

ALLENTOWN SCHOOL DISTRICT

ALLENTOWN, PENNSYLVANIA

AUDIT REPORT

JUNE 30, 2019

ALLENTOWN SCHOOL DISTRICT

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Independent Auditor's Report

Board of Directors
Allentown School District
Allentown, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Allentown School District ("the District"), Allentown, Pennsylvania, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Allentown School District, Allentown, Pennsylvania, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison statement of the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

As described in Note 1 to the financial statements, in fiscal year 2019, the District adopted new accounting guidance, GASB Statement No. 83, *Certain Asset Retirement Obligations* and GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. Our opinion is not modified with respect to these matters.

Emphasis of Matter

As discussed in Note 19, subsequent events may have a significant impact on the operations of the School District. Management has determined that it is not possible to predict the eventual outcome of the subsequent event. The accompanying financial statements do not include any adjustments related to the subsequent event. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14, and the schedules related to the District's OPEB and Pension Plans on pages 60 through 64 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.



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Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor governmental fund financial statements on pages 65 and 66 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on pages 72 – 74 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 also is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 01, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Zelenkofske Axlerod LLC

ZELENKOFSCHE AXELROD LLC

May 01, 2020
Jamison, Pennsylvania

**ALLENTOWN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTINUED)
JUNE 30, 2019**

INTRODUCTION

The discussion and analysis of the financial performance of the Allentown School District ("the District") provides an overall review of the District's financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the financial performance as a whole; however, readers also should review the notes to the basic financial statements to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis ("MD&A") is a component of the reporting model adopted by the Governmental Accounting Standards Board ("GASB") in its Statement No. 34, "Basic Financial Statements - and the Management's Discussion and Analysis - for State and Local Governments." Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

MISSION STATEMENT AND VISION

- Mission –Each and every student will graduate college and career ready by having their individual needs met through active engagement in a rigorous, safe and nurturing environment.

- Vision – Each and every student, with the active support of the entire community, will graduate ready to thrive in a diverse and complex world.

FINANCIAL HIGHLIGHTS

As of June 30, 2019, the District's General Fund reported a positive accumulated fund balance in the amount of \$8,703,510, or 2.74 percent of the District's General Fund total expenditure budget for 2018-2019, up from 2.65 percent for the previous year.

The District's total entity-wide revenues during the fiscal year ended June 30, 2019 were \$332,362,055. Of this total, combined taxes, general subsidies, and other general revenues accounted for \$230,107,693, or 69.23 percent, and program-specific revenues in the form of charges for services and grants accounted for \$102,254,362, or the remaining 30.77 percent.

The District had \$332,123,429 in expenses related to governmental activities; \$90,423,108 of these expenses were offset by program-specific revenues for services and operating grants.

FINANCIAL STATEMENTS

This annual report consists of a series of financial statements that are organized so that the reader can understand the District as a financial whole and, also, as an entire operating entity. The financial statements consist of three parts: 1) Management's Discussion and Analysis; 2) basic financial statements; and 3) supplementary information. The basic financial statements include two kinds of statements that present different views of the District. The first two statements are entity-wide financial statements – the Statement of Net Position and the Statement of Activities. These statements provide both long-term and short-term information about the District's overall financial status.

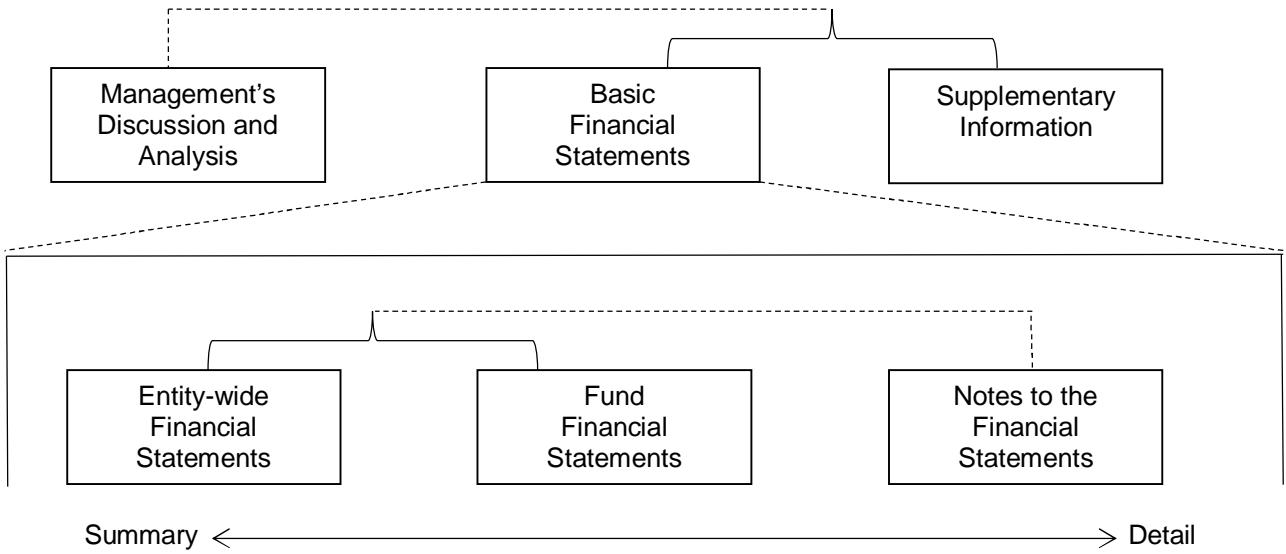
The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail than the entity-wide statements. The governmental funds statements tell how generally the District's services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the District, the General Fund is by far the most significant fund. Proprietary fund statements offer short-term and long-term financial information about the activities that the District operates like a business. For the District, this is its Food Service Fund. Fiduciary fund statements provide information about financial relationships where the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong. For the District, this is its Student Activities Fund, the IRC Section 125 Fund, and the Private-Purpose Trust Fund.

**ALLENTOWN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTINUED)
JUNE 30, 2019**

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of supplementary information that further explains and reports the financial statements.

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

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



**ALLENTOWN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTINUED)
JUNE 30, 2019**

Figure A-2 summarizes the major features of the financial statements, including the portion of the program they cover and the types of information they contain. The remainder of this overview section of the MD&A explains the structure and contents of each of the statements.

**Figure A-2
Major Features of Allentown School District's
Entity-Wide and Fund Financial Statements**

	Entity-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds).	The activities of the District that are not proprietary or fiduciary, such as education, administration, and community services.	Activities the District operates similar to private business – Food Services	Instances in which the District is the trustee or agent to someone else's resources – Student Activity Funds
Required financial statements	Statement of Net Position; Statement of Activities.	Balance Sheet; Statement of Revenues, Expenditures, and Changes in Fund Balances.	Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; Statement of Cash Flows.	Statement of Fiduciary Net Position; Statement of Changes in Fiduciary Net Position.
Accounting basis and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.	Accrual accounting and economic resources focus.
Type of information	All assets and deferred outflows and liabilities and deferred inflows, both financial and capital, and short-term and long-term, and net position.	Only assets and deferred outflows expected to be used up, and liabilities and deferred inflows that come due during the year or soon thereafter; no capital assets included.	All assets and deferred outflows and liabilities and deferred inflows, both financial and capital, and short-term and long-term.	All assets and liabilities, both short-term and long-term.
Type of inflow-outflow information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during the year, regardless of when cash is received or paid.	All revenues and expenses during the year, regardless of when cash is received or paid.

**ALLENTOWN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTINUED)
JUNE 30, 2019**

OVERVIEW OF FINANCIAL STATEMENTS

Entity-Wide Statements

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

The two entity-wide statements report the District's net position and how it has changed. Net position, the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, is one way to measure the District's financial health or position.

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

To assess the overall health of the District, the reader needs to consider additional factors, such as projected growth in the District's property values due to the extensive downtown development, as well as the future riverfront projects, and the projected changes in enrollment of students.

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

- Governmental Activities – All of the District's basic services are included here, such as instruction, administration, and community services. Local tax revenues, state and federal subsidies, and grants finance most of these activities.
- Business-Type Activities – The District operates a food service operation and charges fees to staff, students, and visitors to help defray the costs of the food service operation.

