Total Deferred Outflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 2,000	\$ -	\$ 2,000
Changes in proportion	66,000	-	66,000
School District contributions subsequent to the measurement date	<u>113,512</u>	<u>-</u>	<u>113,512</u>
Total	<u><u>\$ 181,512</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 181,512</u></u>

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

Deferred Inflows of Resources:	PSERS Premium Assistance	School District's Retiree Plan	Total Deferred Inflows of Resources
Changes in assumptions	\$ 95,000	\$ -	\$ 95,000
Net difference between actual and expected experience	-	(763)	(763)
Total	\$ 95,000	\$ (763)	\$ 94,237

\$113,512 reported as deferred outflows of resources resulting from the School District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending 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 Ending June 30:	
2019	\$ (3,866)
2020	(3,866)
2021	(3,866)
2022	(3,866)
2023	(4,866)
2024	(5,907)
Total	\$ (26,237)

Additional Required Disclosures for PSERS Premium Assistance

Actuarial Assumptions

The total OPEB liability as of June 30, 2017 was determined by rolling forward PSERS' total OPEB 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:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 3.13% - S&P 20-year Municipal Bond Rate

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

- Salary increases – Effective average of 5.00%, comprised of 2.75% for inflation and 2.25% for real wage growth and merit or seniority increases
- Premium Assistance reimbursement is capped at \$1,200 per year
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in Premium Assistance per year
- Mortality rates were based on the RP-2014 Mortality Tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale
- Participation rate –
 - Eligible retirees will elect to participate pre-age 65 at 50%
 - Eligible retirees will elect to participate post-age 65 at 70%.

Changes in Assumptions

The actuarial assumptions used in the June 30, 2015 valuation determined the contribution rate for fiscal year 2017. These assumptions included:

- Actuarial cost method – Amount necessary to assure solvency of the Premium Assistance through the third fiscal year after the valuation date
- Asset valuation method – market value
- Participation rate – 63% of eligible retirees were assumed to elect the Premium Assistance
- Mortality rates for healthy annuitants and dependent beneficiaries were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both males and females. For disabled annuitants, rates were based on the RP-2000 Combined Disabled Table with age set back 7 years for males and 3 years for females.

Changes in Benefit Terms

There were no changes in benefit terms for the Premium Assistance.

OPEB Plan Investments

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

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

The OPEB plan's policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Employer contribution rates are established to provide reserves in the Health Insurance Account that are sufficient for the payment of the Premium Assistance for each succeeding year. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

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

Discount Rate

The discount rate used to measure the total OPEB liability was 3.13%. Under the Premium Assistance plan's funding policy, contributions are structured for short-term funding of the Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of the 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 the 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. This previous discount rate used as of June 30, 2016 was 2.71%.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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

The following presents the School District's proportionate share of PSERS' net OPEB liability calculated using the discount rates described above, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	<u>1% Decrease (2.13%)</u>	<u>Current Discount Rate (3.13%)</u>	<u>1% Increase (4.13%)</u>
School District's proportionate share of PSERS' net OPEB liability	<u>\$ 2,321,000</u>	<u>\$ 2,041,000</u>	<u>\$ 1,810,000</u>

Sensitivity of the School District's Proportionate Share of PSERS' Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

Healthcare cost trend rates 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. 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 the healthcare cost trends as depicted below.

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

	<u>1% Decrease</u>	<u>Current Trend</u>	<u>1% Increase</u>
School District's proportionate share of PSERS' net OPEB liability	<u>\$ 2,041,000</u>	<u>\$ 2,041,000</u>	<u>\$ 2,042,000</u>

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

OPEB Plan Fiduciary Net Position

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

Additional Required Disclosures for the School District's Retiree Plan

Plan Description

The School District administers a single-employer defined benefit healthcare plan to provide additional postemployment benefits to eligible retirees (retiree plan). The School District has not accumulated assets for the retiree plan in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75; benefits are paid on a pay-as-you-go basis.

Benefits Provided

The benefit limits and employee and employer contributions are established through employee contracts and past practices. The School District provides the following postemployment benefits to those who retired early from the School District. Details of the benefits provided are as follows:

Teachers and Administrators (Option A)

The School District provides medical, term life, and AD&D in the amount of \$30,000. Coverage ends for both retirees and spouse when retiree reaches 65. Surviving spouse is covered to age 65. Retiree pays any increase in cost after retirement. Life insurance is fully paid for by the School District. Surviving spouse is not eligible for life insurance. There are no current retirees under this option and this option is closed.

Teachers and Administrators (Option B)

The School District provides medical, term life, and AD&D in the amount of \$30,000. Coverage ends for both retirees and spouse when retiree reaches 65. Surviving spouse is covered to age 65. Retiree pays \$500 per year. Life insurance is fully paid for by the School District. Surviving spouse is not eligible for life insurance. There are no current retirees under this option and this option is closed.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

Teachers and Administrators (Other than Options A & B)

Coverage ends for both retirees and spouse when retiree reaches 65. Surviving spouse is covered to age 65. Retiree pays 100% of rate for coverage tier year.

Support Staff

The School District provides medical, dental, and vision coverage for three years with no retiree contribution.

At July 1, 2017, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefit payments	7
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	<u>219</u>
	<u><u>226</u></u>

For the year ended June 30, 2018, the School District contributed \$50,868 and retirees contributed \$99,915 to the retiree plan.

