



Dallas School District Dallas, Pennsylvania Luzerne County

Financial Statements
Year Ended June 30, 2019



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DALLAS SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

**Board of School Directors
Dallas School District
Dallas, Pennsylvania**

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 Dallas School District, Dallas, Pennsylvania as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Dallas 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 Dallas School District, Dallas, Pennsylvania as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited Dallas School District's 2018 financial statements, and we expressed unmodified opinions on those audited financial statements in our report dated January 29, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule – General Fund, the schedules of the District's proportionate share of the net pension liability - PSERS and pension plan contributions – PSERS, schedule of changes in OPEB liability single employer plan and the schedules of the District's proportionate share of the net OPEB liability - PSERS and OPEB plan contributions – PSERS on pages 3 through 13 and 46 through 51 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 Dallas School District's basic financial statements. The schedule of expenditures of federal awards and certain state grants is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2020, on our consideration of Dallas School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Dallas School District's internal control over financial reporting and compliance.

BBD, LLP

**Philadelphia, Pennsylvania
January 31, 2020**

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2019

Management's discussion and analysis ("**MD&A**") of the Dallas School District (the "**District**") provides an overview of the District's financial performance for fiscal year ended June 30, 2019. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

DISTRICT PROFILE

The District consists of four schools – a primary school, an intermediate school, a middle school and a high school consisting of approximately 2,500 students. The District encompasses the municipal subdivisions of the Borough of Dallas and the Townships of Dallas, Franklin and Kingston in Luzerne County Pennsylvania and covers approximately 46.1 square miles. The area comprised of these four municipalities is known locally as the Back Mountain and through the years has gained the reputation of a prestigious residential area. The District is located in the north central section of Luzerne County, Pennsylvania, about ten miles northwest of the City of Wilkes Barre. There are approximately 281 full and part-time employees in the District including 176 instructional staff, 11 administrators and 94 support staff.

The mission of the District is to provide excellence in education to enable all students to learn, lead, achieve and succeed.

FINANCIAL HIGHLIGHTS

- On a government-wide basis including all governmental activities and the business type activities, the liabilities and the deferred inflows of resources of the District exceeded the assets and deferred outflows of resources resulting in a deficit of total net position at the close of the 2018-2019 fiscal year of \$45,014,741. During the 2018-2019 fiscal year, the District had an increase in total net position of \$1,113,483. The net position of governmental activities increased by \$1,094,958 and the net position of the business-type activities increased by \$18,525.
- The General Fund reported a decrease in fund balance of \$567,367, bringing the cumulative balance to \$3,553,978 at the conclusion of the 2018-2019 fiscal year.
- At June 30, 2019, the General Fund fund balance includes \$2,170,000 committed to capital projects and unassigned amounts of \$1,383,978 or 3.47% of the \$39,933,306 2019-2020 General Fund expenditure budget. This is in compliance with guidelines prescribed by the Pennsylvania Department of Education which allows a district to maintain an unassigned maximum General Fund fund balance of 8% of the following year's expenditure budget.
- During prior years, the School Board had committed a total of \$1,856,501 of accumulated fund balance to be used for future capital projects, which was transferred to the Capital Projects Fund in 2017-2018 to subsidize the construction of the new Dallas Intermediate School. As of June 30, 2019, the School Board has committed an additional \$2,170,000 for future capital improvements.
- Budgeted amounts in the General Fund used \$537,487 as of June 30, 2018 to balance the 2018-2019 General Fund budget. Actual results during the 2018-2019 fiscal year resulted in a decrease of \$567,367 for an unfavorable variance of \$29,880.

OVERVIEW OF THE FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2019

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position (Deficit)* presents information on all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position (deficit). Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating. To assess the District's overall health, the reader will need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish the functions of the District that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. In the government-wide financial statements, the District's activities are divided into two categories:

Governmental Activities

Most of the District's basic services are included here, such as regular and special education, support services, maintenance, transportation and administration.

Business-Type Activities

The District charges fees to cover the costs of its food services program.

The government-wide financial statements can be found on Pages 14 and 15 of this report.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the District's funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

Most of the District's activities are included in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2019

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governmental near-term financing decisions. Both the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains two major individual governmental funds. Information is presented separately in the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* for each of the major funds.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget.

The governmental fund financial statements can be found on Pages 16 through 19 of this report.

Proprietary Funds

The District maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Food Service Fund is reported as an enterprise fund of the proprietary fund type. Internal service funds are used to accumulate and allocate certain costs internally among the District's various functions. The District uses its internal service fund to account for the District's self-funded healthcare plan. Because an internal service fund predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

The proprietary fund financial statements provide separate financial information for its major fund and internal service fund. The proprietary fund financial statements can be found on Pages 20 through 22 of this report.

Fiduciary Funds

The District is the trustee, or fiduciary, for assets that belong to others, consisting of a student activity fund. The District is responsible for ensuring that the assets reported in this fund are used for their intended purpose and by those to whom the assets belong. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The fiduciary fund financial statement can be found on Page 23 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The notes to the financial statements can be found on Pages 24 through 45 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which consists of the budgetary comparison schedule for the general fund, schedules of the District's proportionate share of the net pension liability-PSERS and pension plan contributions-PSERS, schedule of changes in OPEB liability single-employer plan, and the schedules of the District's proportionate share of the net OPEB liability-PSERS and OPEB plan contributions-PSERS.

The required supplementary information can be found on Pages 46 through 51 of this report.

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted above, net position may serve over time as a useful indicator of the District's financial position. At the close of the 2018-2019 fiscal year the District's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$45,014,741. The following table presents condensed information for the *Statement of Net Position (Deficit)* of the District at June 30, 2019 and 2018.

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
ASSETS						
Current assets	\$ 14,856,601	\$ 29,251,502	\$185,708	\$187,641	\$ 15,042,309	\$ 29,439,143
Noncurrent assets	69,164,768	57,570,498	25,965	32,531	69,190,733	57,603,029
Total assets	<u>84,021,369</u>	<u>86,822,000</u>	<u>211,673</u>	<u>220,172</u>	<u>84,233,042</u>	<u>87,042,172</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>8,128,714</u>	<u>7,932,280</u>	<u>-</u>	<u>-</u>	<u>8,128,714</u>	<u>7,932,280</u>
LIABILITIES						
Current liabilities	6,943,447	7,570,349	126,308	153,332	7,069,755	7,723,681
Noncurrent liabilities	126,114,600	130,307,309	-	-	126,114,600	130,307,309
Total liabilities	<u>133,058,047</u>	<u>137,877,658</u>	<u>126,308</u>	<u>153,332</u>	<u>133,184,355</u>	<u>138,030,990</u>
DEFERRED INFLOWS OF RESOURCES	<u>4,192,142</u>	<u>3,071,686</u>	<u>-</u>	<u>-</u>	<u>4,192,142</u>	<u>3,071,686</u>
NET POSITION (DEFICIT)						
Net investment in capital assets	1,103,282	1,761,542	25,965	32,531	1,129,247	1,794,073
Restricted	1,344,677	1,328,435	-	-	1,344,677	1,328,435
Unrestricted	(47,548,065)	(49,285,041)	59,400	34,309	(47,488,665)	(49,250,732)
Total net position (deficit)	<u>\$ (45,100,106)</u>	<u>\$ (46,195,064)</u>	<u>\$ 85,365</u>	<u>\$ 66,840</u>	<u>\$ (45,014,741)</u>	<u>\$ (46,128,224)</u>

The District's total assets as of June 30, 2019 were \$84,233,042 of which \$11,565,398 or 13.73% consisted of cash and investments and \$69,190,733 or 82.14% consisted of the District's investment in capital assets. The District's total liabilities as of June 30, 2019 were \$133,184,355 of which \$70,263,376 or 52.76% consisted of general obligation debt used to acquire and construct capital assets and \$49,637,134 or 37.27% consisted of the actuarially determined net pension liability.

The District had a deficit in unrestricted net position of \$47,488,665 at June 30, 2019. The District's unrestricted net position increased by \$1,762,067 primarily due to changes in the actuarially determined net pension liability and related deferred outflows and inflows.

A portion of the District's net position reflects its restricted net position which totaled \$1,344,677 as of June 30, 2019. All of the District's restricted net position related to amounts restricted for capital expenditures.

Another portion of the District's net assets reflects its investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. For the year ended June 30, 2019, the District's net investment in capital assets decreased by \$664,826 because the District's capital assets were being depreciated faster than the debt used to acquire capital assets was being repaid.

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2019

The following table presents condensed information for the *Statement of Activities* of the District for 2019 and 2018:

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
REVENUES						
Program revenues						
Charges for services	\$ 72,580	\$ 20,911	\$ 358,314	\$ 392,197	\$ 430,894	\$ 413,108
Operating grants and contributions	7,504,895	6,583,447	339,004	311,750	7,843,899	6,895,197
General revenues						
Property taxes levied for general purposes	21,810,098	21,680,959	-	-	21,810,098	21,680,959
Earned income taxes levied for general purposes	3,192,593	3,108,306	-	-	3,192,593	3,108,306
Other taxes levied for general purposes	493,468	451,600	-	-	493,468	451,600
Grants and entitlements not restricted to specific programs	6,355,140	6,006,690	-	-	6,355,140	6,006,690
Investment earnings	343,965	219,339	1,257	687	345,222	220,026
Total revenues	<u>39,772,739</u>	<u>38,071,252</u>	<u>698,575</u>	<u>704,634</u>	<u>40,471,314</u>	<u>38,775,886</u>
EXPENSES						
Instruction	24,727,183	21,755,285	-	-	24,727,183	21,755,285
Instructional student support services	1,993,934	1,971,464	-	-	1,993,934	1,971,464
Administrative and financial support services	3,632,427	3,732,287	-	-	3,632,427	3,732,287
Operation and maintenance of plant services	3,289,149	3,225,388	-	-	3,289,149	3,225,388
Pupil transportation	1,622,084	1,368,067	-	-	1,622,084	1,368,067
Student activities	1,200,969	1,122,934	-	-	1,200,969	1,122,934
Community services	10,702	23,243	-	-	10,702	23,243
Interest and amortization expense related to noncurrent liabilities	2,201,333	2,594,214	-	-	2,201,333	2,594,214
Food service	-	-	680,050	704,162	680,050	704,162
Total expenses	<u>38,677,781</u>	<u>35,792,882</u>	<u>680,050</u>	<u>704,162</u>	<u>39,357,831</u>	<u>36,497,044</u>
CHANGE IN NET POSITION (DEFICIT)	<u>\$ 1,094,958</u>	<u>\$ 2,278,370</u>	<u>\$ 18,525</u>	<u>\$ 472</u>	<u>\$ 1,113,483</u>	<u>\$ 2,278,842</u>