Impact of GASB Statements No. 68 and No. 71 and No. 75

During the 2014-2015 fiscal year, the District implemented Government Accounting Standards Board ("GASB") Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68." The purpose of these statements is to improve the transparency, consistency, and comparability of the pension information reported by state and local governments (e.g. school districts).

The adoption of GASB Statements No. 68 and No. 71 has had, and will continue to have, a profound effect on the financial statements and net position of school districts and governments not only in Pennsylvania, but across the nation. By recognizing the impact of any unfunded liability faced by defined benefit pension plans, plan administrators (at the direction of elected officials) and participants will be required to evaluate the cost of providing these benefits as compared to the benefit to be derived through providing for certain retirement benefits to the work force.

More specifically, the District contributes to the Pennsylvania Public School Employees' Retirement System ("PSERS"), a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. In cost-sharing multiple-employer plans, the plan assets and liabilities are shared. Plan assets can be used to pay the pensions of the employees of any employer that provides pensions through the plan. The new standards have shifted pension reporting from a funding-based approach, in which the District reported only its contributions to the plan, to an accounting-based approach.

Under this new approach, the District reports its proportionate share of the net pension liability on the Statement of Net Position of the government-wide and proprietary fund financial statements. Reporting in the governmental fund statements is not affected by the implementation of these statements.

**ALLENTOWN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTINUED)
JUNE 30, 2019**

The net pension liability is the difference between the market value of pension fund assets and the actuarial present value of projected benefit payments at the measurement date. Included in the calculation are projected employer and employee contributions as well as the expectation that the assets will grow at the long-term assumed rate of return on plan investments.

While the net pension liability is significant to the District's financial statements, it is a liability the District has limited control over the last six years, the PSERS employer contribution rate has risen significantly, from 12.36 percent in 2012-2013 to 33.43 percent in 2018-2019. These increases are expected to improve the plan's funding level, which will reduce net position in future years. This rate is anticipated to continue to increase to a level of over 36 percent in future years.

During the 2017-2018 fiscal year, the School District adopted new accounting guidance, GASB Statement No. 75, which requires the School District to report its full net Other Post-Employment Benefits (OPEB) liability for the single-employer OPEB plan and the cost-sharing multi-employer Health Insurance Premium Assistance Plan provided through PSERS.

Fund Financial Statements

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

- Governmental Funds – Most of the District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income. They are reported using the modified accrual accounting method, which measures cash and all other financial assets that can be converted readily to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.
- Proprietary Funds – These funds are used to account for the District's activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the District charges customers for services it provides - whether to outside customers or to other units in the District - these services generally are reported in proprietary funds. The Food Service Fund is the District's proprietary fund and is the same as the business-type activities reported in the entity-wide statements, but provides more detail and additional information, such as cash flows.
- Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to others, such as trust funds or student activity funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the entity-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's total net deficit as of June 30, 2019 was \$(354,043,133). The deficit is a direct result of Governmental Accounting Standards Board ("GASB") Statements No. 68, No. 71 and No. 75, as noted above. Table A-1 summarizes the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (deficit) of the District.

**ALLENTOWN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTINUED)
JUNE 30, 2019**

**Table A-1
June 30, 2019 and 2018
Condensed Statement of Net Position**

	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Assets:						
Current and other assets	\$ 104,273,591	\$ 90,844,815	\$ 4,810,478	\$ 3,441,302	109,084,069	94,286,117
Noncurrent assets	206,323,394	194,726,006	1,959,582	1,877,154	208,282,976	196,603,160
Deferred outflows of resources	88,780,825	84,514,586	-	-	88,780,825	84,514,586
Total Assets and Deferred Outflows of Resources	\$ 399,377,810	\$ 370,085,407	\$ 6,770,060	\$ 5,318,456	\$ 406,147,870	\$ 375,403,863
Liabilities:						
Current and other liabilities	\$ 60,146,587	\$ 59,655,843	\$ 359,862	\$ 454,114	60,506,449	60,109,957
Long-term liabilities	679,077,068	629,485,962	10,050,013	9,832,343	689,127,081	639,318,305
Deferred inflows of resources	10,557,473	20,185,009	-	-	10,557,473	20,185,009
Total Liabilities and Deferred Inflows of Resources	749,781,128	709,326,814	10,409,875	10,286,457	760,191,003	719,613,271
Net Position:						
Net investment in capital assets	8,393,870	4,415,319	165,238	176,484	8,559,108	4,591,803
Restricted for debt service	8,500,809	6,826,051	-	-	8,500,809	6,826,051
Unrestricted	<u>(367,297,997)</u>	<u>(350,482,777)</u>	<u>(3,805,053)</u>	<u>(5,144,485)</u>	<u>(371,103,050)</u>	<u>(355,627,262)</u>
Total Net Deficit:	<u>(350,403,318)</u>	<u>(339,241,407)</u>	<u>(3,639,815)</u>	<u>(4,968,001)</u>	<u>(354,043,133)</u>	<u>(344,209,408)</u>
Total Liabilities, Deferred Inflows of Resources, and Net Deficit	\$ 399,377,810	\$ 370,085,407	\$ 6,770,060	\$ 5,318,456	\$ 406,147,870	\$ 375,403,863

Changes in Net Deficit

The results of this year's operations as a whole are reported in the Statement of Activities. All expenses are reported in the first column. Specific charges, grants, revenues, and subsidies that directly relate to specific expense categories are factored in to determine the final amount of the District's activities that are supported by other general revenues.

Table A-2 takes the information from that statement and rearranges it slightly, so the reader can compare the District's total revenues for the 2017-2018 and 2018-2019 fiscal years.

**ALLENTOWN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTINUED)
JUNE 30, 2019**

**Table A-2
Fiscal Years Ended June 30, 2019 and 2018
Condensed Statement of Activities**

	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
REVENUES						
Program revenues:						
Charges for services	\$ 433,104	\$ 227,388	\$ 37,850	\$ 31,139	\$ 470,954	\$ 258,527
Operating grants and contributions	89,990,004	78,537,379	11,793,404	11,285,728	101,783,408	89,823,107
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	88,400,177	85,389,032	-	-	88,400,177	85,389,032
Other taxes	11,657,365	11,378,072	-	-	11,657,365	11,378,072
Grants, subsidies, contributions	126,073,471	121,443,814	-	-	126,073,471	121,443,814
Investment income	2,663,445	1,119,352	49,734	45,302	2,713,179	1,164,654
Transfers	480,451	575,427	(480,451)	(575,427)	-	-
Sale of capital assets	-	-	-	-	-	-
Other	1,263,501	861,213	-	-	1,263,501	861,213
TOTAL REVENUES	320,961,518	299,531,677	11,400,537	10,786,742	332,362,055	310,318,419
EXPENSES						
Instruction	242,768,356	227,068,761	-	-	242,768,356	227,068,761
Instructional student support	23,208,256	21,755,062	-	-	23,208,256	21,755,062
Administration	24,366,286	24,043,615	-	-	24,366,286	24,043,615
Operation and maintenance of plant services	17,957,374	17,654,806	-	-	17,957,374	17,654,806
Pupil transportation	9,715,299	8,841,943	-	-	9,715,299	8,841,943
Student activities	2,420,478	2,317,409	-	-	2,420,478	2,317,409
Community services	1,746,389	1,620,373	-	-	1,746,389	1,620,373
Interest on long-term debt	9,940,991	12,902,902	-	-	9,940,991	12,902,902
Food services	-	-	10,072,351	9,957,325	10,072,351	9,957,325
TOTAL EXPENSES	332,123,429	316,204,871	10,072,351	9,957,325	342,195,780	326,162,196
(DECREASE) INCREASE IN NET POSITION (DEFICIT)	\$ (11,161,911)	\$ (16,673,194)	\$ 1,328,186	\$ 829,417	\$ (9,833,725)	\$ (15,843,777)

The increase in property taxes collected is mainly due to a millage rate increase for the year. Revenues received for operating grants, general grants and subsidies, and contributions increased from the previous year due to additional state funding.

Expenses for instruction increased primarily due to the increases in wages and retirement costs as well as increased charter school costs.

The tables below present the expenses of both the governmental activities and the business-type activities of the District.

Table A-3 shows the District's largest functions – instructional programs, instructional student support, administration, operation of plant and maintenance services, pupil transportation, student activities, community services, and interest on long-term debt, as well as each program's net cost (total cost less revenues generated by the activities). This table shows the net costs offset by the charges for services, restricted operating grants and contributions, and restricted capital grants and contributions to show the remaining financial needs supported by local revenue and other miscellaneous revenues.