Actuarial Assumptions

The total OPEB liability was determined as of the June 30, 2018 actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement:

- actuarial cost method – entry age actuarial cost method;
- discount rate – 3% compounded annually;
- mortality – RP-2014 Morality Fully Generational using Projection Scale MP-2018;
- health care cost trend rates – increase of 6% for 2019 to 2021, then 5.5% for 2022 to 2024, and 5% for 2025 and after; and
- dental/vision care cost trend rates – constant increase of 5% and 3%, respectively, per year

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

Changes in Assumptions

No changes noted.

Changes in Benefit Terms

No changes noted.

Changes in the Total OPEB Liability

The changes in the total OPEB liability for the School District's retiree plan for the year ended June 30, 2018 were as follows:

Total OPEB liability, July 1, 2017	\$	969,494
Changes for the year:		
Service cost		64,995
Interest on the total OPEB liability		30,272
Differences between expected and actual experience		(763)
Changes of assumptions		-
Contributions - employer		<u>(50,868)</u>
Total OPEB liability, June 30, 2018	\$	<u><u>1,013,130</u></u>

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

The following presents the School District's total OPEB liability calculated using the discount rate described above, as well as what the School District's total OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	1% Decrease (2.0%)	Current Discount Rate (3.0%)	1% Increase (4.0%)
School District's total OPEB liability	\$ <u><u>1,064,817</u></u>	\$ <u><u>1,013,130</u></u>	\$ <u><u>963,453</u></u>

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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

The following presents the School District's total OPEB liability calculated using current healthcare cost trend rates as well as what the School District's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Trend</u>	<u>1% Increase</u>
School District's total OPEB liability	<u>\$ 934,525</u>	<u>\$ 1,013,130</u>	<u>\$ 1,100,402</u>

10. Retirement Incentive Program (Program)

Beginning in fiscal year 2002, any eligible employee electing to retire and participate in the Retirement Incentive Program (Program) qualifies for a \$15,000 retirement incentive each year for ten years. Beginning with the teacher contract effective July 1, 2006, the retirement incentive amount is \$12,000 for new entrants. An eligible employee is defined as anyone who (1) is fifty-five years of age or older with a minimum of ten years of service (fifteen years of service beginning with the 2015-2016 school year) with the School District or (2) who has thirty years of service or greater regardless of age; and who has attained step seventeen or greater on the School District's salary scale. Those employees who elect to participate in the Program must submit to the Superintendent, 120 days prior to the date he/she intends to retire, an irrevocable written notification that he/she will retire. At June 30, 2018, there were 26 retired participants in this Program receiving payments. As of June 30, 2018, benefit payments have been fulfilled for 70 participants. Payments related to these benefits of \$430,070 have been made during the year ended June 30, 2018. The total obligation remaining at June 30, 2018 is approximately \$1.4 million (discounted present value) and is to be paid through fiscal year 2026. The School District's liability is measured at the discounted present value of expected future benefit payments. Included in noncurrent liabilities at June 30, 2018 are noncurrent liabilities due within one year of \$464,470 and due in more than one year of \$1,309,714, related to the Program.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

11. Accumulated Compensated Absences

The School District accrues for certain accumulated unused sick and vacation days. The accrual is based on sick and vacation payments that would be available to employees if they left or retired from the School District. The accrual is recorded as a long-term liability in the government-wide financial statements. As of June 30, 2018, the amount accrued for sick and vacation days is \$687,659.

12. Health Insurance Consortium

The School District is one of fifty-two members of the Allegheny County Schools Health Insurance Consortium (Consortium). The Consortium is a public entity risk pool which affords health care coverage for members' employees on a pooled basis. The School District pays premiums to the Consortium based upon rates established by the trustees of the Consortium. The Consortium establishes rates with the objective of satisfying current costs and claims of covered health care services, as well as maintaining working capital requirements and a Premium Stabilization Fund for periods when actual costs of coverage exceed premiums collected from members. At the end of each fiscal year, actual claims experience is compared with premiums paid. The difference results in either a retroactive refund or charge. Included in the retroactive refund/charge is a calculation for the reserve needed to cover expenses incurred but not yet reported by health providers. Any retroactive charge may be paid from the Premium Stabilization Fund, up to ten percent of total premiums paid. The remainder may be charged to the schools. The School District paid approximately \$3.18 million to the Consortium during fiscal year 2018.

At June 30, 2018, the Consortium's net assets available for benefits approximated \$64.0 million. The School District's share of this amount is approximately \$822,000. The Consortium also maintains a portion of the Premium Stabilization Fund to cover potential future catastrophic losses. Independent insurance coverage for catastrophic losses is not maintained by the Consortium or the School District.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

13. Interfund Receivable and Payable

Interfund transactions at June 30, 2018 are summarized below:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Funds:		
General	\$ 3,050	\$ 65,671
Major Funds:		
Food Service	65,671	-
Fiduciary Funds:		
Scholarship Private-Purpose Trust	<u>-</u>	<u>3,050</u>
Total	<u>\$ 68,721</u>	<u>\$ 68,721</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. During fiscal year 2018, the General Fund transferred \$45,000 to the Food Service Fund.

14. Joint Ventures

The School District is one of eleven member school districts of the Steel Center Career Technical School (Steel Center). Steel Center provides vocational-technical education and training for high school students. Direct oversight of Steel Center's operations is the responsibility of its Board, which consists of one representative from each participating school district. In addition, the School District is one of ten members of the Southeastern Area Special School (Southeastern). Southeastern, which provides special education and training programs for exceptional children, is controlled and governed by the Joint School Committee, which is composed of representatives from each participating school district. The School District's share of annual operating and capital costs for Steel Center and Southeastern (collectively known as Special Schools) fluctuates based on the percentage enrollment in the applicable school and are reflected as expenditures of the General Fund.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

The School District's contributions to the Steel Center and Special Schools in the current fiscal year amounted to \$13,055 and \$7,191, respectively. The School District's portion of the net current assets of the Steel Center and Special Schools at June 30, 2018 is to be used to fund future years' operations and the amounts are not material to the financial statements of the School District. Separate financial statements for the Special Schools are available at the administrative offices of the School District.