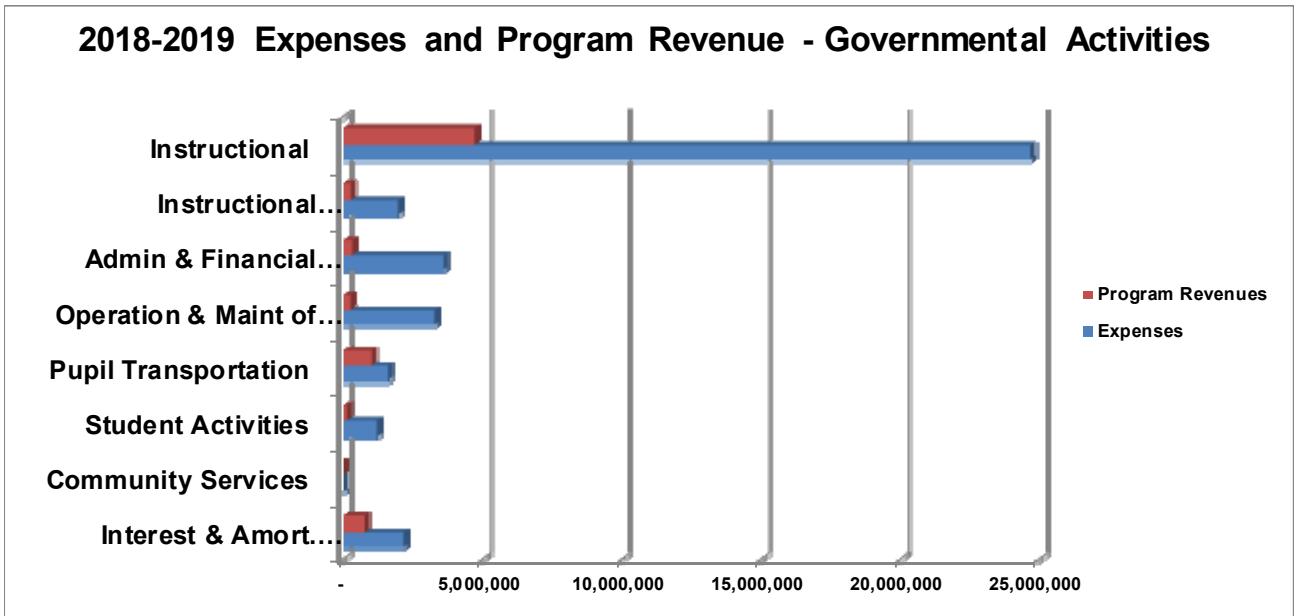
Overall, the District's financial position has been improving, but challenges such as increased medical costs and pension contributions, state-mandated programs and negotiated contracts have a potential to offset these gains in future fiscal years. Management of the District continues to aggressively implement cost efficiencies and revenue-generating strategies to combat these factors. In the governmental activities, the District's assessed property tax base drives the majority of the revenue generated. A majority of the District's property tax base is in the form of residential housing whose growth has slowed in recent years. Although the District is primarily a residential community, the District also has a property tax base derived from commercial facilities.

The *Statement of Activities* provides detail that focuses on how the District finances its services. The *Statement of Activities* compares the costs of the District functions and programs with the resources those functions and programs generate themselves in the form of program revenues. As demonstrated by the following graph, all of the District's governmental activities are not self-supporting, raising enough program revenue to cover their costs, as most traditional governmental services are not.

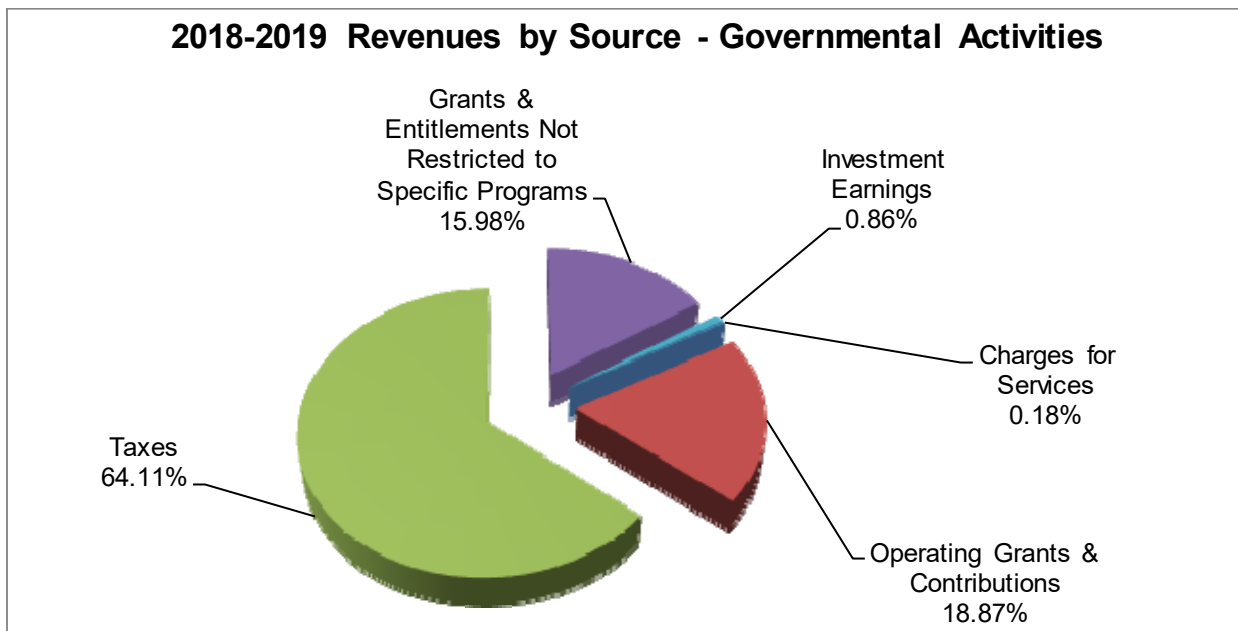
DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2019



To the degree that the District's functions or programs cost more than they raise, the *Statement of Activities* shows how the District chose to finance the difference through general revenues. The following chart shows that the District relies on tax revenues to finance its governmental activities.



GOVERNMENTAL FUNDS

The governmental fund financial statements provide detailed information of the District's major funds. Some funds are required to be established by State statute while other funds are established by the District to manage monies restricted for a specific purpose. As of June 30, 2019, the District's governmental funds reported a combined fund balance of \$7,449,080 which is a decrease of \$14,032,823 from the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2019 and 2018 and the total 2019 change in governmental fund balances.

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

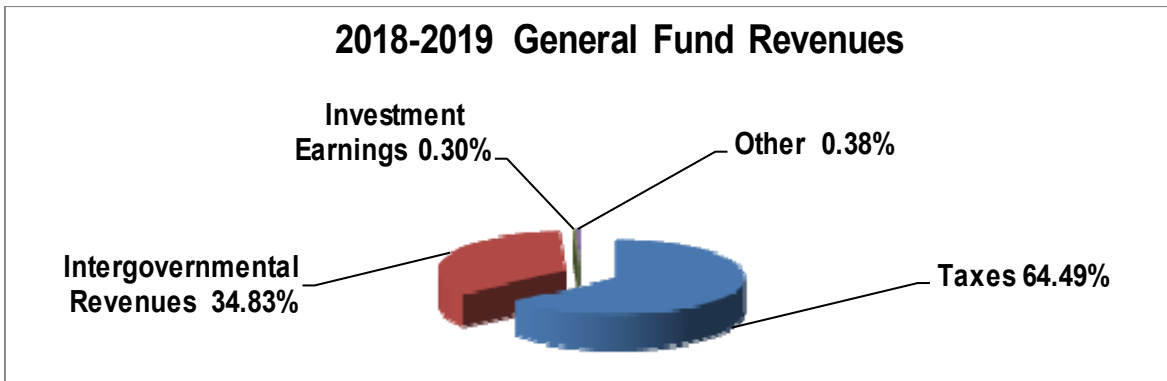
June 30, 2019

	<u>2019</u>	<u>2018</u>	<u>Change</u>
General Fund	\$3,553,978	\$ 4,121,345	\$ (567,367)
Capital Projects Fund	<u>3,895,102</u>	<u>17,360,558</u>	<u>(13,465,456)</u>
	<u>\$7,449,080</u>	<u>\$21,481,903</u>	<u>\$(14,032,823)</u>

GENERAL FUND

The General Fund is the District's primary operating fund. At the conclusion of the 2018-2019 fiscal year, the General Fund fund balance was \$3,553,978 representing a decrease of \$567,367 in relation to the prior year. The decrease in the District's General Fund fund balance is due to many factors. The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2018-2019 fiscal year.

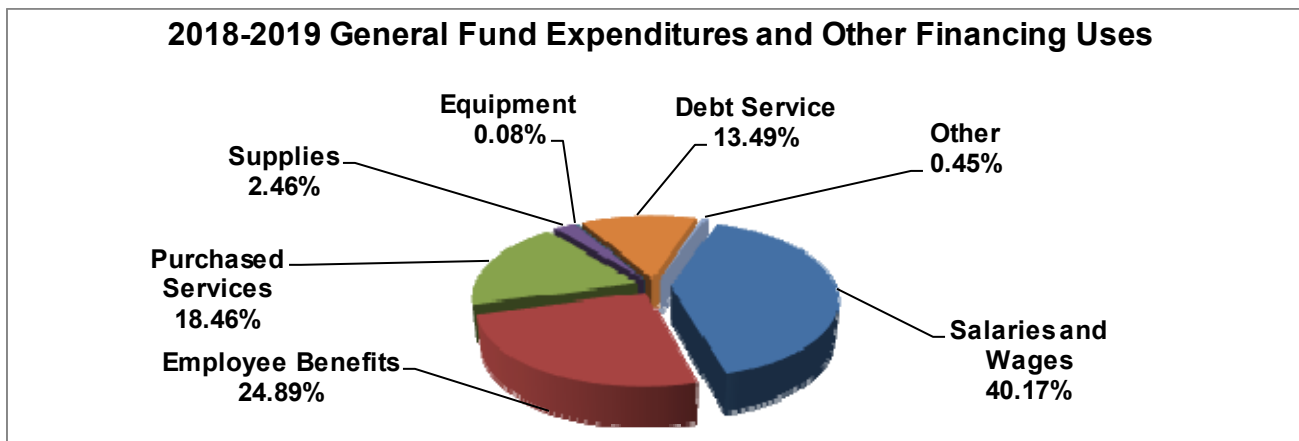
The District's reliance upon tax revenues is demonstrated by the graph below that indicates 64.49% of General Fund revenues are derived from local taxes.



General Fund Revenues

	<u>2019</u>	<u>2018</u>	<u>\$ Change</u>	<u>% Change</u>
Tax revenues	\$25,665,320	\$25,158,901	\$ 506,419	2.01
Intergovernmental revenues	13,860,035	12,590,138	1,269,897	10.09
Investment earnings	119,840	90,028	29,812	33.11
Other	<u>151,767</u>	<u>1,221,712</u>	<u>(1,069,945)</u>	<u>(87.58)</u>
	<u>\$39,796,962</u>	<u>\$39,060,779</u>	<u>\$ 736,183</u>	<u>1.88</u>

As the graph below illustrates, the largest portion of General Fund expenditures are for salaries and benefits. The District is an educational service entity and as such is labor intensive.



DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2019

General Fund Expenditures and Other Financing Uses

	<u>2019</u>	<u>2018</u>	<u>\$ Change</u>	<u>% Change</u>
Salaries and wages	\$16,216,644	\$14,306,913	\$ 1,909,731	13.35
Employee benefits	10,045,098	9,623,803	421,295	4.38
Purchased services	7,451,408	6,936,425	514,983	7.42
Supplies	994,788	950,724	44,064	4.63
Equipment	31,926	105,981	(74,055)	(69.88)
Other	180,205	70,707	109,498	154.86
Debt service	5,444,260	4,814,347	629,913	13.08
Transfers out	-	1,856,501	(1,856,501)	(100.00)
	<u>\$40,364,329</u>	<u>\$38,665,401</u>	<u>\$ 1,698,928</u>	<u>4.39</u>

Salaries and wages increased by \$1,909,731 or 13.35% in 2018-2019 compared to 2017-2018 as a result of settling a new teacher contract with an average increase of about 13.00% from 2014-2015, or approximately 3.00% for each year since the contract expired.