**ALLENTOWN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTINUED)
JUNE 30, 2019**

**Table A-3
Fiscal Years Ended June 30, 2019 and 2018
Net Cost of Governmental Activities**

	Total Cost of Services		% Change	Net Cost of Services		% Change
	2019	2018	18 to 19	2019	2018	18 to 19
Instruction	\$ 242,768,356	\$ 227,068,761	6.91%	\$ 160,105,408	\$ 155,170,245	3.18%
Instructional student support	23,208,256	21,755,062	6.68%	22,822,435	21,401,823	6.64%
Administration	24,366,286	24,043,615	1.34%	24,366,286	24,043,615	1.34%
Operation of plant and maintenance services	17,957,374	17,654,806	1.71%	17,957,374	17,654,806	1.71%
Pupil transportation	9,715,299	8,841,943	9.88%	6,594,705	5,601,049	17.74%
Student activities	2,420,478	2,317,409	4.45%	2,187,393	2,084,492	4.94%
Community services	1,746,389	1,620,373	7.78%	1,746,389	1,620,373	7.78%
Interest on long-term debt	9,940,991	12,902,902	-22.96%	5,920,331	9,863,701	-39.98%
Total	\$ 332,123,429	\$ 316,204,871	5.03%	\$ 241,700,321	\$ 237,440,104	1.79%

Table A-4 reflects the activities of the Food Service program, the only business-type activity of the District.

**Table A-4
Fiscal Years Ended June 30, 2019 and 2018
Net Cost of Business-type Activities**

Function/Program	Total Cost of Services		% Change	Net Cost of Services		% Change
	2019	2018	18 to 19	2019	2018	18 to 19
Food Services	\$ 10,072,351	\$ 9,957,325	1.16%	\$ 1,758,903	\$ 1,359,542	29.37%

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budget is prepared in accordance with Pennsylvania law and is based on the modified accrual basis of accounting. The most significant budgeted fund is the General Fund.

During the fiscal year, the Board of School Directors may authorize revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District.

The District frequently applies for and/or receives federal, state, and local grants during the fiscal year, which cannot always be anticipated during the preliminary budgeting process. Budget revenues may be increased accordingly as a result of these additionally approved grants. Conversely, budgeted expenditures also may be increased by the same amounts to offset these additional grant revenues. No budget revisions were made to the final 2018-2019 budget which affected total revenues or total expenses. However, budgeted amounts were transferred between budgeted expense categories during the year to better align those with actual expenditures being incurred. The budget did not change in total but only changed expenses by category line items of expense. All such transfers are approved by the School Board at the regular School Board meetings.

The budgetary reserve includes amounts that may be transferred into expenditure accounts for planned expenditures upon approval of the Board of School Directors. These amounts will be appropriated into expenditure categories only when the expenditure is necessary for the operation of the District. Any budget

**ALLENTOWN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTINUED)
JUNE 30, 2019**

reserve amount not appropriated during the year will become part of the unassigned accumulated fund balance and available for future years' budgeting, assuming some restrictions.

For 2019, actual revenues were more than the budgeted amount by \$8,160,755. Actual expenditures were more than the budgeted amount by \$11,658,302. The statement comparing the District's General Fund budget and actual results can be found on page 21.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Governmental Funds

The District's governmental funds reported a combined fund balance of \$49,070,676, which is above last year's total of \$35,271,243. The schedule below indicates the fund balances and the total change in fund balances as of and between June 30, 2018 and 2019.

	Fund Balance June 30, 2019	Fund Balance June 30, 2018	Increase (Decrease)
General Fund	\$ 8,703,510	\$ 8,098,667	\$ 604,843
Capital reserve fund	1,270,693	1,195,147	75,546
Capital projects fund	30,210,782	18,807,593	11,403,189
Debt service fund	8,500,809	6,826,051	1,674,758
Other governmental funds	384,882	343,785	41,097
TOTAL	\$ 49,070,676	\$ 35,271,243	\$ 13,799,433

The District's General Fund balance increase is due primarily to transfers in from the capital projects fund totaling \$10,000,000, related to a bond issue to help fund the PERS employer retirement expenditures.

The Capital Reserve Fund increased slightly and Capital Projects Fund increased due to the issuance of new debt to fund the construction of the new elementary school.

The Debt Service Fund increased due to transfers of \$811,780 from the General Fund for required sinking fund payments and investment gains of \$862,978.

Proprietary Fund

The Food Service Fund had a net decrease in its net deficit of \$1,328,186. The Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund on page 23 will further detail the actual results of operations.

Capital Assets

On June 30, 2019, the District had \$204,902,717 in governmental activities and \$165,238 in business-type invested in a broad range of capital assets, including land, buildings, furniture, and equipment. These amounts represent a net increase (including construction-in-progress and depreciation) of \$10,636,099 in governmental activities and a net decrease of \$11,246 in business-type activities from June 30, 2018.

**ALLENTOWN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTINUED)
JUNE 30, 2019**

**Table A-5
Governmental Activities
Capital Assets (Net of Depreciation)**

	Governmental Activities		Business-type Activities		Totals		Change
	2019	2018	2019	2018	2019	2018	18 to 19
Land	\$ 9,113,385	\$ 9,113,385	\$ -	\$ -	\$ 9,113,385	\$ 9,113,385	0.00%
Land Improvements	2,826,118	2,044,571	-	-	2,826,118	2,044,571	38.23%
Construction-in-progress	16,062,248	2,585,336	-	-	16,062,248	2,585,336	521.28%
Buildings and building improvements	170,515,616	173,746,340	-	-	170,515,616	173,746,340	-1.86%
Furniture and equipment	6,385,350	6,776,986	165,238	176,484	6,550,588	6,953,470	-5.79%
Total	\$ 204,902,717	\$ 194,266,618	\$ 165,238	\$ 176,484	\$ 205,067,955	\$ 194,443,102	5.46%

Debt Administration

Bond and Note Obligations – As of June 30, 2019 and 2018, the District had outstanding bond and note obligations of \$246,967,540 and \$211,141,939, respectively.

Other obligations include accrued sick leave and experience payments for specific employees of the District, accrued other post-employment benefits for retiree healthcare, and the amount of the net pension liability discussed in Notes 7, 9, and 11 of the financial statements.

During the fiscal year on June 4, 2019, the District issued General Obligation Bonds in the aggregate principal amount of \$102,545,000. General Obligation Bond Series A of 2019 totaled \$9,010,000, General Obligation Bond Series B of 2019 totaled \$58,925,000, General Obligation Bond Series C of 2019 totaled \$24,415,000 and General Obligation Bond Series D of 2019 totaled \$10,195,000.

The Bond issues were used to terminate the District's fixed payor swap agreement, refund certain bond issues, fund certain capital improvement projects and fund PSERS retirement employer expenditures.

The refunding of certain bond issues resulted in a cash flow loss totaling \$11,134,072 over the life of the bonds and an economic loss of \$1,528,473.

On July 2, 2019, the District issued a Tax and Revenue Anticipation Note, Series of 2019 in the principal amount of \$25,000,000. The 2019 TRAN was paid off by the District in December 2019.

**ALLENTOWN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTINUED)
JUNE 30, 2019**

FACTORS BEARING ON THE DISTRICT'S FUTURE

Act 1 – Taxpayer Relief Act

Act 1 of Special Session 2006 created the Taxpayer Relief Act that utilizes gaming dollars and a local shift to an earned or personal income tax to fund the plan. Act 1 facilitates a tax reduction and possibly a tax shift but does not directly provide additional revenue to the District to fund academic programs.

Other Factors

Factors that will affect the future finances of the District are the continuing escalation of employee health benefits, increases in PSERS pension contributions, loss of students to charter schools, collective bargaining agreements with the District's professional and support staffs, the potential impact of indexing and back-end referendums associated with tax reform legislation, and the amount of support in funding from the federal government. Additionally, the District's property values are expected to increase due to major downtown and riverfront revitalization projects presently underway. This stability depends upon general economic conditions, including the unemployment rate of the District's taxpayers. The cost of operations is anticipated to continue to rise, and it will be funded through property taxes, state and federal subsidies, and grants.