15. Tax Incremental Financing Project

The School District, along with boroughs served by the School District and Allegheny County, have agreed to participate in a Tax Incremental Financing (TIF) Project related to commercial development for a tract of land along the Monongahela River known as the Waterfront. The taxing bodies have agreed to pay to the Waterfront Project incremental real estate tax revenues created by the Project for payment of the debt service incurred to develop the Project. Net tax revenues after debt service are shared with the participating taxing entities. Of the total real estate taxes collected, \$5,489,706 related to the TIF District. During the 2018 fiscal year, the School District recorded an additional amount of approximately \$3.81 million from their portion of net tax revenues after debt services payments were satisfied. The debt service for the TIF Project matures during fiscal year 2019, resulting in the completion of the TIF agreement.

16. Contingencies

The School District is involved in claims and lawsuits incidental to its operations. In the opinion of the Administration, the ultimate resolution of these matters will not have a material adverse effect on the financial position of the School District.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

The School District maintains insurance through independent insurance carriers for all types of business losses. Management believes the insurance coverage is sufficient to cover the School District against potential losses. There have been no significant changes in insurance coverage from the prior fiscal year.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

In June 2018, the School District was in an arbitration case with five individuals who were not paid at the proper step level for the school years 2015-2016, 2016-2017, and 2017-2018. These five individuals were awarded settlements from the School District in the total amount of \$1,306,616. In fiscal year 2018-2019, the School District issued a General Obligation Note in the amount of \$1,750,000 to pay for these settlements.

**REQUIRED SUPPLEMENTARY
INFORMATION**

STEEL VALLEY SCHOOL DISTRICT

SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF PSERS' NET PENSION LIABILITY

Last 10 Fiscal Years¹

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
School District's proportion of PSERS' net pension liability	0.1002%	0.0966%	0.0892%	0.0839%
School District's proportionate share of PSERS' net pension liability	\$ 49,487,000	\$ 47,872,000	\$ 38,638,000	\$ 33,209,000
School District's covered payroll	\$ 13,337,948	\$ 12,507,857	\$ 11,476,022	\$ 10,704,703
School District's proportionate share of PSERS' net pension liability as a percentage of its covered payroll	371.0241%	382.7354%	336.6846%	310.2281%
PSERS' plan fiduciary net position as a percentage of PSERS' total pension liability	51.84%	50.14%	54.36%	57.24%

¹ The amounts presented for each fiscal year were determined as of the measurement date, which is June 30 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the School District is presenting information for those years only for which information is available.

SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS TO THE PSERS PENSION PLAN

Last 10 Fiscal Years²

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required employer contribution	\$ 4,340,839	\$ 4,024,348	\$ 3,166,309	\$ 2,276,902
Contributions recognized by PSERS	<u>4,340,839</u>	<u>4,024,348</u>	<u>3,166,309</u>	<u>2,276,902</u>
Difference between contractually required employer contribution and contributions recognized by PSERS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered payroll	\$ 13,733,017	\$ 13,342,454	\$ 12,496,470	\$ 11,429,596
Contributions as a percentage of covered payroll	31.61%	30.16%	25.34%	19.92%

² The amounts presented for each fiscal year were determined as of the fiscal year-end date. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the School District is presenting information for those years only for which information is available.

See accompanying notes to schedules of required supplementary information.

STEEL VALLEY SCHOOL DISTRICT

SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF PSERS' NET OPEB LIABILITY

Last 10 Fiscal Years¹

	2018
School District's proportion of PSERS' net OPEB liability	0.1002%
School District's proportionate share of PSERS' net OPEB liability	\$ 2,041,000
School District's covered payroll	\$ 13,337,948
School District's proportionate share of PSERS' net OPEB liability as a percentage of its covered payroll	15.3022%
PSERS' plan fiduciary net position as a percentage of PSERS' total OPEB liability	5.73%

¹ The amounts presented for each fiscal year were determined as of the measurement date, which is June 30 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the School District is presenting information for those years only for which information is available.

SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS TO THE PSERS PREMIUM ASSISTANCE

Last 10 Fiscal Years²

	2018
Contractually required employer contribution	\$ 113,512
Contributions recognized by PSERS	113,512
Difference between contractually required employer contribution and contributions recognized by PSERS	\$ -
School District's covered payroll	\$ 13,733,017
Contributions as a percentage of covered payroll	0.83%

² The amounts presented for each fiscal year were determined as of the fiscal year-end date. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the School District is presenting information for those years only for which information is available.

See accompanying notes to schedules of required supplementary information.

STEEL VALLEY SCHOOL DISTRICT

SCHEDULE OF THE SCHOOL DISTRICT'S TOTAL OPEB LIABILITY FOR ITS RETIREE PLAN

Last 10 Fiscal Years¹

	<u>2018</u>
Total OPEB Liability:	
Service cost	\$ 64,995
Interest	30,272
Changes of benefit terms	-
Differences between actual and expected experience	(763)
Changes of assumptions	-
Contributions - employer	<u>(50,868)</u>
Net Changes in Total OPEB Liability	43,636
Total OPEB Liability - Beginning	<u>969,494</u>
Total OPEB Liability - Ending	<u>\$ 1,013,130</u>
Covered Payroll	<u>\$ 13,733,017</u>
Total OPEB Liability as a Percentage of Covered Payroll	7.38%

¹ The amounts presented for each fiscal year were determined as of the fiscal year-end date. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the School District is presenting information for those years only for which information is available.