Employee benefits increased primarily due to an increase in the required employer annual retirement contribution to 33.43% in 2018-2019 from 32.57% in 2017-2018 which represents a 2.64% increase over the prior year.

Purchased services increased by \$514,983 or 7.42% during 2018-2019 compared to 2017-2018 primarily related to an increase in tuition for cyber and charter schools and special education tuition and contracted services and contracted transportation services.

Debt service increased by \$629,913 or 13.08% commensurate with increased debt service maturities primarily related to new debt issued in prior year for the construction of the New Dallas Intermediate School.

There were no transfers out from the General Fund in 2018-2019. Transfers out in 2017-2018 represents a transfer to the Capital Projects Fund to subsidize the construction of the new Dallas Intermediate School.

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for construction and renovation activity associated with the District's buildings and major equipment purchases. The Capital Projects Fund receives the majority of its revenues from the issuance of general obligation debt and transfers from the General Fund. During 2018-2019, the Capital Projects Fund reported a decrease in its fund balance of \$13,465,456 due to current year capital outlays in excess of proceeds from general obligation debt. As of June 30, 2019, the Capital Projects Fund had a fund balance of \$3,895,102 which is restricted for capital expenditures primarily related to the completion of the construction of the Dallas Intermediate School.

GENERAL FUND BUDGET INFORMATION

The District maintains its financial records and prepares its financial reports on the modified accrual basis of accounting. The District budgets and expends funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by management and submitted to the School Board for approval prior to the beginning of the fiscal year on July 1 each year. The most significant budgeted fund is the General Fund.

Budgeted amounts in the General Fund used \$537,487 as of June 30, 2018 to balance the 2018-2019 General Fund budget. Actual results during the 2018-2019 fiscal year resulted in a decrease of \$567,367 for an unfavorable variance of \$29,880. Total General Fund revenues were \$1,739,315 or 4.57% more than budgeted amounts and total General Fund expenditures and other financing uses were \$1,769,195 or 4.58% more than budgeted amounts. Major budgetary highlights for 2018-2019 were as follows:

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2019

- Local source revenues were \$613,612 more than budgeted primarily due to better than anticipated collections for real estate, earned income and realty transfer taxes and more than expected investment earnings which are indicators of an improving local economy.
- State source revenues were \$1,003,928 more than budgeted as a result of unanticipated social security and retirement subsidy related to the settling of the teacher contract resulting in higher related employee benefits and higher than expected subsidies for special education and transportation.
- Expenditures were \$1,769,195 more than budget due to unbudgeted costs associated with settling a new teacher contract with an average increase of about 13.00% from 2014-2015, or approximately 3.00% for each year since the contract expired and related unbudgeted employee benefit increases.

BUSINESS-TYPE ACTIVITIES AND FOOD SERVICE FUND

During 2018-2019, the net position of the business-type activities and Food Service Fund increased by \$18,525. As of June 30, 2019, the business-type activities and Food Service Fund had net position of \$85,365.

CAPITAL ASSETS

The District's investment in capital assets for its governmental and business-type activities as of June 30, 2019 amounted to \$69,190,733 net of accumulated depreciation. This investment in capital assets includes land, buildings and improvements and furniture and equipment. The total increase in the District's investment in capital assets for the current fiscal year was \$11,587,704 or 20.12%. The increase was the result of current year capital additions in excess of depreciation expense.

Current year capital additions were \$13,879,934 and depreciation expense was \$2,292,230.

Major capital additions for the current fiscal year include the following:

- New Dallas Intermediate School – construction in progress \$13,689,582

NONCURRENT LIABILITIES

At the end of the current fiscal year, the District had total general obligation debt of \$70,263,376 consisting of \$63,130,000 in bonds payable, \$785,437 in notes payable and net deferred credits of \$6,347,939. The entire amount is backed by the full faith and credit of the District. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior obligation debt. The District's general obligation debt decreased by \$1,291,078 or 1.80% during the fiscal year.

On May 15, 2019, the District issued \$27,115,000 of general obligation bonds, Series of 2019, the proceeds from which were used to advance refund the District's outstanding general obligation bonds, Series B of 2010, currently refund the District's outstanding general obligation bonds, Series of 2012, currently refund the District's outstanding general obligation bonds, Series of 2013, and the payment of the cost of issuance. The District advance and currently refunded the general obligation bonds to reduce future debt service payments by \$2,178,310.

State statutes limit the amount of general obligation debt the District may issue up to 225% of its borrowing base capacity which is calculated as the annual arithmetic average of the total revenues for the preceding three fiscal years. The District's outstanding general obligation debt of \$70,263,376 is within the current debt limitation of the District which was \$86,122,234 as of June 30, 2019.

The District maintains an A1 rating from Moody's Investors Service.

The District reports its allocated portion of its defined benefit unfunded benefit obligation related to its participation in the Pennsylvania State Employee Retirement System ("**PSERS**"). The District's allocated portion of the net pension liability is an actuarially determined estimate of the unfunded cost of the pension plan obligation which totaled \$49,637,134 as of June 30, 2019. The District's net pension liability decreased by \$3,356,625 or 6.33% during the fiscal year.

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2019

The District reports a liability for its other post-employment benefits ("**OPEB**") related to its single employer OPEB plan and its participation in the PSERS health insurance premium assistance program. The District's OPEB liability is an actuarially determined estimate of the unfunded cost of the OPEB obligation which totaled \$5,345,619 as of June 30, 2019. The District's OPEB liability increased by \$85,067 or 1.62% during the fiscal year.

Other noncurrent liabilities consist of the District's liabilities for capital leases and compensated absences, which totaled \$868,471 as of June 30, 2019. These liabilities increased by \$369,927 or 74.20% during the fiscal year.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District adopted a balanced 2019-2020 budget totaling \$39,933,306 which used \$537,797 of General Fund fund balance as of June 30, 2019 to balance the 2019-2020 budget and the real estate tax millage remained unchanged at 13.6338 mills.
 - In August 2017, the Board of School Directors approved the construction of a new Dallas Intermediate School to replace the current Dallas Elementary School at a cost of approximately \$22 million. Students from kindergarten through second grade will attend Wycallis Elementary while students from third to fifth grade will now attend the new Dallas Intermediate School. In September 2017, the District issued \$18,350,000 of general obligation bonds and in November 2017 transferred approximately \$1.8 million of committed fund for capital projects from the General Fund to the Capital Projects Fund to finance the construction project. The Dallas Intermediate School was opened for the 2019-2020 school year.
 - The District is anticipating a moderate decrease in enrollment over the next several fiscal years.
 - A new collective bargaining agreement with the Dallas Education Association was ratified in September, 2018 and expires at the conclusion of the 2022-2023 school year, while the collective bargaining agreement with the Dallas Educational Support Personnel Association expires at the conclusion of the 2020-2021 school year.
 - In 2006, Act 1 was passed which repealed Act 72, which provides taxpayer relief through gambling revenues generated at the State level. The intent of this legislation is to provide a mechanism to relieve the burden of funding public education from property owners. This new legislation has put a "ceiling" on the percentage increase of local real estate taxes that can be levied year-to-year in order to balance the school district budget. Pennsylvania school districts are now required to either change their taxing strategies to make up for the shortfall of increased real estate tax refunds or seek the taxpayers' approval through back-end referendum to increase taxes higher than the approved index. This law puts an already increased burden on the District's revenue stream in future years. This legislation introduced certain new requirements on school districts which include the following:
 - ◆ That in the event a school district wishes to increase the property tax millage rate by more than an index annually prescribed by the state (2.70% for Dallas School District for 2019-2020), the school district must seek voter approval (known commonly as a "back-end referendum") prior to implementing the millage rate increase. In the event voters do not approve the millage rate increase, the school district must limit its millage rate increase to the index.
 - ◆ Certain exceptions are provided under Act 1 that, if approved by the appropriate authority, may permit increases above the Act 1 index without the need for a back-end referendum. Typically, these exceptions relate to emergencies and cost increases in excess of the Act 1 index (e.g., retirement system contributions) over which the school district has no control.
 - ◆ Any revenues distributed under the provisions of Act 1 are to be used for the purpose of reducing property taxes for homesteaders and farmsteaders.
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DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2019

- In November 2010 and, again, in 2017 legislation was signed into law to implement a series of actuarial and funding changes to PSERS. The law changed the pension plans for all new hires effective July 1, 2019. It does not impact the pension benefits of current or retired PSERS members. Based on available projections, school districts will not see relief from the new legislation until 10-20 years in the future. The employer contribution rate for 2020-2021 is projected at 35.26%. Currently, the employer contribution rate for 2019-2020 is 34.29%.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Manager, Dallas School District, P.O. Box 2000, Dallas, Pennsylvania 18612.

DALLAS SCHOOL DISTRICT

STATEMENT OF NET POSITION (DEFICIT)

June 30, 2019 with summarized comparative totals for 2018

	Governmental Activities	Business-type Activities	Totals	
			2019	2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS				
Cash	\$ 10,531,005	\$ 13,817	\$ 10,544,822	\$ 23,902,360
Investments	1,020,576	-	1,020,576	2,014,932
Taxes receivable	1,566,448	-	1,566,448	1,695,717
Due from other governments	1,845,637	50,112	1,895,749	1,686,315
Internal balances	(107,865)	107,865	-	-
Other receivables	800	-	800	108,576
Inventories	-	13,914	13,914	31,243
Total current assets	14,856,601	185,708	15,042,309	29,439,143
NONCURRENT ASSETS				
Capital assets, net	69,164,768	25,965	69,190,733	57,603,029
Total assets	84,021,369	211,673	84,233,042	87,042,172
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amounts on debt refunding	1,233,314	-	1,233,314	-
Deferred charges on proportionate share of pension - PSERS	6,619,638	-	6,619,638	7,816,106
Deferred charges OPEB - single employer	96,910	-	96,910	-
Deferred charges on proportionate share of OPEB - PSERS	178,852	-	178,852	116,174
Total deferred outflows of resources	8,128,714	-	8,128,714	7,932,280
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)				
CURRENT LIABILITIES				
Accounts payable	1,751,023	117,881	1,868,904	1,738,744
Accrued salaries, payroll withholdings and benefits	4,499,657	-	4,499,657	4,909,851
Insurance claims payable	148,991	-	148,991	137,767
Accrued interest payable	543,776	-	543,776	924,645
Unearned revenues	-	8,427	8,427	12,674
Total current liabilities	6,943,447	126,308	7,069,755	7,723,681
NONCURRENT LIABILITIES				
Due within one year	1,677,092	-	1,677,092	2,616,183
Due in more than one year	124,437,508	-	124,437,508	127,691,126
Total noncurrent liabilities	126,114,600	-	126,114,600	130,307,309
Total liabilities	133,058,047	126,308	133,184,355	138,030,990
DEFERRED INFLOWS OF RESOURCES				
Deferred credits on proportionate share of pension - PSERS	3,878,000	-	3,878,000	2,791,000
Deferred credits OPEB - single employer	110,142	-	110,142	117,686
Deferred credits on proportionate share of OPEB - PSERS	204,000	-	204,000	163,000
Total deferred inflows of resources	4,192,142	-	4,192,142	3,071,686
NET POSITION (DEFICIT)				
Net investment in capital assets	1,103,282	25,965	1,129,247	1,794,073
Restricted	1,344,677	-	1,344,677	1,328,435
Unrestricted (deficit)	(47,548,065)	59,400	(47,488,665)	(49,250,732)
Total net position (deficit)	\$ (45,100,106)	\$ 85,365	\$ (45,014,741)	\$ (46,128,224)