The District began construction of a new elementary school in the fall of 2018. The first round of debt for this project was issued in June of 2018. The second debt issue for this construction was issued in June 2019.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances and to show the School Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact the Business Office, Allentown School District, 31 South Penn Street, Allentown, Pennsylvania 18105.

The District also includes a separate legal entity in its report – the Allentown Public Library. Although legally separate, the Library is important because the District is financially accountable for it and, therefore, it has been included as an integral part of the primary government. The Library is a discretely presented component unit and is reported in a separate column in the entity-wide financial statements to emphasize that it is legally separate from the government. Complete financial statements for the Library may be obtained at the Library's administrative offices at 31 South Penn Street, Allentown, Pennsylvania.

ALLENTOWN SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2019

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 61,711,828	\$ 4,825,187	\$ 66,537,015	\$ 741,951
Investments	-	-	-	108,682
Restricted assets:				
Cash and cash equivalents with fiscal agent	3,172	-	3,172	-
Investments with fiscal agent	8,497,637	-	8,497,637	-
Taxes receivable	7,054,980	-	7,054,980	-
Due from other governments	24,815,166	1,659,866	26,475,032	-
Due from Allentown School District	-	-	-	378,386
Internal balances	1,767,346	(1,767,346)	-	-
Other receivables	174,379	-	174,379	124,030
Inventories	249,083	92,771	341,854	-
Total Current Assets	<u>104,273,591</u>	<u>4,810,478</u>	<u>109,084,069</u>	<u>1,353,049</u>
Noncurrent Assets:				
Prepaid bond insurance costs	1,420,677	-	1,420,677	-
Capital assets, net				
Land	9,113,385	-	9,113,385	209,941
Construction-in-progress	16,062,248	-	16,062,248	-
Land improvements	2,826,118	-	2,826,118	5,421
Buildings and building improvements	170,515,616	-	170,515,616	3,189,963
Furniture and equipment	6,385,350	165,238	6,550,588	13,546
Total Noncurrent Assets	<u>206,323,394</u>	<u>165,238</u>	<u>206,488,632</u>	<u>3,418,871</u>
TOTAL ASSETS	<u>310,596,985</u>	<u>4,975,716</u>	<u>315,572,701</u>	<u>4,771,920</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pension contributions - PSERS	38,337,582	881,147	39,218,729	472,327
Deferred OPEB contributions - PSERS	976,086	22,434	998,520	12,025
Deferred OPEB contributions - District	652,137	-	652,137	-
Deferred pension items - PSERS	37,262,578	856,440	38,119,018	459,068
Deferred OPEB items - PSERS	1,493,394	34,323	1,527,717	18,399
Deferred OPEB items - district	6,137	-	6,137	-
Deferred charges on bond refunding	10,052,911	-	10,052,911	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>88,780,825</u>	<u>1,794,344</u>	<u>90,575,169</u>	<u>961,819</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 399,377,810</u>	<u>\$ 6,770,060</u>	<u>\$ 406,147,870</u>	<u>\$ 5,733,739</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 26,011,566	\$ -	\$ 26,011,566	\$ 49,223
Accrued salaries	2,892,372	-	2,892,372	115,663
Accrued interest	2,066,845	-	2,066,845	-
Payroll deductions and withholdings	18,250,297	-	18,250,297	-
Unearned revenues	327,121	2,120	329,241	-
Other current liabilities	-	357,742	357,742	-
Due to Allentown Public Library	378,386	-	378,386	-
Bonds payable	9,950,000	-	9,950,000	-
Notes payable	270,000	-	270,000	-
Total Current Liabilities	<u>60,146,587</u>	<u>359,862</u>	<u>60,506,449</u>	<u>164,886</u>
Noncurrent Liabilities:				
Bonds payable	233,626,540	-	233,626,540	-
Notes payable	3,121,000	-	3,121,000	-
Compensated absences	1,015,083	-	1,015,083	-
Net pension liability	409,188,069	9,414,567	418,602,636	5,041,364
Net OPEB liability - PSERS	17,772,561	408,479	18,181,040	218,960
Net OPEB liability - District	14,353,815	-	14,353,815	-
Total Noncurrent Liabilities	<u>679,077,068</u>	<u>9,823,046</u>	<u>688,900,114</u>	<u>5,260,324</u>
TOTAL LIABILITIES	<u>739,223,655</u>	<u>10,182,908</u>	<u>749,406,563</u>	<u>5,425,210</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred pension items - PSERS	9,123,787	211,336	9,335,123	111,416
Deferred OPEB items - PSERS	680,085	15,631	695,716	8,379
Deferred OPEB items - District	753,601	-	753,601	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>10,557,473</u>	<u>226,967</u>	<u>10,784,440</u>	<u>119,795</u>
NET POSITION				
Net investment in capital assets	8,393,870	165,238	8,559,108	3,418,871
Restricted for library	-	-	-	97,405
Restricted for debt service	8,500,809	-	8,500,809	-
Unrestricted (deficit)	(367,297,997)	(3,805,053)	(371,103,050)	(3,327,542)
TOTAL NET POSITION (DEFICIT)	<u>(350,403,318)</u>	<u>(3,639,815)</u>	<u>(354,043,133)</u>	<u>188,734</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 399,377,810</u>	<u>\$ 6,770,060</u>	<u>\$ 406,147,870</u>	<u>\$ 5,733,739</u>

The accompanying notes are an integral part of these financial statements.

ALLENTOWN SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals	
PRIMARY GOVERNMENT								
GOVERNMENTAL ACTIVITIES:								
Instruction	\$ 242,768,356	\$ 204,600	\$ 82,458,348	\$ -	\$ (160,105,408)	\$ -	\$ (160,105,408)	\$ -
Instructional student support	23,208,256	-	385,821	-	(22,822,435)	-	(22,822,435)	-
Administrative and financial support services	24,366,286	-	-	-	(24,366,286)	-	(24,366,286)	-
Operation and maintenance of plant services	17,957,374	-	-	-	(17,957,374)	-	(17,957,374)	-
Pupil transportation	9,715,299	-	3,120,594	-	(6,594,705)	-	(6,594,705)	-
Student activities	2,420,478	228,504	4,581	-	(2,187,393)	-	(2,187,393)	-
Community services	1,746,389	-	-	-	(1,746,389)	-	(1,746,389)	-
Interest on long-term debt	9,940,991	-	4,020,660	-	(5,920,331)	-	(5,920,331)	-
TOTAL GOVERNMENTAL ACTIVITIES	<u>332,123,429</u>	<u>433,104</u>	<u>89,990,004</u>	<u>-</u>	<u>(241,700,321)</u>	<u>-</u>	<u>(241,700,321)</u>	<u>-</u>
BUSINESS-TYPE ACTIVITIES:								
Food service	10,072,351	37,850	11,793,404	-	-	1,758,903	1,758,903	-
TOTAL PRIMARY GOVERNMENT	<u>342,195,780</u>	<u>470,954</u>	<u>101,783,408</u>	<u>-</u>	<u>(241,700,321)</u>	<u>1,758,903</u>	<u>(239,941,418)</u>	<u>-</u>
COMPONENT UNIT	<u>3,035,584</u>	<u>81,686</u>	<u>1,748,719</u>	<u>772,274</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(432,905)</u>
TOTAL PRIMARY GOVERNMENT AND COMPONENT UNIT	<u>\$ 345,231,364</u>	<u>\$ 552,640</u>	<u>\$ 103,532,127</u>	<u>\$ 772,274</u>	<u>(241,700,321)</u>	<u>1,758,903</u>	<u>(239,941,418)</u>	<u>(432,905)</u>
GENERAL REVENUES								
Property taxes, levied for general purposes					88,400,177	-	88,400,177	1,614,513
Taxes levied for specific purposes					11,657,365	-	11,657,365	-
Grants, entitlements and contributions not restricted to specific programs					126,073,471	-	126,073,471	-
Investment earnings					2,663,445	49,734	2,713,179	9,813
Transfers					480,451	(480,451)	-	-
Other					1,263,501	-	1,263,501	-
TOTAL GENERAL REVENUES					<u>230,538,410</u>	<u>(430,717)</u>	<u>230,107,693</u>	<u>1,624,326</u>
CHANGE IN NET POSITION					(11,161,911)	1,328,186	(9,833,725)	1,191,421
NET POSITION (DEFICIT), BEGINNING OF YEAR					<u>(339,241,407)</u>	<u>(4,968,001)</u>	<u>(344,209,408)</u>	<u>(1,002,687)</u>
NET POSITION (DEFICIT), END OF YEAR					<u>\$ (350,403,318)</u>	<u>\$ (3,639,815)</u>	<u>\$ (354,043,133)</u>	<u>\$ 188,734</u>

The accompanying notes are an integral part of these financial statements.