See accompanying notes to schedules of required supplementary information.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2018

1. Factors and Trends Used in the Actuarial Valuation for PSERS Pension Benefits

Changes in Benefit Terms

With the passage of Act 5, Class T-E and T-F members are now permitted to elect a lump sum payment of member contributions upon retirement.

Changes in Assumptions Used in the Measurement of PSERS' Total Pension Liability Beginning June 30, 2017

None.

Changes in Assumptions Used in the Measurement of PSERS' Total Pension Liability Beginning June 30, 2016

The investment rate of return was adjusted from 7.50% to 7.25%. The inflation assumption was decreased from 3.00% to 2.75%.

Salary growth changed from an effective average of 5.50% (including inflation at 3.00%) to an effective average of 5.00% (including inflation at 2.75%).

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Actuarial Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contributions are calculated as of the June 30 preceding the fiscal year in which contributions are made. That is, the contributions calculated as of the June 30, 2016 actuarial valuation were made during the fiscal year ended June 30, 2018. The following actuarial methods and assumptions were used to determine contribution rates reported in the pension required supplementary schedules:

- Investment return – 7.25%, includes inflation at 2.75%
- Salary increases – Effective average of 5.00%, comprised of 2.75% for inflation and 2.25% for real wage growth and merit or seniority increases

STEEL VALLEY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2018

- Benefit payments – no postretirement benefit increases assumed in the future
- 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.

2. Factors and Trends Used in the Actuarial Valuation for the PSERS Postemployment Benefits Other Than Pension Benefits (OPEBs)

Changes in Benefit Terms

None.

Changes in Assumptions Used in the Measurement of PSERS' Total OPEB Liability Beginning June 30, 2017

The discount rate increased from 2.71% to 3.13%.

Changes in Assumptions Used in the Measurement of PSERS' Total OPEB Liability Beginning June 30, 2016

Salary growth changed from an effective average of 5.50% (including inflation at 3.00%) to an effective average of 5.00% (including inflation at 2.75%).

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Actuarial Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contributions are calculated as of the June 30 preceding the fiscal year in which contributions are made. That is, the contributions calculated as of the June 30, 2016 actuarial valuation were made during the fiscal year ended June 30, 2018. The following actuarial methods and assumptions were used to determine contribution rates reported in the OPEB required supplementary schedules:

STEEL VALLEY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2018

- Investment return – 3.13% - 20-year S&P Municipal Bond Rate
- Salary increases – Effective average of 5.00%, comprised of 2.75% for inflation and 2.25% for real wage growth and merit or seniority increases
- Benefit payments – no postretirement benefit increases assumed in the future
- 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
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in Premium Assistance per year.

3. Factors and Trends Used in the Actuarial Valuation for the Retiree OPEB Plan

Changes in Benefit Terms

None.

Changes in Assumptions

None.

SUPPLEMENTARY INFORMATION

STEEL VALLEY SCHOOL DISTRICT

COMBINING BALANCE SHEET ALL AGENCY FUNDS

JUNE 30, 2018

	<u>Student Activities</u>	<u>Middle School</u>	<u>PTO</u>	<u>Total</u>
<u>Assets</u>				
Cash and cash equivalents	<u>\$ 182,926</u>	<u>\$ 26,966</u>	<u>\$ 71,821</u>	<u>\$ 281,713</u>
<u>Liabilities</u>				
Deposits held for others	<u>\$ 182,926</u>	<u>\$ 26,966</u>	<u>\$ 71,821</u>	<u>\$ 281,713</u>

STEEL VALLEY SCHOOL DISTRICT

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES ALL AGENCY FUNDS

YEAR ENDED JUNE 30, 2018

	Balance at June 30, 2017	Additions	Deletions	Balance at June 30, 2018
Student Activities:				
Assets:				
Cash and cash equivalents	\$ 180,459	\$ 232,360	\$ 229,893	\$ 182,926
Liabilities:				
Deposits held for others	\$ 180,459	\$ 232,360	\$ 229,893	\$ 182,926
Middle School:				
Assets:				
Cash and cash equivalents	\$ 27,417	\$ 36,453	\$ 36,904	\$ 26,966
Liabilities:				
Deposits held for others	\$ 27,417	\$ 36,453	\$ 36,904	\$ 26,966
PTO:				
Assets:				
Cash and cash equivalents	\$ 55,366	\$ 276,756	\$ 260,301	\$ 71,821
Liabilities:				
Deposits held for others	\$ 55,366	\$ 276,756	\$ 260,301	\$ 71,821