See accompanying notes

DALLAS SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2019 with summarized comparative totals for 2018

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position (Deficit)</u>			
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>	
							<u>2019</u>	<u>2018</u>
GOVERNMENTAL ACTIVITIES								
Instruction	\$ 24,727,183	\$ 32,526	\$ 4,681,477	\$ -	\$ (20,013,180)	\$ -	\$ (20,013,180)	\$ (17,418,114)
Instructional student support services	1,993,934	-	299,906	-	(1,694,028)	-	(1,694,028)	(1,715,795)
Administrative and financial support services	3,632,427	-	353,394	-	(3,279,033)	-	(3,279,033)	(3,487,269)
Operation and maintenance of plant services	3,289,149	-	292,010	-	(2,997,139)	-	(2,997,139)	(3,048,122)
Pupil transportation	1,622,084	-	1,016,226	-	(605,858)	-	(605,858)	(455,651)
Student activities	1,200,969	40,054	112,850	-	(1,048,065)	-	(1,048,065)	(1,045,122)
Community services	10,702	-	-	-	(10,702)	-	(10,702)	(23,243)
Interest and amortization expense related to noncurrent liabilities	2,201,333	-	749,032	-	(1,452,301)	-	(1,452,301)	(1,995,208)
Total governmental activities	<u>38,677,781</u>	<u>72,580</u>	<u>7,504,895</u>	<u>-</u>	<u>(31,100,306)</u>	<u>-</u>	<u>(31,100,306)</u>	<u>(29,188,524)</u>
BUSINESS-TYPE ACTIVITIES								
Food service	680,050	358,314	339,004	-	-	17,268	17,268	(215)
Total primary government	<u>\$ 39,357,831</u>	<u>\$ 430,894</u>	<u>\$ 7,843,899</u>	<u>\$ -</u>	<u>(31,100,306)</u>	<u>17,268</u>	<u>(31,083,038)</u>	<u>(29,188,739)</u>
GENERAL REVENUES								
Property taxes levied for general purposes					21,810,098	-	21,810,098	21,680,959
Earned income taxes levied for general purposes					3,192,593	-	3,192,593	3,108,306
Other taxes levied for general purposes					493,468	-	493,468	451,600
Grants and entitlements not restricted to specific programs					6,355,140	-	6,355,140	6,006,690
Investment earnings					343,965	1,257	345,222	220,026
Total general revenues					<u>32,195,264</u>	<u>1,257</u>	<u>32,196,521</u>	<u>31,467,581</u>
CHANGE IN NET POSITION (DEFICIT)					1,094,958	18,525	1,113,483	2,278,842
NET POSITION (DEFICIT)								
Beginning of year					(46,195,064)	66,840	(46,128,224)	(48,407,066)
End of year					<u>\$ (45,100,106)</u>	<u>\$ 85,365</u>	<u>\$ (45,014,741)</u>	<u>\$ (46,128,224)</u>

See accompanying notes

DALLAS SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2019 with summarized comparative totals for 2018

	Major Funds		Totals	
	General Fund	Capital Projects Fund	2019	2018
ASSETS				
Cash	\$ 5,287,208	\$ 4,730,532	\$ 10,017,740	\$ 23,479,071
Investments	1,020,576	-	1,020,576	2,014,932
Taxes receivable	1,566,448	-	1,566,448	1,695,717
Due from other governments	1,845,637	-	1,845,637	1,597,992
Other receivables	800	-	800	800
Inventories	-	-	-	17,329
Total assets	\$ 9,720,669	\$ 4,730,532	\$ 14,451,201	\$ 28,805,841
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 915,593	\$ 835,430	\$ 1,751,023	\$ 1,598,086
Due to other funds	107,865	-	107,865	-
Accrued salaries, payroll withholdings and benefits	4,499,657	-	4,499,657	4,909,851
Total liabilities	5,523,115	835,430	6,358,545	6,507,937
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues - property and per capita taxes	643,576	-	643,576	816,001
FUND BALANCES				
Nonspendable				
Inventories	-	-	-	17,329
Restricted for				
Capital projects	-	3,895,102	3,895,102	17,360,558
Committed to				
Capital projects	2,170,000	-	2,170,000	2,170,000
Unassigned	1,383,978	-	1,383,978	1,934,016
Total fund balances	3,553,978	3,895,102	7,449,080	21,481,903
Total liabilities, deferred inflows of resources and fund balances	\$ 9,720,669	\$ 4,730,532	\$ 14,451,201	\$ 28,805,841

See accompanying notes

DALLAS SCHOOL DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION (DEFICIT)

June 30, 2019

TOTAL GOVERNMENTAL FUND BALANCES	\$ 7,449,080
Amounts reported for governmental activities in the statement of net position (deficit) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	69,164,768
Some of the District's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the governmental funds balance sheet.	643,576
The Internal Service Fund is used by management to charge the cost of health insurance claims to the General Fund. The assets and liabilities of the District's Internal Service Fund are included in the governmental activities on the government-wide statement of net position.	364,274
Deferred outflows of resources for deferred amounts on debt refunding are currently expended in the governmental funds, whereas they are capitalized and amortized over the life of the respective debt in the government-wide statement of net position (deficit).	1,233,314
Deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits are not reported as assets and liabilities in the governmental funds balance sheet.	2,703,258
Noncurrent liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds balance sheet.	(126,114,600)
Accrued interest payable on noncurrent liabilities is included in the statement of net position (deficit), but is excluded from the governmental funds balance sheet until due and payable.	<u>(543,776)</u>
NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	<u>\$ (45,100,106)</u>

See accompanying notes

DALLAS SCHOOL DISTRICT

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

Year ended June 30, 2019 with summarized comparative totals for 2018

	<u>Major Funds</u>		<u>Totals</u>	
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>2019</u>	<u>2018</u>
REVENUES				
Local sources	\$ 25,936,927	\$ 224,127	\$ 26,161,054	\$ 26,599,952
State sources	12,718,260	-	12,718,260	11,550,486
Federal sources	1,141,775	-	1,141,775	1,039,652
Total revenues	<u>39,796,962</u>	<u>224,127</u>	<u>40,021,089</u>	<u>39,190,090</u>
EXPENDITURES				
Current				
Instruction	23,681,609	-	23,681,609	21,338,612
Support services	9,949,822	519,199	10,469,021	9,977,826
Operation of noninstructional services	1,162,638	-	1,162,638	1,065,424
Facilities acquisition, construction and improvement services	9,300	13,689,583	13,698,883	2,566,502
Debt service	5,444,260	-	5,444,260	4,814,347
Total expenditures	<u>40,247,629</u>	<u>14,208,782</u>	<u>54,456,411</u>	<u>39,762,711</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(450,667)</u>	<u>(13,984,655)</u>	<u>(14,435,322)</u>	<u>(572,621)</u>
OTHER FINANCING SOURCES (USES)				
Refund of prior year receipts	(116,700)	-	(116,700)	(12,845)
Issuance of debt - refunding	-	27,115,000	27,115,000	18,350,000
Payment of debt - refunding	-	(32,790,535)	(32,790,535)	-
Bond premiums	-	6,013,202	6,013,202	-
Bond discounts	-	-	-	(509,069)
Proceeds from extended term financing	-	181,532	181,532	186,679
Transfers in	-	-	-	1,856,501
Transfers out	-	-	-	(1,856,501)
Total other financing sources (uses)	<u>(116,700)</u>	<u>519,199</u>	<u>402,499</u>	<u>18,014,765</u>
NET CHANGE IN FUND BALANCES	<u>(567,367)</u>	<u>(13,465,456)</u>	<u>(14,032,823)</u>	<u>17,442,144</u>
FUND BALANCES				
Beginning of year	<u>4,121,345</u>	<u>17,360,558</u>	<u>21,481,903</u>	<u>4,039,759</u>
End of year	<u>\$ 3,553,978</u>	<u>\$ 3,895,102</u>	<u>\$ 7,449,080</u>	<u>\$ 21,481,903</u>

See accompanying notes

DALLAS SCHOOL DISTRICT

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF ACTIVITIES

Year ended June 30, 2019

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (14,032,823)

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

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

Capital outlay expenditures	\$ 13,879,934	
Depreciation expense	<u>(2,285,664)</u>	11,594,270

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred inflows of resources decreased by this amount in the current period.

Deferred inflows of resources June 30, 2018	(816,001)	
Deferred inflows of resources June 30, 2019	<u>643,576</u>	(172,425)

The Internal Service Fund is used by management to charge the cost of health insurance premiums and claims to the General Fund. The change in net position of the Internal Service Fund is reported with the governmental activities.

56,380

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on the change in net position of governmental activities. Also, governmental funds report the effect of premiums, discounts and similar items when long-term debt is issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of debt	(27,115,000)	
Repayment of bonds and notes payable	33,897,049	
Proceeds from bond premiums	(6,013,202)	
Payment of deferred amounts on debt refunding	1,315,535	
Amortization of discounts, premiums and deferred amounts on debt refunding	440,010	
Proceeds from extended-term financing	(181,532)	
Repayment of extended-term financing	<u>119,619</u>	2,462,479

Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore are not reported as expenditures on governmental funds.

Current year change in accrued interest payable	380,869	
Current year change in compensated absences	(308,014)	
Current year change in net pension liability - PSERS and deferred outflows and inflows	1,073,157	
Current year change in OPEB liability - single employer and deferred outflows and inflows	(10,919)	
Current year change in net OPEB liability - PSERS and deferred outflows and inflows	<u>51,984</u>	<u>1,187,077</u>

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ 1,094,958

See accompanying notes

DALLAS SCHOOL DISTRICT

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

June 30, 2019 with summarized comparative totals for 2018

	<u>Major Fund</u>	<u>Internal</u>	<u>Totals</u>	
	<u>Food Service</u>	<u>Service</u>	<u>2019</u>	<u>2018</u>
	<u>Fund</u>	<u>Fund</u>		
ASSETS				
CURRENT ASSETS				
Cash	\$ 13,817	\$ 513,265	\$ 527,082	\$ 423,289
Due from other governments	50,112	-	50,112	88,323
Due from other funds	107,865	-	107,865	-
Other receivables	-	-	-	107,776
Inventories	13,914	-	13,914	13,914
Total current assets	<u>185,708</u>	<u>513,265</u>	<u>698,973</u>	<u>633,302</u>
NONCURRENT ASSETS				
Capital assets, net	25,965	-	25,965	32,531
Total assets	<u>211,673</u>	<u>513,265</u>	<u>724,938</u>	<u>665,833</u>
LIABILITIES AND NET POSITION				
LIABILITIES				
Accounts payable	117,881	-	117,881	140,658
Insurance claims payable	-	148,991	148,991	137,767
Unearned revenues	8,427	-	8,427	12,674
Total liabilities	<u>126,308</u>	<u>148,991</u>	<u>275,299</u>	<u>291,099</u>
NET POSITION				
Net investment in capital assets	25,965	-	25,965	32,531
Unrestricted	59,400	364,274	423,674	342,203
Total net position	<u>\$ 85,365</u>	<u>\$ 364,274</u>	<u>\$ 449,639</u>	<u>\$ 374,734</u>