ALLENTOWN SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2019

	General Fund	Capital Reserve Fund	Capital Projects Fund	Debt Service Fund	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 23,876,690	\$ 1,270,693	\$ 36,167,545	\$ -	\$ 396,900	\$ 61,711,828
Restricted assets:						
Cash and cash equivalents with fiscal agent	-	-	-	3,172	-	3,172
Investments with fiscal agent	-	-	-	8,497,637	-	8,497,637
Accounts receivable	174,379	-	-	-	-	174,379
Taxes receivable	7,054,980	-	-	-	-	7,054,980
Due from other funds	1,783,553	-	-	-	-	1,783,553
Due from other governments	24,526,973	-	-	-	-	24,526,973
Inventories	241,781	-	-	-	7,302	249,083
TOTAL ASSETS	\$ 57,658,356	\$ 1,270,693	\$ 36,167,545	\$ 8,500,809	\$ 404,202	\$104,001,605
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
LIABILITIES:						
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ 16,207	\$ 16,207
Accounts payable	20,052,537	-	5,956,763	-	2,266	26,011,566
Accrued salaries	2,891,667	-	-	-	705	2,892,372
Payroll deductions and withholdings	18,250,155	-	-	-	142	18,250,297
Unearned revenues	327,121	-	-	-	-	327,121
Due to Allentown Public Library	378,386	-	-	-	-	378,386
TOTAL LIABILITIES	41,899,866	-	5,956,763	-	19,320	47,875,949
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenues - property taxes	7,054,980	-	-	-	-	7,054,980
TOTAL DEFERRED INFLOWS OF RESOURCES	7,054,980	-	-	-	-	7,054,980
FUND BALANCES:						
Nonspendable	241,781	-	-	-	7,302	249,083
Restricted for capital projects	-	-	30,210,782	-	-	30,210,782
Restricted for debt service	-	-	-	8,500,809	-	8,500,809
Assigned to capital projects	-	1,270,693	-	-	-	1,270,693
Assigned to student activities	-	-	-	-	377,580	377,580
Unassigned	8,461,729	-	-	-	-	8,461,729
TOTAL FUND BALANCES	8,703,510	1,270,693	30,210,782	8,500,809	384,882	49,070,676
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 57,658,356	\$ 1,270,693	\$ 36,167,545	\$ 8,500,809	\$ 404,202	\$104,001,605

The accompanying notes are an integral part of these financial statements

ALLENTOWN SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO
STATEMENT OF NET POSITION
JUNE 30, 2019

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS \$ 49,070,676

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds. The cost of assets was \$293,381,381 and the accumulated depreciation was \$99,114,763 204,902,717

Some of the District's revenues will be collected after year end but are not available soon enough to pay the current year's expenditures and therefore are reported as deferred revenue in the governmental funds. 7,054,980

Debt issuances resulted in deferred charges which will be amortized over the life of new debt but do not represent current rights and/or obligations. These assets and liabilities consist of:

Unamortized bond insurance costs	\$ 1,420,677	
Deferred amounts on bond refunding	<u>10,052,911</u>	11,473,588

Other assets are related to long-term debt and are not available to pay for current period expenditures and are therefore not reported in the funds. 288,193

Deferred inflows and outflows related to the District's net pension and OPEB liabilities are based on the differences between actuarially determined actual and expected investment returns, changes in the actuarially determined proportion of the District's amount of the total pension and OPEB liabilities, and pension and OPEB contributions made after the measurement date of the net pension liability. These amounts will be amortized over the estimated remaining average service life of the employees

Deferred outflows of resources:		
Deferred pension items	75,600,160	
Deferred OPEB items	3,127,754	
Deferred inflows of resources:		
Deferred pension items	(9,123,787)	
Deferred OPEB items	<u>(1,433,686)</u>	68,170,441

Long-term liabilities applicable to the governmental activities are not due and payable in the current period and therefore are not reported in the governmental funds.

Accrued interest	(2,066,845)	
Bonds and notes payable in future years	(246,967,540)	
Net pension liability	(409,188,069)	
Net OPEB liability	(32,126,376)	
Accumulated compensated absences	<u>(1,015,083)</u>	<u>(691,363,913)</u>

TOTAL NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ (350,403,318)

The accompanying notes are an integral part of these financial statements.

ALLENTOWN SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALNCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	General Fund	Capital Reserve Fund	Capital Projects Fund	Debt Service Fund	Other Governmental Funds	Total
REVENUES						
Local sources	\$ 104,713,057	\$ 75,546	\$ 362,938	\$ 862,978	\$ 112,051	\$ 106,126,570
State sources	192,070,693	-	-	-	4,581	192,075,274
Federal sources	23,723,954	-	-	-	-	23,723,954
TOTAL REVENUES	<u>320,507,704</u>	<u>75,546</u>	<u>362,938</u>	<u>862,978</u>	<u>116,632</u>	<u>321,925,798</u>
EXPENDITURES						
Current:						
Instruction	233,222,051	-	-	-	-	233,222,051
Support services	71,856,721	-	30,377	-	-	71,887,098
Operation of noninstructional services	4,174,316	-	-	-	75,535	4,249,851
Debt service:						
Principal, interest and fiscal agent fees	20,114,603	-	-	-	-	20,114,603
Debt issuance costs	-	-	2,237,556	-	-	2,237,556
Swap termination fees	-	-	8,807,721	-	-	8,807,721
Capital outlays	203,785	-	15,929,373	-	-	16,133,158
TOTAL EXPENDITURES	<u>329,571,476</u>	<u>-</u>	<u>27,005,027</u>	<u>-</u>	<u>75,535</u>	<u>356,652,038</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(9,063,772)</u>	<u>75,546</u>	<u>(26,642,089)</u>	<u>862,978</u>	<u>41,097</u>	<u>(34,726,240)</u>
OTHER FINANCING SOURCES (USES)						
Refund of prior year revenues	(56)	-	-	-	-	(56)
Issuance of debt	-	-	43,620,000	-	-	43,620,000
Refunding bonds issued	-	-	58,925,000	-	-	58,925,000
Premium on refunding bonds issued	-	-	13,576,088	-	-	13,576,088
Payment to refunded bond escrow agent	-	-	(71,217,079)	-	-	(71,217,079)
Premium on bonds issued	-	-	3,141,269	-	-	3,141,269
Transfers in	10,480,451	-	-	811,780	-	11,292,231
Transfers out	(811,780)	-	(10,000,000)	-	-	(10,811,780)
TOTAL OTHER FINANCING SOURCES (USES)	<u>9,668,615</u>	<u>-</u>	<u>38,045,278</u>	<u>811,780</u>	<u>-</u>	<u>48,525,673</u>
NET CHANGE IN FUND BALANCES	604,843	75,546	11,403,189	1,674,758	41,097	13,799,433
FUND BALANCES, BEGINNING OF YEAR	<u>8,098,667</u>	<u>1,195,147</u>	<u>18,807,593</u>	<u>6,826,051</u>	<u>343,785</u>	<u>35,271,243</u>
FUND BALANCES, END OF YEAR	<u>\$ 8,703,510</u>	<u>\$ 1,270,693</u>	<u>\$ 30,210,782</u>	<u>\$ 8,500,809</u>	<u>\$ 384,882</u>	<u>\$ 49,070,676</u>

The accompanying notes are an integral part of these financial statements.

ALLENTOWN SCHOOL DISTRICT
RECONCILIATION OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 13,799,433

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 capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay of \$16,713,071 exceeded depreciation of \$6,076,972 in the period. 10,636,099

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. Unavailable tax revenues increased by this amount this year. (1,444,906)

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

Debt issuance	\$ (119,262,357)	
Principal repayments	81,540,000	(37,722,357)

Governmental funds report issuance costs as expenditures, bond discounts and deferred amounts as other financing uses and bond premiums as other financing sources. However, these amounts are reported on the statement of net assets as deferred charges and credits and are amortized over the life of the debt. 10,427,910

In the statement of activities, certain operating expenses--compensated absences (vacations and sick leave), pension expense and special termination benefits (early retirement)--are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This is the amount by which current period amounts earned exceeded current period compensated absences paid.