STEEL VALLEY SCHOOL DISTRICT

SCHEDULE OF REAL ESTATE TAXES

YEAR ENDED JUNE 30, 2018

	West Homestead Borough	Munhall Borough	Homestead Borough	Total
Current Taxes				
Real Estate Valuation	\$ 160,871,497	\$ 374,237,908	\$ 187,291,545	\$ 722,400,950
Taxes Assessed:				
Real estate (22.7610 mills)	\$ 3,661,596	\$ 8,518,029	\$ 4,262,943	\$ 16,442,568
Additions	-	32,334	-	32,334
Penalties	2,756	11,114	3,399	17,269
Total taxes assessed	3,664,352	8,561,477	4,266,342	16,492,171
Deductions:				
Tax collections	(3,323,847)	(7,019,003)	(3,813,843)	(14,156,693)
Homestead exemption	(152,934)	(739,117)	(100,128)	(992,179)
Exonerations	-	(31,208)	-	(31,208)
Discounts allowed	(61,404)	(120,592)	(74,089)	(256,085)
Total deductions	(3,538,185)	(7,909,920)	(3,988,060)	(15,436,165)
Unpaid taxes at June 30, 2018	\$ 126,167	\$ 651,557	\$ 278,282	\$ 1,056,006
Delinquent Taxes				
Delinquent taxes at July 1, 2017				\$ 5,296,002
Add: 2017-2018 unpaid taxes				1,056,006
Total unpaid taxes				6,352,008
Deductions:				
Tax collections				(711,636)
Adjustments to face amount due to either court order, assessment change, or proof of payment				(543,208)
Total deductions				(1,254,844)
Delinquent taxes at June 30, 2018				5,097,164
Less: estimate for uncollectibles				(4,077,731)
Delinquent taxes estimated receivable at June 30, 2018				\$ 1,019,433

Note: Delinquent tax information is not available on a by Borough basis for June 30, 2018.

STEEL VALLEY SCHOOL DISTRICT

SCHEDULE OF MONTHLY REAL ESTATE TAX COLLECTIONS

YEAR ENDED JUNE 30, 2018

<u>Monthly Real Estate Tax Collections</u>	<u>West Homestead Borough</u>	<u>Munhall Borough</u>	<u>Homestead Borough</u>	<u>Total</u>
July 2017	\$ 330,360	\$ 841,299	\$ 13,850	\$ 1,185,509
August 2017	643,120	2,399,330	133,529	3,175,979
September 2017	454,676	1,782,838	586,628	2,824,142
October 2017	225,493	405,119	39,032	669,644
November 2017	66,449	285,823	82,561	434,833
December 2017 - March 2018	187,875	215,192	43,335	446,402
Total monthly collections	<u>\$ 1,907,973</u>	<u>\$ 5,929,601</u>	<u>\$ 898,935</u>	<u>\$ 8,736,509</u>
TIF District collections remitted to other entities	<u>\$ 1,448,053</u>	<u>\$ 1,099,302</u>	<u>\$ 2,942,351</u>	<u>\$ 5,489,706</u>

STEEL VALLEY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

YEAR ENDED JUNE 30, 2018

	Budget		Actual	Variance
	Original	Final		with Final Budget
Revenues:				
Local sources:				
Current real estate taxes	\$ 12,477,720	\$ 12,477,720	\$ 12,869,820	\$ 392,100
Public utility realty tax	16,350	16,350	15,141	(1,209)
Payments in lieu of current taxes - state/local reimbursement	900	900	30,289	29,389
Current Act 511 taxes - flat rate assessments	35,100	35,100	-	(35,100)
Current Act 511 taxes - proportional assessments	1,808,000	1,808,000	1,835,109	27,109
Delinquencies on taxes levied - assessed by LEA	1,410,000	1,410,000	1,196,654	(213,346)
Earnings on investments	35,000	35,000	73,236	38,236
Revenues from district activities	-	-	30,021	30,021
Revenue from intermediary sources - pass-through funds	410,750	410,750	415,721	4,971
Rentals	10,000	10,000	36,723	26,723
Contributions/donations/grants from private sources	75,000	75,000	450	(74,550)
Tuition from patrons	10,000	10,000	298	(9,702)
Refunds and other miscellaneous revenue	80,000	80,000	115,751	35,751
Total local sources	<u>16,368,820</u>	<u>16,368,820</u>	<u>16,619,213</u>	<u>250,393</u>
State sources:				
Basic education funding (gross)	8,936,792	8,936,792	8,996,812	60,020
Special education funding for school aged pupils	1,463,022	1,463,022	1,426,884	(36,138)
Transportation (regular and additional)	130,000	130,000	243,195	113,195
Rental and sinking fund payments - building reimbursement subsidy	147,000	147,000	144,273	(2,727)
Health services (medical, dental, nurse, Act 25)	36,400	36,400	2,479	(33,921)
State property tax reduction allocation	969,200	969,200	969,054	(146)
Ready to learn block grant	351,240	351,240	351,241	1
Other state revenue not listed in the 7500 series	5,000	5,000	-	(5,000)
State share of Social Security and Medicare taxes	550,000	550,000	498,265	(51,735)
State share of retirement contributions	2,300,000	2,300,000	2,559,604	259,604
Total state sources	<u>14,888,654</u>	<u>14,888,654</u>	<u>15,191,807</u>	<u>303,153</u>
Federal sources:				
NCLB, Title I - Improving the Academic Achievement of the Disadvantaged	1,018,693	1,018,693	830,922	(187,771)
NCLB, Title II - Preparing, Training, and Recruitment Highly Qualified Teachers and Principals	102,076	102,076	101,601	(475)
Other restricted federal grants-in-aid through the Commonwealth	-	-	5,630	5,630
Medical assistance reimbursement (ACCESS) - early intervention	80,000	80,000	85,625	5,625
Medical assistance reimbursement for administrative claiming (quarterly)	-	-	1,738	1,738
Total federal sources	<u>1,200,769</u>	<u>1,200,769</u>	<u>1,025,516</u>	<u>(175,253)</u>
Total revenues	<u>32,458,243</u>	<u>32,458,243</u>	<u>32,836,536</u>	<u>378,293</u>
Expenditures:				
Instruction:				
Regular programs - elementary/secondary:				
Personnel services - salaries	7,922,193	7,922,193	8,560,729	(638,536)
Personnel services - employee benefits	5,014,181	5,014,181	5,215,205	(201,024)
Purchased professional and technical services	61,000	61,000	49,800	11,200
Purchased property services	200,507	200,507	171,194	29,313
Other purchased services	3,012,400	3,012,400	3,803,826	(791,426)
Supplies	268,105	268,105	186,855	81,250
Property	95,970	95,970	52,001	43,969
Other objects	6,235	6,235	-	6,235
Total regular instruction	<u>16,580,591</u>	<u>16,580,591</u>	<u>18,039,610</u>	<u>(1,459,019)</u>
Special programs - elementary/secondary:				
Personnel services - salaries	1,530,884	1,530,884	1,738,803	(207,919)
Personnel services - employee benefits	1,141,876	1,141,876	1,192,585	(50,709)
Purchased professional and technical services	243,000	243,000	139,634	103,366
Purchased property services	5,000	5,000	-	5,000
Other purchased services	2,495,700	2,495,700	2,137,204	358,496
Supplies	29,200	29,200	5,371	23,829
Property	8,500	8,500	5,787	2,713
Total special instruction	<u>5,454,160</u>	<u>5,454,160</u>	<u>5,219,384</u>	<u>234,776</u>