See accompanying notes

DALLAS SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS

Year ended June 30, 2019 with summarized comparative totals for 2018

	<u>Major Fund</u>	<u>Internal</u>	<u>Totals</u>	
	<u>Food Service</u>	<u>Service</u>	<u>2019</u>	<u>2018</u>
	<u>Fund</u>	<u>Fund</u>		
OPERATING REVENUES				
Charges for services	\$ 358,314	\$ 3,280,384	\$ 3,638,698	\$ 4,311,806
OPERATING EXPENSES				
Employee benefits	-	3,230,086	3,230,086	3,627,398
Purchased services	380,934	-	380,934	349,561
Supplies	228,135	-	228,135	271,845
Depreciation	6,566	-	6,566	7,295
Other	64,415	-	64,415	75,461
Total operating expenses	<u>680,050</u>	<u>3,230,086</u>	<u>3,910,136</u>	<u>4,331,560</u>
Operating income (loss)	<u>(321,736)</u>	<u>50,298</u>	<u>(271,438)</u>	<u>(19,754)</u>
NONOPERATING REVENUES				
Earnings on investments	1,257	6,082	7,339	2,420
State sources	18,265	-	18,265	18,161
Federal sources	320,739	-	320,739	293,589
Total nonoperating revenues	<u>340,261</u>	<u>6,082</u>	<u>346,343</u>	<u>314,170</u>
CHANGE IN NET POSITION	18,525	56,380	74,905	294,416
NET POSITION				
Beginning of year	<u>66,840</u>	<u>307,894</u>	<u>374,734</u>	<u>80,318</u>
End of year	<u>\$ 85,365</u>	<u>\$ 364,274</u>	<u>\$ 449,639</u>	<u>\$ 374,734</u>

See accompanying notes

DALLAS SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended June 30, 2019 with summarized comparative totals for 2018

	<u>Major Fund</u>	<u>Internal</u>	<u>Totals</u>	
	<u>Food Service</u>	<u>Service</u>	<u>2019</u>	<u>2018</u>
	<u>Fund</u>	<u>Fund</u>		
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from charges for services	\$ 354,067	\$ -	\$ 354,067	\$ 365,430
Cash received for assessments made to other fund	-	3,280,384	3,280,384	3,811,833
Cash payments to suppliers for goods and services	(666,739)	-	(666,739)	(617,754)
Cash paid for insurance claims	-	(3,111,086)	(3,111,086)	(3,587,132)
Cash paid for operating expenses	(64,415)	-	(64,415)	(75,461)
Net cash provided by (used for) operating activities	<u>(377,087)</u>	<u>169,298</u>	<u>(207,789)</u>	<u>(103,084)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State sources	21,122	-	21,122	19,623
Federal sources	283,121	-	283,121	259,167
Net cash provided by noncapital financing activities	<u>304,243</u>	<u>-</u>	<u>304,243</u>	<u>278,790</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings on investments	1,257	6,082	7,339	2,419
Net increase (decrease) in cash	<u>(71,587)</u>	<u>175,380</u>	<u>103,793</u>	<u>178,125</u>
CASH				
Beginning of year	85,404	337,885	423,289	245,164
End of year	<u>\$ 13,817</u>	<u>\$ 513,265</u>	<u>\$ 527,082</u>	<u>\$ 423,289</u>
Reconciliation of operating loss to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (321,736)	\$ 50,298	\$ (271,438)	\$ (19,754)
Adjustments to reconcile operating loss to net cash used for operating activities				
Depreciation	6,566	-	6,566	7,295
Donated commodities used	72,972	-	72,972	44,592
(Increase) decrease in				
Due from other funds	(107,865)	-	(107,865)	-
Other receivables	-	107,776	107,776	(107,776)
Increase (decrease) in				
Accounts payable	(22,777)	-	(22,777)	(40,940)
Due to other funds	-	-	-	(22,832)
Insurance claims payable	-	11,224	11,224	40,266
Unearned revenue	(4,247)	-	(4,247)	(3,935)
Net cash provided by (used for) operating activities	<u>\$ (377,087)</u>	<u>\$ 169,298</u>	<u>\$ (207,789)</u>	<u>\$ (103,084)</u>
SUPPLEMENTAL DISCLOSURE				
Noncash noncapital financing activity				
USDA donated commodities	\$ 72,972	\$ -	\$ 72,972	\$ 44,592

See accompanying notes

DALLAS SCHOOL DISTRICT

STATEMENT OF NET POSITION - FIDUCIARY FUND

June 30, 2019 with summarized comparative totals for 2018

	Agency	
	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	<u>\$ 143,797</u>	<u>\$ 147,826</u>
LIABILITIES		
Due to student groups	<u>\$ 143,797</u>	<u>\$ 147,826</u>

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Dallas School District (the "**District**") operates a primary school a middle school and a senior high school to provide education and related services to the residents in the Townships of Dallas, Kingston and Franklin and the Borough of Dallas. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the third class. The District operates under a locally elected nine-member board form of government (the "**School Board**").

The financial statements of the District have been prepared in accordance with generally accepted accounting principles ("**GAAP**") as applied to governmental units. The Governmental Accounting Standards Board ("**GASB**") is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

Reporting Entity

GASB has established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the District's accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship. The District is considered to be an independent reporting entity and has no component units.

Basis of Presentation

Government-Wide Financial Statements

The statement of net position (deficit) and the statement of activities display information about the District as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. These statements include the financial activities of the primary government except for fiduciary funds.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of the related cash flow. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared as further defined below. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

The government-wide statement of net position (deficit) presents the financial position of the District which is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources and is classified in one of three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing or improving those assets. The net position of the District is reported as restricted when constraints placed on net position use is either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Unrestricted net position is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

The statement of net position (deficit) includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

The government-wide statement of activities presents a comparison between expenses and program revenues for each function of the business-type activities of the District and for each governmental function. Expenses are those that are specifically associated with a service or program and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the District.

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

Fund Financial Statements

During the school year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Fiduciary fund financial statements are presented by fund type.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The District reports the following major governmental funds:

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

The Capital Projects Fund accounts for financial resources restricted, committed or assigned to be used for capital expenditures or for the acquisition, construction of capital facilities, improvements and/or equipment.

Revenue Recognition

In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Deferred inflows of resources are reported in connection with receivables for tax revenues that are not considered to be available to liquidate liabilities of the current period. Revenue from federal, state and other grants designated for payment of specific District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as unearned revenues until earned. Other receipts are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, special termination benefits, other post-employment benefits and claims and judgments are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

Proprietary Funds

Like the government-wide financial statements, proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The District reports the following proprietary funds:

The Food Service Fund accounts for the revenues and costs of providing meals to students during the school year.

The Internal Service Fund is used to account for the District's self-funded healthcare plan.

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's proprietary funds are charges for services. Operating expenses for the District's proprietary funds include employee benefits, purchased services, supplies and other costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary Funds

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organizations and/or governmental units and are, therefore, not available to support the District's own programs. The District accounts for these assets in an agency fund. The agency fund accounts for funds held on behalf of the students in the District. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Cash and Cash Equivalents

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

Investments

Investments are stated at fair value based upon quoted market prices, except for certificates of deposit which are recorded at cost, which approximates fair value.

Interfund 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 either "due to/due from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes

Taxes are levied on July 1 and are payable in the following periods:

July 1 – August 31	- Discount period, 2% of gross levy
September 1 – October 31	- Face period
November 1 – collection	- Penalty period, 10% of gross levy
January 1	- Lien date

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

The County Board of Assessments determines assessed valuations of property, and the District's taxes are billed and collected by local elected tax collectors. The tax on real estate for public school purposes for fiscal 2018-2019 was 13.6338 mills (\$13.63 for \$1,000 of assessed valuation). The District experiences very small losses from uncollectible property taxes. Property taxes constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year.

Taxpayers within the District have the option of paying in three installments. These installments have the following due dates:

Installment One	-	August 31
Installment Two	-	October 31
Installment Three	-	December 15

The discount (two percent) is not applicable to installment payments; however, the penalty (10 percent) will be added if second and third installments are paid subsequent to the due dates.

Prepaid Items and Inventories

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

All inventories are valued at the lower of cost (first-in, first-out method) or market.

Unearned Revenues

Unearned revenue arises when assets are recognized before revenue recognition criteria have been met.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

Property, plant and equipment (net of salvage value) of the District is depreciated using the straight-line method over the following estimated useful lives: buildings and improvements – 15-50 years and furniture and equipment – 5-20 years.

Impairment of Long-Lived Assets

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. If a capital asset is considered to be impaired, the amount of impairment is measured by the method that most reflects the decline in service utility of the capital asset at the lower of carrying value or fair value for impaired capital assets that will no longer be used by the District. No impairment losses were recognized in the year ended June 30, 2019.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

Compensated Absences

District policies permit employees to accumulate earned but unused vacation and sick days. The liability for these compensated absences is recorded as a noncurrent liability in the government-wide financial statements. A liability for these amounts is recorded in the governmental funds' financial statements only to the extent they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts are deferred and amortized over the life of the bonds. Deferred amounts on refunding are recorded as a deferred outflow of resources and amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amounts are amortized using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources and uses. Premiums received and discounts paid on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures except for refundings paid from proceeds which are reported as other financing costs.

Fund Equity

As prescribed by GASB, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The District reports the following fund balance classifications:

Nonspendable

Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form – such as inventory or prepaid insurance or (b) legally or contractually required to be maintained intact – such as a trust that must be retained in perpetuity.

Restricted

Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed

Committed fund balances are amounts that can only be used for specific purposes determined by a formal action of the District's highest level of decision-making authority, the School Board. Committed amounts cannot be used for any other purpose unless the School Board removes those constraints by taking the same type of formal action (e.g., resolution).

Assigned

Assigned fund balances are amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the Business Administrator or (b) an appointed body (e.g., finance committee) or (c) an official to which the District has delegated the authority to assign, modify or rescind amounts to be used for specific purposes.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

Assigned fund balance includes (a) all remaining amounts that are reported in governmental funds (other than the General Fund) that are not classified as non-spendable, restricted or committed, and (b) amounts in the General Fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue fund or the capital projects fund are assigned for purposes in accordance with the nature of their fund type.

Unassigned

Unassigned fund balance is the residual classification for the General Fund. This classification represents General Fund balance that has not been assigned to other funds, and that has not been restricted, committed or assigned to specific purposes within the General Fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, then unrestricted resources—committed, assigned or unassigned—in order as needed.

The School Board has set a General Fund maximum unassigned fund balance of 8% of the following year's expenditure budget in accordance with guidelines prescribed by the Pennsylvania Department of Education.

Use of Estimates

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

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Implementation of New Accounting Pronouncements

Effective July 1, 2018, the District adopted the provisions of GASB Statement No. 83 "*Certain Asset Retirement Obligations*" and GASB Statement No 88 "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*".

GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations ("**AROs**"). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in GASB Statement No. 83. The implementation of GASB Statement No. 83 had no impact on the financial statements of the District for the year ended June 30, 2019.

The objective of GASB Statement No. 88 is to improve the information that is disclosed in the notes to financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. GASB Statement No. 88 defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

New Accounting Pronouncements

GASB Statement No. 84, "*Fiduciary Activities*" will be effective for the District for the year ended June 30, 2020. The objective GASB Statement No. 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

GASB Statement No. 87, "*Leases*" will be effective for the District for the year ended June 30, 2021. The objective of GASB Statement No. 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB Statement No. 87 increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about leasing activities.

GASB Statement No. 89, "*Accounting for Interest Cost Incurred Before the End of a Construction Period*", will be effective for the District for the year ended June 30, 2021. The objectives of GASB Statement No. 89 are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. GASB Statement No. 89 establishes accounting required for interest cost incurred before the end of a construction period. Such interest costs includes all interest that previously was accounted for in accordance with the requirements of GASB Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*", which are superseded by GASB Statement No. 89. GASB Statement No. 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GASB Statement No. 89 also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with government fund accounting principles.