Compensated absences	(98,389)	
Pension expense	(5,365,124)	
OPEB expense	(593,621)	(6,057,134)

Debt service subsidy reimbursements in the statement of activities differs from the amount reported in the governmental funds because debt service related payments are recognized as expenditures in the funds when it is due, therefore the related subsidy reimbursements is recognized as the related debt payment is accrued, regardless of when it is due. 232

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. (801,188)

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ (11,161,911)

The accompanying notes are an integral part of these financial statements.

ALLENTOWN SCHOOL DISTRICT
 BUDGETARY COMPARISON STATEMENT - GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 99,748,390	\$ 99,748,390	\$ 104,713,057	\$ 4,964,667
State sources	190,682,599	190,682,599	192,070,693	1,388,094
Federal sources	21,915,960	21,915,960	23,723,954	1,807,994
TOTAL REVENUES	312,346,949	312,346,949	320,507,704	8,160,755
EXPENDITURES				
Current:				
Instruction				
Regular programs, elementary/secondary	157,993,530	159,120,626	159,328,626	(208,000)
Special programs, elementary/secondary	53,898,878	53,909,825	57,879,400	(3,969,575)
Vocational education programs	9,881,274	9,880,173	10,398,287	(518,114)
Other instructional programs	2,263,728	2,263,728	3,133,599	(869,871)
Adult vocational education programs	42,834	42,834	854,020	(811,186)
Nonpublic school programs	-	-	1,356,837	(1,356,837)
Community/junior college programs	1,609,415	1,609,415	271,282	1,338,133
Total Instruction	225,689,659	226,826,601	233,222,051	(6,395,450)
Support services				
Pupil personnel	11,812,873	11,810,459	13,300,423	(1,489,964)
Instructional staff	3,579,770	3,759,669	3,345,310	414,359
Administration	16,582,014	16,594,860	15,586,277	1,008,583
Pupil health	3,818,684	3,823,184	5,649,912	(1,826,728)
Business	2,334,271	2,194,421	2,542,499	(348,078)
Operation and maintenance of plant services	15,258,748	15,306,846	17,484,274	(2,177,428)
Student transportation services	9,486,777	8,262,996	9,715,299	(1,452,303)
Central	5,491,316	5,365,485	4,101,898	1,263,587
Other support services	134,459	134,459	130,829	3,630
Total Support Services	68,498,912	67,252,379	71,856,721	(4,604,342)
Operation of noninstructional services				
Student activities	2,010,560	2,004,999	2,427,927	(422,928)
Community services	2,329,582	2,444,734	1,746,389	698,345
Total Operation of Noninstructional Services	4,340,142	4,449,733	4,174,316	275,417
Debt service				
Principal, interest and fiscal agent fees	19,384,461	19,384,461	20,114,603	(730,142)
Facilities acquisition, construction, and improvement services				
Site and building acquisition services	-	-	203,785	(203,785)
TOTAL EXPENDITURES	317,913,174	317,913,174	329,571,476	(11,658,302)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(5,566,225)	(5,566,225)	(9,063,772)	(3,497,547)
OTHER FINANCING SOURCES (USES)				
Refund of prior year revenues	-	-	(56)	(56)
Transfers in	1,500,000	1,500,000	10,480,451	8,980,451
Transfers out	(941,780)	(941,780)	(811,780)	130,000
TOTAL OTHER FINANCING SOURCES (USES)	558,220	558,220	9,668,615	9,110,395
NET CHANGE IN FUND BALANCES	(5,008,005)	(5,008,005)	604,843	5,612,848
FUND BALANCES, BEGINNING OF YEAR	8,098,667	8,098,667	8,098,667	-
FUND BALANCES, END OF YEAR	\$ 3,090,662	\$ 3,090,662	\$ 8,703,510	\$ 5,612,848

The accompanying notes are an integral part of these financial statements.

ALLENTOWN SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUND
JUNE 30, 2019

	Food Service Fund
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 4,825,187
Due from other governments	1,659,866
Inventories	92,771
TOTAL CURRENT ASSETS	6,577,824
CAPITAL ASSETS:	
Furniture and equipment, net	165,238
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension contributions - PSERS	881,147
Deferred OPEB contributions - PSERS	22,434
Deferred pension items - PSERS	856,440
Deferred OPEB items - PSERS	34,323
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 8,537,406
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
CURRENT LIABILITIES:	
Unearned revenues	\$ 2,120
Due to other funds	1,767,346
Other current liabilities	357,742
TOTAL CURRENT LIABILITIES	2,127,208
NONCURRENT LIABILITIES:	
Net pension liability - PSERS	9,414,567
Net OPEB liability - PSERS	408,479
DEFERRED INFLOWS OF RESOURCES	
Deferred pension items - PSERS	211,336
Deferred OPEB items - PSERS	15,631
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	12,177,221
NET POSITION:	
Net investment in capital assets	165,238
Unrestricted	(3,805,053)
TOTAL NET POSITION (DEFICIT)	(3,639,815)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 8,537,406

The accompanying notes are an integral part of these financial statements.

ALLENTOWN SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Food Service Fund</u>
OPERATING REVENUES	
Food service revenues	\$ 31,664
Other operating revenue	6,186
TOTAL OPERATING REVENUES	<u>37,850</u>
OPERATING EXPENSES	
Salaries and wages	2,584,494
Employee benefits	1,952,111
Purchased professional and technical service	29,979
Purchased property services	955,415
Other purchased services	5,862
Supplies	4,501,042
Depreciation	26,639
Minor equipment	16,809
TOTAL OPERATING EXPENSES	<u>10,072,351</u>
OPERATING LOSS	<u>(10,034,501)</u>
NONOPERATING REVENUES	
State sources	1,133,020
Federal sources	10,660,384
Interest income	49,734
TOTAL NONOPERATING REVENUES	<u>11,843,138</u>
INCOME BEFORE TRANSFERS	1,808,637
Transfers out	<u>(480,451)</u>
CHANGE IN NET POSITION	1,328,186
NET POSITION (DEFICIT), BEGINNING OF YEAR	<u>(4,968,001)</u>
NET POSITION (DEFICIT), END OF YEAR	<u><u>\$ (3,639,815)</u></u>

The accompanying notes are an integral part of these financial statements.

ALLENTOWN SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2019

	Food Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 49,480
Payments to suppliers	(9,673,932)
NET CASH USED BY OPERATING ACTIVITIES	(9,624,452)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State sources	1,221,010
Federal sources	12,002,968
Transfers out	(480,451)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	12,743,527
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(15,393)
NET CASH USED BY CAPITAL AND FINANCING ACTIVITIES	(15,393)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	49,734
NET CASH PROVIDED BY INVESTING ACTIVITIES	49,734
NET DECREASE IN CASH AND CASH EQUIVALENTS	3,153,416
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,671,771
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 4,825,187
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (10,034,501)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	26,639
USDA donated commodities	710,662
Changes in assets and liabilities:	
Decrease in inventories	11,630
Increase in deferred pension contributions	(50,866)
Increase in deferred pensions	(15,273)
Increase in deferred OPEB contributions	(722)
Decrease in deferred OPEB	(26,813)
Increase in net pension liability	235,520
Decrease in net OPEB liability	30,214
Increase in deferred pension	(46,093)
Increase in deferred OPEB	(1,971)
Increase in due to other funds	(368,626)
Decrease in other liabilities	(94,252)
NET CASH USED BY OPERATING ACTIVITIES	\$ (9,624,452)
SUPPLEMENTAL DISCLOSURE:	
NONCASH NONCAPITAL FINANCING ACTIVITY:	
USDA donated commodities	\$ 710,662

The accompanying notes are an integral part of these financial statements.