(Continued)

STEEL VALLEY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

YEAR ENDED JUNE 30, 2018
(Continued)

Expenditures (Continued):	Budget		Actual	Variance with Final Budget
	Original	Final		
Instruction (continued):				
Vocational education:				
Other purchased services	400,000	400,000	318,138	81,862
Total vocational education	400,000	400,000	318,138	81,862
Other instructional programs - elementary/secondary:				
Personnel services - salaries	36,000	36,000	51,992	(15,992)
Personnel services - employee benefits	26,550	26,550	20,767	5,783
Purchased professional and technical services	-	-	4,633	(4,633)
Other purchased services	-	-	585	(585)
Supplies	24,800	24,800	1,100	23,700
Total other instructional programs - elementary/secondary	87,350	87,350	79,077	8,273
Nonpublic school programs:				
Purchased professional and technical services	-	-	-	-
Pre-kindergarten:				
Purchased professional and technical services	2,585	2,585	-	2,585
Other purchased services	1,500	1,500	-	1,500
Supplies	13,000	13,000	-	13,000
Total pre-kindergarten	17,085	17,085	-	17,085
Total instructional services	22,539,186	22,539,186	23,656,209	(1,117,023)
Support services:				
Pupil personnel:				
Personnel services - salaries	447,713	447,713	466,408	(18,695)
Personnel services - employee benefits	311,131	311,131	314,422	(3,291)
Purchased professional and technical services	341,500	341,500	203,351	138,149
Other purchased services	4,300	4,300	3,240	1,060
Supplies	35,000	35,000	15,119	19,881
Property	2,000	2,000	-	2,000
Other objects	7,000	7,000	2,905	4,095
Total pupil personnel	1,148,644	1,148,644	1,005,445	143,199
Instructional staff:				
Personnel services - salaries	319,565	319,565	438,759	(119,194)
Personnel services - employee benefits	211,925	211,925	272,219	(60,294)
Purchased professional and technical services	129,118	129,118	105,035	24,083
Purchased property services	136,820	136,820	18,814	118,006
Other purchased services	6,000	6,000	2,216	3,784
Supplies	225,611	225,611	122,933	102,678
Property	235,630	235,630	204,137	31,493
Other objects	10,000	10,000	2,749	7,251
Total instructional staff	1,274,669	1,274,669	1,166,862	107,807
Administration:				
Personnel services - salaries	976,321	976,321	987,947	(11,626)
Personnel services - employee benefits	618,643	618,643	631,015	(12,372)
Purchased professional and technical services	390,075	390,075	669,153	(279,078)
Purchased property services	10,000	10,000	9,671	329
Other purchased services	80,000	80,000	51,997	28,003
Supplies	38,500	38,500	25,091	13,409
Property	5,000	5,000	-	5,000
Other objects	165,450	165,450	21,434	144,016
Total administration	2,283,989	2,283,989	2,396,308	(112,319)
Pupil health:				
Personnel services - salaries	203,004	203,004	111,483	91,521
Personnel services - employee benefits	114,638	114,638	66,739	47,899
Purchased professional and technical services	85,000	85,000	110,037	(25,037)
Other purchased services	-	-	45	(45)
Supplies	7,835	7,835	5,958	1,877
Total pupil health	410,477	410,477	294,262	116,215

(Continued)

STEEL VALLEY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

YEAR ENDED JUNE 30, 2018
(Continued)