GASB Statement No. 90, "*Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*", will be effective for the District for the year ended June 30, 2020. The primary objects of GASB Statement No. 90 are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted prior to the beginning of each year for the General Fund on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required, although project-length financial plans are adopted for the Capital Projects fund.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

The District is required to publish notice by advertisement at least once in two newspapers of general circulation in the municipalities in which it is located, and within 20 days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative offices of the District. Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least 10 days prior to when final action on adoption is taken by the School Board.

After the legal adoption of the budget, the School Board is required to file a copy of the budget with the Pennsylvania Department of Education by July 31. Additional copies of the budget also are required to be filed with the Housing Education Committee and the Senate Education Committee by September 15.

Legal budgetary control is maintained at the sub-function/major object level. The School Board may make transfers of funds appropriated in any particular item of expenditure by legislative action in accordance with Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without approval from the School Board. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

(3) DEPOSITS AND INVESTMENTS

State statutes authorize the District to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, state treasurer's investment pools or mutual funds.

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At June 30, 2019, the carrying amount of the District's deposits was \$10,688,619 and the bank balance was \$10,710,063. The District is required by state statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, Commonwealth of Pennsylvania or any political subdivision. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit. Of the bank balance, \$750,000 was covered by federal depository insurance and \$9,960,063 was collateralized by the District's depositories in accordance with Act 72 and the collateral was held by the depositories' agent in pooled public funds.

Investments

At June 30, 2019, the District had the following investments:

Certificates of deposit due within one year –	
Collateral held by pledging bank's agent in the District's name	<u>\$1,020,576</u>

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investments or collateral security that are in the possession of an outside party. The District had no investment subject to custodial credit risk as of June 30, 2019.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

Interest Rate Risk

The District's investment policy limits investment maturities in accordance with state statutes as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The District's investment policy limits its investments that are not backed by the "full faith and credit" of the federal and state government to those with the highest credit rating available for such investments issued by a recognized statistical rating organization.

(4) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 371,280	\$ -	\$ -	\$ 371,280
Construction in progress	<u>2,539,046</u>	<u>13,689,582</u>	<u>-</u>	<u>16,228,628</u>
Total capital assets not being depreciated	<u>2,910,326</u>	<u>13,689,582</u>	<u>-</u>	<u>16,599,908</u>
Capital assets being depreciated				
Buildings and improvements	80,650,382	-	-	80,650,382
Furniture and equipment	<u>3,665,425</u>	<u>190,352</u>	<u>-</u>	<u>3,855,777</u>
Total capital assets being depreciated	<u>84,315,807</u>	<u>190,352</u>	<u>-</u>	<u>84,506,159</u>
Less accumulated depreciation for				
Buildings and improvements	(26,588,750)	(2,102,588)	-	(28,691,338)
Furniture and equipment	<u>(3,066,885)</u>	<u>(183,076)</u>	<u>-</u>	<u>(3,249,961)</u>
Total accumulated depreciation	<u>(29,655,635)</u>	<u>(2,285,664)</u>	<u>-</u>	<u>(31,941,299)</u>
Total capital assets being depreciated, net	<u>54,660,172</u>	<u>(2,095,312)</u>	<u>-</u>	<u>52,564,860</u>
Governmental activities, net	<u>\$ 57,570,498</u>	<u>\$11,594,270</u>	<u>\$ -</u>	<u>\$ 69,164,768</u>
Business-type activities				
Machinery and equipment	\$ 214,543	\$ -	\$ -	\$ 214,543
Less accumulated depreciation	<u>(182,012)</u>	<u>(6,566)</u>	<u>-</u>	<u>(188,578)</u>
Business-type activities, net	<u>\$ 32,531</u>	<u>\$ (6,566)</u>	<u>\$ -</u>	<u>\$ 25,965</u>

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

Governmental activities	
Instruction	\$1,613,847
Instructional student support	142,658
Administrative and financial support services	246,621
Operation and maintenance of plant services	203,784
Student activities	<u>78,754</u>
Total depreciation expense – governmental activities	<u>\$2,285,664</u>
Business-type activities	
Food service	<u>\$ 6,566</u>

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

As of June 30, 2019, the District had outstanding construction projects to be completed. Construction commitments and the amounts completed as of June 30, 2019 are as follows:

	<u>Project Amount</u>	<u>Completed Through June 30, 2019</u>	<u>Remaining Commitments</u>
New Dallas Intermediate School	<u>\$18,419,990</u>	<u>\$16,228,628</u>	<u>\$2,191,362</u>

(5) INTERNAL RECEIVABLES AND PAYABLES

A summary of interfund balances for the year ended June 30, 2019 is as follows:

<u>Receivable To</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
Food Service Fund	<u>\$107,865</u>	General Fund	<u>\$107,865</u>

Interfund balances between funds represent temporary loans recorded at year-end as the result of a final allocation of revenues and expenditures.

(6) NONCURRENT LIABILITIES

The following summarizes the changes in noncurrent liabilities for the year ended June 30, 2019:

	<u>Balance July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2019</u>	<u>Amount Due Within One Year</u>
Governmental activities					
General obligation debt					
Bonds payable	\$ 69,125,000	\$27,115,000	\$33,110,000	\$ 63,130,000	\$ 925,000
Notes payable	1,572,486	-	787,049	785,437	150,966
Bond premiums	1,353,318	6,013,202	544,504	6,822,016	507,452
Bond discounts	(496,350)	-	(22,273)	(474,077)	(22,273)
Total general obligation debt	<u>71,554,454</u>	<u>33,128,202</u>	<u>34,419,280</u>	<u>70,263,376</u>	<u>1,561,145</u>
Other noncurrent liabilities					
Capital leases payable	286,622	181,532	119,619	348,535	115,947
Compensated absences	211,922	308,014	-	519,936	-
OPEB liability	3,074,409	371,892	256,519	3,189,782	-
Net OPEB liability - PSERS	2,186,143	-	30,306	2,155,837	-
Net pension liability - PSERS	52,993,759	-	3,356,625	49,637,134	-
Total other noncurrent liabilities	<u>58,752,855</u>	<u>861,438</u>	<u>3,763,069</u>	<u>55,851,224</u>	<u>115,947</u>
Total noncurrent liabilities	<u>\$130,307,309</u>	<u>\$33,989,640</u>	<u>\$38,182,349</u>	<u>\$126,114,600</u>	<u>\$1,677,092</u>

Noncurrent liabilities are generally liquidated by the General Fund.

(7) GENERAL OBLIGATION DEBT

General obligation debt is a direct obligation of the District for which full faith and credit are pledged and is payable from unrestricted resources. The District has not pledged any assets as collateral for general obligation debt. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior obligation debt.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

General obligation debt outstanding as of June 30, 2019 consisted of the following:

<u>Description</u>	<u>Interest Rate(s)</u>	<u>Original Issue Amount</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
General obligation bonds				
Series of 2015	0.45% - 2.75%	\$5,980,000	09/01/2026	\$ 4,260,000
Series of 2016	3.00% - 5.00%	\$13,425,000	04/01/2029	13,410,000
Series of 2017	3.00% - 5.00%	\$18,350,000	07/15/2041	18,345,000
Series of 2019	4.00% - 5.00%	\$27,115,000	10/15/2034	<u>27,115,000</u>
Total general obligation bonds				<u>63,130,000</u>
General obligation notes				
Series of 2014B	1.95%	\$1,500,000	04/15/2024	<u>785,437</u>
Total general obligation debt				<u>\$63,915,437</u>

General Obligation Bonds, Series of 2019

On May 15, 2019, the District issued \$27,115,000 of general obligation bonds, Series of 2019, the proceeds from which were used to advance refund the District's outstanding general obligation bonds, Series B of 2010, currently refund the District's outstanding general obligation bonds, Series of 2012, currently refund the District's outstanding general obligation bonds, Series of 2013, and the payment of the cost of issuance. The District advance and currently refunded the general obligation bonds to reduce future debt service payments by \$2,178,310.

In-Substance Defeasance

The District has advance refunded portions of its general obligation bonds, Series of 2010B (the "**Series 20010B Bonds**") by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and earnings from the investments are sufficient to fully service the advance refunded debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the District's government-wide financial statements. At June 30, 2019, \$18,190,000 of the Series 20010B Bonds is considered defeased. The District has authorized to call the remaining defeased bonds for redemption on September 1, 2020.

Annual debt service requirements to maturity on these obligations are as follows:

<u>Year ending June 30.</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2020	\$ 1,075,966	\$ 2,436,523	\$ 3,512,489
2021	1,913,993	2,584,391	4,498,384
2022	1,992,037	2,524,988	4,517,025
2023	2,305,142	2,454,488	4,759,630
2024	2,608,299	2,370,568	4,978,867
2025-2029	14,090,000	10,157,477	24,247,477
2030-2034	17,585,000	6,342,814	23,927,814
2035-2039	15,195,000	2,423,173	17,618,173
2040-2042	<u>7,150,000</u>	<u>294,132</u>	<u>7,444,132</u>
	<u>\$63,915,437</u>	<u>\$31,588,554</u>	<u>\$ 95,503,991</u>

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

(8) CAPITAL LEASES

The District has entered into long-term lease agreements for computer equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception dates. The future minimum lease payments under the capital leases and the net present value of the future minimum lease payments as of June 30, 2019 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$115,947	\$12,750	\$128,697
2021	120,001	8,696	128,697
2022	74,767	4,499	79,266
2023	<u>37,820</u>	<u>1,649</u>	<u>39,469</u>
	<u>\$348,535</u>	<u>\$27,594</u>	<u>\$376,129</u>

(9) PENSION PLAN

Plan Description

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year credited service; (b) age 60 with 30 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 membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2.00% or 2.50%, depending upon membership class, of the member's final average salary (as defined in the code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2.00% or 2.50%, depending upon membership class, of the member's final average salary (as defined in the code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

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

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

Contributions

Member Contributions

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

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

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

Members who joined PSERS after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect T-F membership, contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

Employer Contributions

The District's contractually required contribution rate for fiscal year ended June 30, 2019 was 32.60% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the plan from the District were \$5,021,638 for the year ended June 30, 2019.

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

At June 30, 2019, the District reported a liability of \$49,637,134 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by rolling forward PSERS' total pension liability as of June 30, 2017 to June 30, 2018. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2019, the District's proportion was 0.1034 percent, which was a decrease of 0.0039 percent from its proportion measured as of June 30, 2018. As of June 30, 2019, the net pension liability is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position (deficit).

For the year ended June 30, 2019, the District recognized pension expense of \$3,976,000. At June 30, 2019, the 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>
Net difference between projected and actual experience	\$ 400,000	\$ 768,000
Changes in assumptions	925,000	-
Net difference between projected and actual investment earnings	243,000	-
Changes in proportions	30,000	3,110,000
Contributions subsequent to the measurement date	<u>5,021,638</u>	<u>-</u>
	<u>\$6,619,638</u>	<u>\$3,878,000</u>

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

\$5,021,638 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	\$ (144,000)
2020	(645,000)
2021	(1,301,000)
2022	<u>(190,000)</u>
	<u>\$ (2,280,000)</u>

Actuarial Assumptions

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

- Actuarial cost method – entry age normal – level % of pay
- Investment return – 7.25%, includes inflation at 2.75%
- Salary growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were based on the RP-2014 mortality tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 mortality improvement scale.