ALLENTOWN SCHOOL DISTRICT
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2019

	<u>Student Activity Funds</u>	<u>Other Agency Fund</u>	<u>Total Agency Funds</u>	<u>Private- Purpose Trust</u>
ASSETS				
Cash and cash equivalents	\$ 400,415	\$ 25,396	\$ 425,811	\$ 419,580
TOTAL ASSETS	<u>\$ 400,415</u>	<u>\$ 25,396</u>	<u>\$ 425,811</u>	<u>\$ 419,580</u>
LIABILITIES AND NET POSITION				
LIABILITIES:				
Other current liabilities	\$ 400,415	\$ 25,396	\$ 425,811	\$ -
TOTAL LIABILITIES	<u>400,415</u>	<u>25,396</u>	<u>425,811</u>	<u>-</u>
NET POSITION:				
Restricted	-	-	-	419,580
TOTAL NET POSITION	<u>-</u>	<u>-</u>	<u>-</u>	<u>419,580</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 400,415</u>	<u>\$ 25,396</u>	<u>\$ 425,811</u>	<u>\$ 419,580</u>

The accompanying notes are an integral part of these financial statements.

ALLENTOWN SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Private- Purpose Trust</u>
ADDITIONS	
Local sources	<u>\$ 105,029</u>
TOTAL ADDITIONS	<u>105,029</u>
DEDUCTIONS	
Deductions	<u>-</u>
TOTAL DEDUCTIONS	<u>-</u>
CHANGE IN NET POSITION	105,029
NET POSITION, BEGINNING OF YEAR	<u>314,551</u>
NET POSITION, END OF YEAR	<u><u>\$ 419,580</u></u>

The accompanying notes are an integral part of these financial statements.

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Allentown School District ("the District") was incorporated in 1866 under the provisions of the Commonwealth of Pennsylvania. The District operates 15 elementary schools, four middle schools, and three senior high schools to provide education and related services to the residents of the City of Allentown. 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 second class. The District operates under a locally elected nine-member Board form of government.

The financial statements of the District have been prepared in accordance with U.S. 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.

Reporting Entity

GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39, No. 61 and No. 80, 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 financial 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. Based on these criteria, the District has determined that the Allentown Public Library ("the Library") is a component unit of the District.

The District appoints the Library board for terms of three years and reviews the Library budget. The Library also receives a majority of its revenues from an appropriation of real estate taxes levied by the District.

The Library is a discretely presented component unit and is reported in a separate column in the entity-wide financial statements to emphasize that it is legally separate from the government. Complete financial statements for the Library may be obtained at the Library's administrative offices at 31 South Penn Street, Allentown, Pennsylvania.

Basis of Presentation

Entity-wide Financial Statements

The statement of net position 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. These statements include the financial activities of the primary government, except for fiduciary funds.

The entity-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as further defined under proprietary funds below. 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.

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the entity-wide statements and the statements of governmental funds.

The entity-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 program. Expenses are those that are associated specifically 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 program 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 enterprise 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 is used to account for the proceeds of general obligation notes and bonds and for the acquisition, construction, and renovation of major capital facilities and their related capital assets as described in the note agreements.
- The Capital Reserve Fund is used to account for funds set aside for intended capital expenditure projects.
- The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 government considers tax revenue to be available if collected within 60 days of the end of the fiscal period. During the year ended June 30, 2019, the District recognized certain revenues from the Commonwealth of Pennsylvania, which were received more than 60 days after year end but are usually received within 60 days of year end. The District determined that their exclusion would be misleading to the financial statements. 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 revenues, including certain other charges for services and miscellaneous revenues are recorded as revenue when received in cash because they generally are 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, principal and interest on general long-term debt which has not matured are recognized when paid. Liabilities for compensated absences and special termination benefits are recognized as fund liabilities to the extent they mature each period. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Proprietary Funds

The District's only major proprietary fund is the Food Service Fund and is used to account for all financial transactions related to the food service operation. Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are financed primarily by user charges. The economic resources measurement focus concerns determining costs as a means of maintaining the capital investment and management control. 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 fund. The District allocates "building-wide costs" to the proprietary fund. Specifically, general fund expenditures that partially benefit the proprietary fund (utilities, janitorial services, insurance, etc.) are recognized proportionately within the proprietary fund.

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 fund's principal ongoing operations. The principal operating revenues of the District's proprietary fund are food service charges. Operating expenses for the District's proprietary fund include food production costs, supplies, and administrative costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 a private-purpose trust and agency funds. The private purpose trust and agency funds account for funds held on behalf of students and employees of the District. The measurement focus and basis of accounting for the private-purpose trust is the same as for proprietary funds, while 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 reported at fair value.

In establishing the fair value of investments, the District uses the following hierarchy. The lowest available level of valuation available is used for all investments.

Level 1 – Valuations based on quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 – Valuations based on quoted prices of similar products in active markets or identical products in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Receivables and Payables

State subsidies represent current year entitlements and are recognized as revenue in the current fiscal year even though funds may be received in the following year. Federal program funds applicable to expenditures of the current fiscal year but expected to be received in the next fiscal year are accrued as current year revenues.

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the entity-wide financial statements as internal balances.

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Accordingly, an allowance for doubtful accounts has not been established by the District for property taxes receivable.

Property Taxes

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

July 1 – September 5	- Discount period, 2% of gross levy
September 6 – November 5	- Face period
November 6 – December 31	- Penalty period, 10% of gross levy
January 1	- Lien date

Tax Abatement Programs

In 2017, the District adopted GASB Statement 77, *Tax Abatement Disclosures*. In accordance with the Commonwealth of Pennsylvania, Keystone Opportunity Zone (KOZ) Act, 73 P.S. Sections 820.101-820.1309 (the Act), the City of Allentown has designated certain zones within the School District of Allentown where certain businesses and residents are eligible for tax abatement, deduction, exemption or credit. Businesses, property owners and residents that are located in the KOZ are eligible to receive significant state and local tax benefits. Projects in the KOZ are given priority consideration for assistance under various community and economic building initiatives. Eligibility means that the qualified businesses, property owners and residents meet the necessary criteria listed in the Act based upon an annual application and certification. Pennsylvania businesses relocating to the KOZ must either increase their full-time employment by 20% within the first full year of operation, or make a 10% capital investment in the KOZ property based on their prior year's gross revenues. If qualified businesses, property owners or residents relocate out of the KOZ within a stipulated period of time, certain percentages of the exemptions, deductions, abatements or credits shall be refunded to the Commonwealth and political subdivision. The total amount of District property taxes that were abated in 2019 was approximately \$589,000.

In accordance with Pennsylvania Act 50 of 2009 and Act 26 of 2011, the City of Allentown has established a Neighborhood Improvement Zone (NIZ) within the School District of Allentown whereby state and local taxes collected from eligible businesses located in and individuals working within the NIZ are collected and remitted to the Allentown Neighborhood Improvement Zone Development Authority (ANIZDA). The taxes collected from businesses and individuals within the NIZ are used to fund the various economic development projects within the NIZ. All potential NIZ projects must be geographically located within the NIZ and must go through a pre-qualification, application and, if approved, closing process. Once in operation, the payment of taxes associated with the project can go toward payment of the debt service on the project. The types of taxes include earned income and local services. The total amount the District remitted to the ANIZDA during 2019 was approximately \$311,000.

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prepaid Items and Inventories

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

The District's general fund inventory, except stock supplies, is expensed under the purchase method, and all other general fund inventory is charged to inventory when purchased and expensed when used under the consumption method. Supplies are taken out of inventory using the weighted average cost method. The District's food service fund inventory of food and supplies, except inventory donated by the USDA, is valued at last unit cost and expensed as used. Donated food from the U.S. Department of Agriculture is recorded at fair value at the time of donation.

Capital Assets

Capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities columns in the entity-wide and proprietary fund financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$6,000 and an estimated useful life in excess of one year. 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 of the District are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	20 years
Buildings and improvements	20 – 50 years
Furniture and equipment	5 – 20 years
Vehicles	8 years

Compensated Absences

Employees are compensated for longevity payments, and sick and vacation days as stipulated in their collective bargaining agreements. The liability for these compensated absences is recorded as a long-term liability in the entity-wide financial statements. In the fund financial statements, governmental funds report the compensated absence liability only to the extent that it is payable from expendable available financial resources.

Long-term Obligations

In the entity-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are netted against outstanding principal balances and amortized over the life of the bonds.

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred amounts on refunding are recorded as a deferred inflow or outflow of resources and amortized over the life of the old debt or the life of the new debt, whichever is shorter. Prepaid bond insurance costs are reported as a deferred charge and amortized over the life of the debt. All other issuance costs are expensed when incurred. All amortized 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. 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 uses.

Net Position

Net position represents the difference between assets and deferred outflows of resources versus liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets, plus any proceeds still held in cash, cash equivalents, or investment accounts. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then unrestricted resources as they are needed.