Expenditures (Continued):	Budget		Actual	Variance with Final Budget
	Original	Final		
Support services (continued):				
Business:				
Personnel services - salaries	247,131	247,131	249,835	(2,704)
Personnel services - employee benefits	168,390	168,390	171,284	(2,894)
Purchased professional and technical services	24,500	24,500	120	24,380
Purchased property services	12,000	12,000	13,741	(1,741)
Other purchased services	5,250	5,250	6,912	(1,662)
Supplies	11,560	11,560	5,441	6,119
Property	4,500	4,500	-	4,500
Other objects	1,100	1,100	786	314
Total business	474,431	474,431	448,119	26,312
Operation and maintenance of plant services:				
Personnel services - salaries	689,248	689,248	621,317	67,931
Personnel services - employee benefits	507,326	507,326	449,614	57,712
Purchased professional and technical services	385,850	385,850	320,929	64,921
Purchased property services	328,910	328,910	493,508	(164,598)
Other purchased services	77,250	77,250	119,180	(41,930)
Supplies	801,000	801,000	813,260	(12,260)
Property	25,000	25,000	28,598	(3,598)
Other objects	-	-	195	(195)
Total operation and maintenance of plant services	2,814,584	2,814,584	2,846,601	(32,017)
Student transportation services:				
Purchased property services	94,000	94,000	67,260	26,740
Other purchased services	790,000	790,000	790,723	(723)
	-	-	1,484	(1,484)
Total student transportation services	884,000	884,000	859,467	24,533
Central services:				
Purchased professional and technical services	-	-	4,000	(4,000)
Purchased property services	-	-	160,691	(160,691)
Other purchased services	76,100	76,100	50,820	25,280
Supplies	85,750	85,750	58,289	27,461
Property	35,500	35,500	13,151	22,349
Total central services	197,350	197,350	286,951	(89,601)
Other support services:				
Personnel services - employee benefits	418,000	418,000	390,936	27,064
Other purchased services	-	-	22,505	(22,505)
Total other support services	418,000	418,000	413,441	4,559
Total support services	9,906,144	9,906,144	9,717,456	188,688

(Continued)

STEEL VALLEY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

YEAR ENDED JUNE 30, 2018
(Continued)

	Budget		Actual	Variance with Final Budget
	Original	Final		
Expenditures (Continued):				
Operation of noninstructional services:				
Student activities:				
Personnel services - salaries	394,351	394,351	314,037	80,314
Personnel services - employee benefits	225,970	225,970	111,512	114,458
Purchased professional and technical services	41,500	41,500	45,675	(4,175)
Purchased property services	-	-	400	(400)
Other purchased services	85,100	85,100	72,911	12,189
Supplies	42,197	42,197	37,084	5,113
Property	2,000	2,000	-	2,000
Other objects	51,175	51,175	41,903	9,272
Total student activities	<u>842,293</u>	<u>842,293</u>	<u>623,522</u>	<u>218,771</u>
Community services:				
Personnel services - salaries	-	-	3,803	(3,803)
Personnel services - employee benefits	-	-	1,572	(1,572)
Other purchased services	8,500	8,500	1,982	6,518
Supplies	-	-	459	(459)
Other objects	5,000	5,000	2,607	2,393
Total community services	<u>13,500</u>	<u>13,500</u>	<u>10,423</u>	<u>3,077</u>
Scholarship awards:				
Other objects	20,735	20,735	22,956	(2,221)
Total scholarship awards	<u>20,735</u>	<u>20,735</u>	<u>22,956</u>	<u>(2,221)</u>
Total operation of noninstructional services	<u>876,528</u>	<u>876,528</u>	<u>656,901</u>	<u>219,627</u>
Building improvement services:				
Purchased property services	18,000	18,000	15,000	3,000
Other expenditures and financing uses				
Debt service:				
Other objects	1,115,533	1,115,533	1,053,352	62,181
Other uses of funds	398,553	398,553	418,693	(20,140)
Total debt service	<u>1,514,086</u>	<u>1,514,086</u>	<u>1,472,045</u>	<u>42,041</u>
Interfund transfers - out				
Other uses of funds	45,000	45,000	45,000	-
Total interfund transfers - out	<u>45,000</u>	<u>45,000</u>	<u>45,000</u>	<u>-</u>
Total other expenditures and financing uses	<u>1,559,086</u>	<u>1,559,086</u>	<u>1,517,045</u>	<u>42,041</u>
Total expenditures	<u>34,898,944</u>	<u>34,898,944</u>	<u>35,562,611</u>	<u>(663,667)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,440,701)</u>	<u>(2,440,701)</u>	<u>(2,726,075)</u>	<u>(285,374)</u>
Net Change in Fund Balance	<u>\$ (2,440,701)</u>	<u>\$ (2,440,701)</u>	<u>\$ (2,726,075)</u>	<u>\$ (285,374)</u>

(Concluded)