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

The long-term expected rate of return on 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 plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	20.00 %	5.20%
Fixed income	36.00 %	2.20%
Commodities	8.00 %	3.20%
Absolute return	10.00 %	3.50%
Risk parity	10.00 %	3.90%
Infrastructure/MLPs	8.00 %	5.20%
Real estate	10.00 %	4.20%
Alternative investments	15.00 %	6.70%
Cash	3.00 %	0.40%
Financing (LIBOR)	<u>(20.00)%</u>	0.90%
	<u>100.00 %</u>	

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

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

Discount Rate

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

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

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

	<u>1% Decrease</u> <u>6.25%</u>	<u>Current</u> <u>Discount</u> <u>Rate</u> <u>7.25%</u>	<u>1% Increase</u> <u>8.25%</u>
District's proportionate share of the net pension liability	<u>\$61,528,882</u>	<u>\$49,637,134</u>	<u>\$39,582,314</u>

Pension Plan Fiduciary Net Position

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

(10) OTHER POST-EMPLOYMENT BENEFITS

Single-Employer Defined Benefit OPEB Plan

The District's other post-employment benefits ("**OPEB**") include a single-employer defined benefit plan that provides for specific early retirement incentive payments and healthcare benefits until age 65 to all retirees. The School Board has the authority to establish and amend benefit provisions. The OPEB Plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

OPEB Plan Membership

Membership in the OPEB plan consisted of the following at June 30, 2018:

Active employees not fully eligible	195
Active employees fully eligible but not yet receiving benefits	12
Retired employees and spouses receiving benefits	<u>24</u>
Total	<u>231</u>

Funding Policy

The District's contributions are funded on a pay-as-you-go basis. The contribution requirements of retirees are established and may be amended by the School Board.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

OPEB Liability

The District's OPEB liability has been measured as of June 30, 2019. The OPEB liability is \$3,189,782, all of which is unfunded. As of June 30, 2019, the OPEB liability is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position (deficit).

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

Balance as of July 1, 2018	<u>\$3,074,409</u>
Changes for the year:	
Service cost	148,988
Interest on total OPEB liability	119,782
Changes in assumptions	103,122
Benefit payments	<u>(256,519)</u>
Net changes	<u>115,373</u>
Balance as of June 30, 2019	<u>\$3,189,782</u>

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

For the year ended June 30, 2019, the District recognized OPEB expense of \$267,000. At June 30, 2019, the District had deferred outflows of resources and deferred inflows of resources related to the OPEB plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	<u>\$96,910</u>	<u>\$110,142</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:

2020	\$ (1,332)
2021	(1,332)
2022	(1,332)
2023	(1,332)
2024	(1,332)
Thereafter	<u>(6,572)</u>
	<u>\$(13,232)</u>

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

The following presents the OPEB liability for June 30, 2019, calculated using current healthcare cost trends as well as what the OPEB liability would be if health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Trend Rate</u>	<u>1% Increase</u>
OPEB liability	<u>\$2,815,000</u>	<u>\$3,189,782</u>	<u>\$3,649,000</u>

Sensitivity of the OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District calculated using the discount rate of 3.50%, as well as what the OPEB liability would be if it were calculated using the discount rate that is one percentage point lower (2.50%) or 1 percentage point higher (4.50%) than the current rate:

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

	<u>1% Decrease</u> <u>2.50%</u>	<u>Current Discount Rate</u> <u>3.50%</u>	<u>1% Increase</u> <u>4.50%</u>
OPEB Liability	<u>\$3,677,000</u>	<u>\$3,189,782</u>	<u>\$2,801,000</u>

Actuarial Methods and Significant Assumptions

The OPEB liability as of June 30, 2019, was determined by using the following actuarial assumptions:

- Actuarial cost method – entry age normal
- Discount rate – 3.50% – 20 year high-grade municipal rate index. The discount rate changed from 3.87% to 3.50%.
- Salary growth – 3.50%
- Assumed healthcare cost trends – 6.50% reduced 0.50% each year until reaching ultimate trend rate of 4.50%
- Mortality rates were based on the RP-2014 mortality tables for males and females.

Cost Sharing Multiple-Employer Defined Benefit OPEB Plan

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

Plan Description

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

Retirees of PSERS can participate in the health insurance premium assistance program if they satisfy the following criteria:

- Have 24½ 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 employer-sponsored health insurance program.

Benefits Provided

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

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

Employer Contributions

The District's contractually required contribution rate for the fiscal year ended June 30, 2019 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$127,852 for the year ended June 30, 2019.

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

At June 30, 2019, the District reported a liability of \$2,155,837 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward PSERS' total OPEB liability as of June 30, 2017 to June 30, 2018. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2019, the District's proportion was 0.1034 percent, which was a decrease of 0.0039 percent from its proportion measured as of June 30, 2018. As of June 30, 2019, the net OPEB liability is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position (deficit).

For the year ended June 30, 2019, the District recognized negative OPEB expense of \$78,000. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual experience	\$ 13,000	\$ -
Changes in assumptions	34,000	82,000
Net difference between projected and actual investment earnings	4,000	-
Changes in proportions	-	122,000
Contributions subsequent to the measurement date	<u>127,852</u>	<u>-</u>
	<u>\$178,852</u>	<u>\$204,000</u>

\$127,852 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:

2019	\$ (29,000)
2020	(30,000)
2021	(30,000)
2022	(30,000)
2023	(30,000)
Thereafter	<u>(4,000)</u>
	<u>\$ (153,000)</u>

Actuarial Assumptions

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

DALLAS SCHOOL DISTRICT

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June 30, 2019

- Actuarial cost method – entry age normal – level % of pay
- Investment return – 2.98% – Standard & Poors 20 year municipal bond rate
- Salary growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium assistance reimbursement is capped at \$1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 mortality tables 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%

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

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2016 determined the employer contribution rate for fiscal year 2018.
- Cost method - amount necessary to assure solvency of premium assistance through the third fiscal year after the valuation date.
- Asset valuation method: market value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 combined healthy annuitant tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 combined disabled tables with age set back 7 years for males and 3 years for females and disabled annuitants. (A unisex table based on the RP-2000 combined healthy annuitant tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

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

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

<u>OPEB – Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.9%	0.03%
US Core Fixed Income	92.8%	1.20%
Non-US Developed Fixed	<u>1.3%</u>	0.40%
	<u>100.00%</u>	

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

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

Discount Rate

The discount rate used to measure the OPEB liability was 2.98%. Under the OPEB plan's funding policy, contributions are structured for short term funding of health insurance premium assistance. The funding policy sets contribution rates necessary to assure solvency of health insurance premium assistance through the third fiscal year after the actuarial valuation date. The health insurance premium assistance account is funded to establish reserves that are sufficient for the payment of health insurance 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 OPEB plan is considered a "pay-as-you-go" plan. A discount rate of 2.98% which represents the Standard & Poors 20 year municipal bond rate at June 30, 2018, was applied to all projected benefit payments to measure the total OPEB liability.

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

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual health insurance premium assistance. As of June 30, 2018, retirees health insurance premium assistance benefits are not subject to future healthcare cost increases. The healthcare insurance 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 healthcare cost trends as depicted below.

The following presents the net OPEB liability for June 30, 2018, calculated using current healthcare cost trends as well as what net OPEB liability would be if health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Trend Rate</u>	<u>1% Increase</u>
District's proportionate share of the net OPEB liability	<u>\$2,155,411</u>	<u>\$2,155,837</u>	<u>\$2,156,178</u>

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

The following presents the net OPEB liability, calculated using the discount rate of 2.98%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (1.98%) or 1-percentage-point higher (3.98%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	<u>1.98%</u>	<u>2.98%</u>	<u>3.98%</u>
District's proportionate share of the net OPEB liability	<u>\$2,451,736</u>	<u>\$2,155,837</u>	<u>\$1,910,221</u>

OPEB Plan Fiduciary Net Position

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

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

(11) JOINT VENTURE AND JOINTLY GOVERNED ORGANIZATION

West Side Career and Technology Center

The District and four other Luzerne County school districts participate in the West Side Area Career and Technology Center (the "**WSCTC**"). The WSCTC provides vocational-technical training and education to students of the participating school districts. The WSCTC is controlled by a joint board comprised of representative school board members of participating school districts. District oversight of the WSCTC operations is the responsibility of the joint board. The District's share of operating costs for the WSCTC fluctuates based on the District's percentage of enrollment. The District share of operating costs for 2018-2019 was \$446,738.

The WSCTC prepares financial statements that are available to the public from their administrative office located at 75 Evans Street, Kingston, Pennsylvania 18704.

Luzerne Intermediate Unit

The District and eleven other school districts in Luzerne and Wyoming Counties are participating members of the Luzerne Intermediate Unit (the "**LIU**"). The LIU is a regional educational service agency, established by the Commonwealth of Pennsylvania, which is governed by a joint committee consisting of School Board members from each participating district. The School Board of each participating district must approve the annual program budget for the LIU but the participating districts have no ongoing fiduciary interest or responsibility to the LIU. The LIU is a self-sustaining organization that provides a broad array of services to participating districts which include: curriculum development and instructional improvement; educational planning services; instructional material; continuing professional development; pupil personnel services; management services and federal liaison services. During 2018-2019 the District contracted with the LIU for services which totaled \$780,608 of which \$519,898 was payable as of June 30, 2019.

(12) CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

The District receives federal, state and local funding under a number of programs. Payments made by these sources under contractual agreements are provisional and subject to redetermination based on filing of reports and audits of those reports. Final settlements due from or to these sources are recorded in the year in which the related services are performed. Any adjustments resulting from subsequent examinations are recognized in the year in which the results of such examinations become known. District officials do not expect any significant adjustments as a result of these examinations.

Litigation

The District is a defendant in various matters of litigation and claims. These matters result from the normal course of business. It is not presently possible to determine the ultimate outcome or settlement cost, if any, of these matters.

(13) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs including workers compensation. For insured programs, there were no significant reductions in insurance coverages during the 2018-2019 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

The District administers a self-insurance program to provide health insurance and related expenses for eligible employees, spouses and their dependents. Accordingly, benefit payments plus an administrative charge are made to a third party administrator, who approves and processes all claims. The District has recorded a liability in the Internal Service Fund for claims incurred through June 30, 2019 which has historically been satisfied within 60 days after June 30.