STEEL VALLEY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

Federal Grantor / Pass-Through Grantor / Project Title	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Dates	Program or Award Amount	Total Received For the Year	Accrued (Unearned) Revenue at July 1, 2017	Revenue Recognized	Expenditures	Accrued (Unearned) Revenue at June 30, 2018	Passed Through to Subrecipients
U.S. Department of Education										
Passed Through the Pennsylvania Department of Education:										
Title I Grants to Local Educational Agencies	84.010	013-180419	8/2/17-9/30/18	\$ 698,009	\$ 251,142	\$ -	\$ 698,009	\$ 698,009	\$ 446,867	\$ -
Title I Grants to Local Educational Agencies	84.010	013-170419	7/1/16-9/30/17	740,512	336,343	336,343	-	-	-	-
Title I Grants to Local Educational Agencies	84.010	013-160419	7/1/15-9/30/16	670,117	43,210	43,210	-	-	-	-
Title I - Set Aside	84.010	042-170419	7/1/17-9/30/18	75,630	18,908	-	63,993	63,993	45,085	-
Title I - Set Aside	84.010	042-160419	4/29/16-9/30/17	74,832	58,203	(3,424)	61,627	61,627	-	-
Total Title I					707,806	376,129	823,629	823,629	491,952	-
Striving Readers	84.371	143-160419	10/1/16-9/30/17	403,823	168,260	160,968	7,292	7,292	-	-
Striving Readers	84.371	143-150419	10/1/15-9/30/16	655,371	136,384	136,384	-	-	-	-
Total Striving Readers					304,644	297,352	7,292	7,292	-	-
Improving Teacher Quality State Grants	84.367	020-180419	8/2/17-9/30/18	101,600	36,456	-	101,600	101,600	65,144	-
Improving Teacher Quality State Grants	84.367	020-170419	7/1/16-9/30/17	128,274	58,277	58,277	-	-	-	-
Improving Teacher Quality State Grants	84.367	020-150419	7/1/14-9/30/15	128,619	-	1,704	-	-	1,704	-
Total Improving Teacher Quality State Grants					94,733	59,981	101,600	101,600	66,848	-
Title IV - Student Support and Academic Enrichment Program	84.424	144-180419	8/2/17-9/30/18	15,765	5,630	-	5,630	5,630	-	-
Passed Through the Allegheny Intermediate Unit:										
Special Education - Preschool Grants (IDEA, Section 619)	84.173	131-16-0-003	7/1/16-6/30/17	3,840	3,840	-	3,840	3,840	-	-
Special Education - Grants to States (IDEA, Part B)	84.027	062-18-0-003	7/1/16-6/30/17	410,801	410,712	410,712	410,801	410,801	410,801	-
Total Special Education Cluster					414,552	410,712	414,641	414,641	410,801	-
Total U.S. Department of Education					1,527,365	1,144,174	1,352,792	1,352,792	969,601	-
U.S. Department of Agriculture										
Passed Through the Pennsylvania Department of Education:										
School Breakfast Program	10.553	365/367	7/1/17-6/30/18	n/a	190,257	2,842	191,263	191,263	3,848	-
National School Lunch Program	10.555	362	7/1/17-6/30/18	n/a	572,496	9,299	574,884	574,884	11,687	-
Passed Through the Pennsylvania Department of Agriculture:										
National School Lunch Program (Commodities)	10.555	n/a	7/1/17-6/30/18	n/a	69,933	(1,777)	68,706	68,706	(3,004)	-
Total National School Lunch Program					642,429	7,522	643,590	643,590	8,683	-
Total Child Nutrition Cluster					832,686	10,364	834,853	834,853	12,531	-
Total U.S. Department of Agriculture					832,686	10,364	834,853	834,853	12,531	-
U.S. Department of Health and Human Services										
Passed Through the Allegheny Intermediate Unit:										
Medicaid Cluster:										
Medical Assistance Program	93.778	n/a	n/a	n/a	1,738	-	1,738	1,738	-	-
Total Expenditures of Federal Awards					\$ 2,361,789	\$ 1,154,538	\$ 2,189,383	\$ 2,189,383	\$ 982,132	\$ -

See accompanying notes to schedule of expenditures of federal awards.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2018

1. Basis of Presentation

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

2. Summary of Significant Accounting Policies

The accompanying Schedule is presented using the accrual basis of accounting. Expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance. The School District has elected to not use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

3. Reconciliation to Federal Subsidy Confirmation

Amount received per SEFA	\$	2,361,789
Less:		
USDA Commodities received		(69,933)
Amounts passed through the AIU		(414,552)
Amounts passed through the PA DHS		(1,738)
Plus: amounts included on confirmation not required to be reported on SEFA:		
National School Lunch Program		26,553
School Breakfast Program		9,953
Medical Assistance - Access		92,912
		<hr/>
Amount received per subsidy confirmation	\$	<u>2,004,984</u>

Steel Valley School District

Independent Auditor's Reports
Required by the Uniform Guidance

Year Ended June 30, 2018

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

**Board of Directors
Steel Valley School District**

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 Steel Valley School District (School District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District’s basic financial statements, and have issued our report thereon dated March 25, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 School District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Board of Directors
Steel Valley School District
Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.

Mahe Duessel

Pittsburgh, Pennsylvania
March 25, 2019

Independent Auditor's Report on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance

**Board of Directors
Steel Valley School District**

Report on Compliance for the Major Federal Program

We have audited the Steel Valley School District's (School District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the School District's major federal program for the year ended June 30, 2018. The School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the School District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 the major federal program. However, our audit does not provide a legal determination of the School District's compliance.

Board of Directors
Steel Valley School District
Independent Auditor's Report on Compliance for the
Major Program and on Internal Control over Compliance

Opinion on the Major Federal Program

In our opinion, the 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 its major federal program for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the 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 the School District's internal control over compliance with the types of requirements that could have a direct and material effect on the 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 the 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.

Board of Directors
Steel Valley School District
Independent Auditor's Report on Compliance for the
Major Program and on Internal Control over Compliance

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.

Maier Duessel

Pittsburgh, Pennsylvania
March 25, 2019

STEEL VALLEY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2018

I. Summary of Audit Results

1. Type of auditor's report issued: Unmodified, prepared in accordance with Generally Accepted Accounting Principles.

2. Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported

3. Noncompliance material to financial statements noted? yes no

4. Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported

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

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

7. Major Programs:

CFDA Number(s)

Name of Federal Program or Cluster

Child Nutrition Cluster:

10.553

School Breakfast Program

10.555

National School Lunch Program

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

9. Auditee qualified as low-risk auditee? yes no

II. Findings related to the financial statements which are required to be reported in accordance with GAGAS.

No matters were reported.

III. Findings and questioned costs for federal awards.

No matters were reported.

STEEL VALLEY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2018

NONE