The following table presents the components of the self-insurance medical claims liability and the related changes in the claims liability for the year ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Insurance claims liability – beginning of year	\$ 137,767	\$ 97,501
Current year insurance claims and changes in estimates	3,280,384	3,919,609
Insurance claims paid	<u>(3,269,160)</u>	<u>(3,879,343)</u>
Insurance claims liability – end of year	<u>\$ 148,991</u>	<u>\$ 137,767</u>

(14) SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 31, 2020, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2019 that required recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

DALLAS SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year ended June 30, 2019

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Local sources	\$ 25,323,315	\$ 25,936,927	\$ 613,612
State sources	11,714,332	12,718,260	1,003,928
Federal sources	1,020,000	1,141,775	121,775
Total revenues	<u>38,057,647</u>	<u>39,796,962</u>	<u>1,739,315</u>
EXPENDITURES			
Instruction			
Regular programs	15,871,918	17,285,344	(1,413,426)
Special programs	4,576,011	5,512,885	(936,874)
Vocational programs	728,368	875,395	(147,027)
Other instructional programs	40,161	7,985	32,176
Total instruction	<u>21,216,458</u>	<u>23,681,609</u>	<u>(2,465,151)</u>
Support services			
Pupil support services	1,147,997	1,117,542	30,455
Instructional staff services	499,104	446,715	52,389
Administrative services	1,976,231	2,243,960	(267,729)
Pupil health	303,507	330,091	(26,584)
Business services	808,316	777,085	31,231
Operation and maintenance of plant services	3,439,748	3,152,971	286,777
Student transportation services	1,558,362	1,622,084	(63,722)
Support services - central	224,088	255,603	(31,515)
Other support services	70,500	3,771	66,729
Total support services	<u>10,027,853</u>	<u>9,949,822</u>	<u>78,031</u>
Operation of noninstructional services			
Student activities	1,017,554	1,151,936	(134,382)
Community services	12,000	10,702	1,298
Total operation of noninstructional services	<u>1,029,554</u>	<u>1,162,638</u>	<u>(133,084)</u>
Facilities acquisition, construction and improvement services			
	-	9,300	(9,300)
Debt service			
	5,446,269	5,444,260	2,009
Total expenditures	<u>37,720,134</u>	<u>40,247,629</u>	<u>(2,527,495)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>337,513</u>	<u>(450,667)</u>	<u>(788,180)</u>
OTHER FINANCING SOURCES (USES)			
Refund of prior year receipts	-	(116,700)	(116,700)
Budgetary reserve	(875,000)	-	875,000
Total other financing sources (uses)	<u>(875,000)</u>	<u>(116,700)</u>	<u>758,300</u>
NET CHANGE IN FUND BALANCE	<u>\$ (537,487)</u>	<u>(567,367)</u>	<u>\$ (29,880)</u>
FUND BALANCE			
Beginning of year		4,121,345	
End of year		<u>\$ 3,553,978</u>	

DALLAS SCHOOL DISTRICT

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

Year ended June 30

	Measurement Date				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.1034%	0.1073%	0.1106%	0.1154%	0.1155%
District's proportionate share of the net pension liability	\$ 49,637,134	\$ 52,993,759	\$ 54,810,000	\$ 49,986,000	\$ 45,716,000
District's covered-employee payroll	\$ 13,921,521	\$ 14,287,172	\$ 14,329,958	\$ 14,848,381	\$ 14,735,882
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	356.55%	370.92%	382.49%	336.64%	310.24%
Plan fiduciary net position as a percentage of the total pension liability	54.00%	52.00%	50.00%	54.00%	57.00%

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In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

DALLAS SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PENSION PLAN CONTRIBUTIONS - PSERS

Year ended June 30

	Measurement Date				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 4,387,601	\$ 4,104,126	\$ 3,519,000	\$ 2,980,000	\$ 2,301,000
Contributions in relation to the contractually required contribution	<u>4,387,601</u>	<u>4,104,126</u>	<u>3,519,000</u>	<u>2,902,782</u>	<u>2,274,056</u>
Contribution deficiency (excess)	-	-	-	77,218	26,944
District's covered-employee payroll	\$ 13,921,521	\$ 14,287,172	\$ 14,329,958	\$ 14,848,381	\$ 14,735,882
Contributions as a percentage of covered-employee payroll	31.52%	28.73%	24.56%	19.55%	15.43%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

DALLAS SCHOOL DISTRICT

SCHEDULE OF CHANGES IN OPEB LIABILITY - SINGLE EMPLOYER PLAN

Year ended June 30

	<u>2019</u>	<u>2018</u>
TOTAL OPEB LIABILITY		
Service cost	\$ 148,988	\$ 143,437
Interest on total OPEB liability	119,782	114,995
Changes of assumptions	103,122	(125,230)
Benefit payments	<u>(256,519)</u>	<u>(254,999)</u>
Net change in total OPEB liability	115,373	(121,797)
Total OPEB liability, beginning	<u>3,074,409</u>	<u>3,196,206</u>
Total OPEB liability, ending	<u>\$ 3,189,782</u>	<u>\$ 3,074,409</u>
Fiduciary net position as a % of total OPEB liability	0.00%	0.00%
Covered payroll	\$ 12,437,378	\$ 13,373,189
Net OPEB liability as a % of covered payroll	25.65%	22.99%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

DALLAS SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE OPEB LIABILITY - PSERS

Year ended June 30

	<u>Measurement Date</u>	
	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability	0.1034%	0.1073%
District's proportionate share of the net OPEB liability	\$ 2,155,837	\$ 2,186,143
District's covered-employee payroll	\$ 13,921,521	\$ 14,287,172
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	15.49%	15.30%
Plan fiduciary net position as a percentage of the total OPEB liability	5.56%	6.00%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

DALLAS SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S OPEB PLAN CONTRIBUTIONS - PSERS

Year ended June 30

	<u>Measurement Date</u>	
	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 115,523	\$ 118,629
Contributions in relation to the contractually required contribution	<u>115,523</u>	<u>118,629</u>
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 13,921,521	\$ 14,287,172
Contributions as a percentage of covered-employee payroll	0.83%	0.83%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

SINGLE AUDIT

DALLAS SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

Year ended June 30, 2019

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2018</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2019</u>	<u>Pass Through to Subrecipients</u>
U.S. Department of Education											
Passed-Through the Pennsylvania Department of Education											
Title I - Improving Basic Programs	I	84.010	013-170111	07/01/16 - 09/30/17	\$293,150	\$ 58,251	\$ 58,251	\$ -	\$ -	\$ -	\$ -
Title I - Improving Basic Programs	I	84.010	013-180111	07/01/17 - 09/30/18	319,335	42,256	42,256	-	-	-	-
Title I - Improving Basic Programs	I	84.010	013-190111	07/01/18 - 09/30/19	377,752	226,360	-	377,752	377,752	151,392	-
Total CFDA #84.010						326,867	100,507	377,752	377,752	151,392	-
Title II - Improving Teacher Quality	I	84.367	020-180111	07/01/17 - 09/30/18	89,078	9,945	9,945	-	-	-	-
Title II - Improving Teacher Quality	I	84.367	020-190111	07/01/18 - 09/30/19	75,027	48,472	-	80,833	80,833	32,361	-
Total CFDA #84.367						58,417	9,945	80,833	80,833	32,361	-
Title IV - Student Support & Academic Enrichment Grants	I	84.424	144-180111	07/01/17 - 09/30/18	10,000	1,333	1,333	-	-	-	-
Title IV - Student Support & Academic Enrichment Grants	I	84.424	144-190111	07/01/18 - 09/30/19	23,078	13,847	-	23,078	23,078	9,231	-
Total CFDA #84.424						15,180	1,333	23,078	23,078	9,231	-
Passed Through the Luzerne Intermediate Unit											
I.D.E.A. - Part B, Section 611	I	84.027	N/A	07/01/18 - 06/30/19	260,710	260,710	-	260,710	260,710	-	-
Total U.S. Department of Education						661,174	111,785	742,373	742,373	192,984	-
U.S. Department of Health and Human Services											
Passed Through the Pennsylvania Department of Public Welfare											
Medical Assistance Program	I	93.778	N/A	07/01/18 - 06/30/19	N/A	3,578	-	3,578	3,578	-	-
U.S. Department of Agriculture											
Passed-Through the Pennsylvania Department of Education											
State Matching Share	S	N/A	N/A	07/01/17 - 06/30/18	N/A	6,033	6,033	-	-	-	-
State Matching Share	S	N/A	N/A	07/01/18 - 06/30/19	N/A	15,089	-	18,265	18,265	3,176	-
Total State Matching Share						21,122	6,033	18,265	18,265	3,176	-

Continued on next page

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2018</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2019</u>	<u>Pass Through to Subrecipients</u>
Passed-Through Department of Education (cont'd)											
Breakfast Program	I	10.553	N/A	07/01/17 - 06/30/18	N/A	11,489	11,489	-	-	-	-
Breakfast Program	I	10.553	N/A	07/01/18 - 06/30/19	N/A	40,035	-	49,659	49,659	9,624	-
Total CFDA #10.553						51,524	11,489	49,659	49,659	9,624	-
National School Lunch Program	I	10.555	N/A	07/01/17 - 06/30/18	N/A	70,800	70,800	-	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/18 - 06/30/19	N/A	160,796	-	198,108	198,108	37,312	-
Passed-Through the Pennsylvania Department of Agriculture											
National School Lunch Program	I	10.555	N/A	07/01/18 - 06/30/19	N/A	a) 65,678	b) (7,294) c)	72,972	72,972	d) -	-
Total CFDA #10.555						297,274	63,506	271,080	271,080	37,312	-
Total U.S. Department of Agriculture						369,920	81,028	339,004	339,004	50,112	-
Total Federal Awards and Certain State Grants						\$1,034,672	\$ 192,813	\$1,084,955	\$1,084,955	\$ 243,096	\$ -
Total Federal Awards						\$1,013,550	\$ 186,780	\$1,066,690	\$1,066,690	\$ 239,920	\$ -
Total State Awards						21,122	6,033	18,265	18,265	3,176	-
Total Federal Awards and Certain State Grants						\$1,034,672	\$ 192,813	\$1,084,955	\$1,084,955	\$ 243,096	\$ -
Child Nutrition Cluster (CFDA's #10.553 and #10.555)						\$ 348,798	\$ 74,995	\$ 320,739	\$ 320,739	\$ 46,936	\$ -

Footnotes

- a) Total amount of commodities received
- b) Beginning inventory July 1
- c) Total of commodities used
- d) Ending inventory June 30

Source Codes

- D - Direct Funding
- I - Indirect Funding
- S - State Share

DALLAS SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

June 30, 2019

(1) FEDERAL EXPENDITURES

The Schedule of Expenditures of Federal Awards and Certain State Grants reflects federal expenditures for all individual grants which were active during the fiscal year. Additionally, the Schedule reflects expenditures for certain state grants.

(2) BASIS OF ACCOUNTING

The District uses the modified accrual method of recording transactions except as noted for the accounting of donated commodities in Note 3. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

(3) NONMONETARY FEDERAL AWARDS – DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards and Certain State Grants under CFDA #10.555 USDA Commodities represent federal surplus food consumed by the District during the 2018-2019 fiscal year.

(4) ACCESS PROGRAM

The District participates in the ACCESS Program which is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2019 was \$5,512.

(5) BUILD AMERICA BONDS PROGRAM

The District participates in the Build America Bonds ("**BABs**") program which was created by the American Recovery and Reinvestment Act ("**ARRA**"). In conjunction with the BABs program, the District receives subsidy reimbursements for a portion of the interest paid on the bonds. Reimbursements are federal source revenues but are not considered federal financial assistance. The amount of BABs subsidy payments recognized for the year ended June 30, 2019 was \$390,312.

(6) INDIRECT COSTS

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

DALLAS SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2019

There were no audit findings for the 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 School Directors
Dallas School District
Dallas, Pennsylvania**

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 Dallas School District, Dallas, Pennsylvania, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Dallas School District's basic financial statements, and have issued our report thereon dated January 31, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Dallas 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 Dallas School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Dallas 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dallas 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.

BBD, LLP

**Philadelphia, Pennsylvania
January 31, 2020**



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

**Board of School Directors
Dallas School District
Dallas, Pennsylvania**

Report on Compliance for Each Major Federal Program

We have audited Dallas School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Dallas School District's major federal programs for the year ended June 30, 2019. Dallas School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Dallas School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of Dallas 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 Dallas School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Dallas School District's internal control over compliance.

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

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

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

BBD, LLP

**Philadelphia, Pennsylvania
January 31, 2020**

DALLAS SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2019

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Dallas School District were prepared in accordance with GAAP.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements of the Dallas School District are reported in the 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.
3. No instances of noncompliance material to the financial statements of the Dallas School District, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal control over the major federal award programs are reported in the independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for the Dallas School District expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a).
7. The program tested as a major program was:

I.D.E.A. – Part B, Section 611 – CFDA 84.027
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. The Dallas School District did qualify as a low-risk auditee.

FINDINGS—FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

None