Fund Balances

Fund balances of the governmental funds are classified, if applicable, as follows:

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

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation, or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by formal action of the Board of School Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of School Directors.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Chief Financial Officer may assign amounts for specific purposes.

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unassigned – all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds and, finally, unassigned funds, as needed, unless the Board or Chief Financial Officer have provided otherwise in its commitment or assignment actions.

Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of net position and balance sheet - governmental funds will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has five items that qualify for reporting in this category. The first is the deferred charge on bond refunding reported in the statement of net position. A deferred charge on bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is pension contributions made subsequent to the measurement date and, therefore, not reflected in the net pension liability under full accrual basis reporting. This item is reported as a deferred outflow of resources on the entity-wide and proprietary fund statement of net position. The third item is the unamortized portion of contributions made in excess of the District's share of the proportionate contributions into its pension plan. The fourth item is OPEB contributions made subsequent to the measurement date and, therefore, not reflected in the net OPEB liability under full accrual basis reporting. This item is reported as a deferred outflow of resources on the entity-wide and proprietary fund statement of net position. The fifth item is the unamortized portion of contributions made in excess of the District's share of the proportionate contributions into its OPEB plan.

In addition to liabilities, the statement of net position and balance sheet - governmental funds will sometimes report separate sections for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District currently has two types of items that qualify for reporting in this category. Delinquent taxes not collected within 60 days of year end and, therefore, not available under modified accrual reporting are reflected as deferred inflows of resources on the general fund balance sheet. Certain changes to the net pension and OPEB liabilities are required to be amortized over a period of years; the unamortized portions of these changes are reflected as deferred inflows of resources on the statement of net position.

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Implementation of GASB Statements

The District adopted the provisions of GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The adoption of this statement had no effect on previously reported amounts.

The District adopted the provisions of GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The adoption of this statement had no effect on previously reported amounts.

Pending Changes in Accounting Principles

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

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

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

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

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The District is required to adopt the provisions of Statement No. 91 for its fiscal year 2022 financial statements.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The District is required to adopt the provisions of Statement No. 92 for its fiscal year 2021 financial statements.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. This Statement is required to be adopted by the District for its fiscal year 2022 financial statements.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement is required to be adopted by the District for its fiscal year 2023 financial statements.

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. 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.

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted prior to the beginning of each year for the general fund on the 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 all capital projects funds.

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 the date final action on adoption is taken by the Board.

Legal budgetary control is maintained at the sub-function/major object level. The Board may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. 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.

NOTE 3 DEPOSITS

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.

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. The District does not have a policy for custodial credit risk. At June 30, 2019, the carrying amount of the District's deposits was \$28,889,206, and the bank balance was \$36,753,008. Of the bank balance, \$348,762 was covered by federal depository insurance, and \$36,404,247 was exposed to custodial credit risk because, in accordance with Act 72 of the Commonwealth of Pennsylvania, it was uninsured and the collateral held by the depository's agent was not in the District's name.

The District also had cash deposits in the amount of \$38,496,372 in the Pennsylvania Local Government Investment Trust ("PLGIT"). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PLGIT acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization, and is subject to an independent annual audit. As of June 30, 2019, PLGIT was rated as AAAM by a nationally recognized statistical rating agency.

ALLENTOWN SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2019

NOTE 3 DEPOSITS (CONTINUED)

Discretely Presented Component Unit

At June 30, 2019, the carrying amount of the Library's deposits was \$741,551, and the bank balance was \$784,900. Of the bank balance, \$250,000 was covered by federal depository insurance, and the remaining \$534,900 was exposed to custodial credit risk because, in accordance with Act 72 of the Commonwealth of Pennsylvania, it was uninsured and the collateral held by the depository's agent was not in the Library's name.

NOTE 4 INVESTMENTS

The District categorizes its fair value measurements within the fair value hierarchy established by U.S. generally accepted accounting principles. The District has the following recurring fair value measurements as of June 30, 2019:

	Fair Value	Level 1	Matures In Greater Than Five Years
U.S. Treasury bonds and notes	\$ 8,497,637	\$ 8,497,637	\$ 8,497,637

Credit Risk

As of June 30, 2019, the District's investments in U.S. Treasury bonds and notes are backed by the full faith and credit of the U.S. government and are not considered to have credit risk.

Interest Rate Risk

As of June 30, 2019, all of the District's investments in U.S. Treasury notes have maturities of 10 to 15 years. The District does not have a policy for interest rate risk.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. As of June 30, 2019, the District did not have any investments subject to custodial credit risk.

ALLENTOWN SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2019

NOTE 4 INVESTMENTS (CONTINUED)

Discretely Presented Component Unit

The Library categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Library has the following recurring fair value measurements as of June 30, 2019:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Matures in Less Than One Year</u>
Equity mutual funds	\$ 11,277	\$ 11,277	\$ 11,277
Bond mutual funds	97,405	97,405	97,405
TOTAL	<u>\$ 108,682</u>	<u>\$ 108,682</u>	<u>\$ 108,682</u>

Investments in external investment pools, such as those in mutual funds, are disclosed but not subject to interest rate, custodial, credit, or concentration risks because they are not evidenced by securities that exist in physical or book entry form.

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 5 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 9,113,385	\$ -	\$ -	\$ 9,113,385
Construction-in-progress	2,585,336	14,342,529	865,617	16,062,248
Total Capital Assets Not Being Depreciated	<u>11,698,721</u>	<u>14,342,529</u>	<u>865,617</u>	<u>25,175,633</u>
Capital assets being depreciated:				
Land improvements	4,301,401	934,316	-	5,235,717
Buildings and improvements	248,575,939	1,705,553	-	250,281,492
Furniture and equipment	28,805,320	596,290	-	29,401,610
Total Capital Assets Being Depreciated	<u>281,682,660</u>	<u>3,236,159</u>	<u>-</u>	<u>284,918,819</u>
Less accumulated depreciation for:				
Land improvements	2,256,830	152,769	-	2,409,599
Buildings and improvements	74,829,599	4,936,277	-	79,765,876
Furniture and equipment	22,028,334	987,926	-	23,016,260
Total Accumulated Depreciation	<u>99,114,763</u>	<u>6,076,972</u>	<u>-</u>	<u>105,191,735</u>
Total Capital Assets Being Depreciated, Net	<u>182,567,897</u>	<u>(2,840,813)</u>	<u>-</u>	<u>179,727,084</u>
Governmental Activities, Net	<u>\$ 194,266,618</u>	<u>\$ 11,501,716</u>	<u>\$ 865,617</u>	<u>\$ 204,902,717</u>
Business-Type Activities				
Capital assets being depreciated:				
Furniture and equipment	\$ 1,902,968	\$ 15,393	\$ -	\$ 1,918,361
Total Capital Assets Being Depreciated	<u>1,902,968</u>	<u>15,393</u>	<u>-</u>	<u>1,918,361</u>
Less accumulated depreciation for:				
Furniture and equipment	1,726,484	26,639	-	1,753,123
Total Accumulated Depreciation	<u>1,726,484</u>	<u>26,639</u>	<u>-</u>	<u>1,753,123</u>
Business-Type Activities, Net	<u>\$ 176,484</u>	<u>\$ (11,246)</u>	<u>\$ -</u>	<u>\$ 165,238</u>

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

Governmental Activities:	
Instruction	\$ 4,761,410
Instructional student support	455,183
Administrative and financial support services	453,856
Operation and maintenance of plant services	356,955
Student activities	49,568
Total Depreciation Expense - Governmental Activities	<u>\$ 6,076,972</u>
Business-type Activities - Food Service	<u>\$ 26,639</u>

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 5 CAPITAL ASSETS (CONTINUED)

Discretely Presented Component Unit

Activity for Allentown Public Library for the year ended June 30, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 209,941	\$ -	\$ -	\$ 209,941
Total Capital Assets Not Being Depreciated	<u>209,941</u>	<u>-</u>	<u>-</u>	<u>209,941</u>
Capital assets being depreciated:				
Land improvements	67,872	-	-	67,872
Buildings and improvements	4,045,920	2,021,708	-	6,067,628
Furniture and equipment	403,284	-	-	403,284
Total Capital Assets Being Depreciated	<u>4,517,076</u>	<u>2,021,708</u>	<u>-</u>	<u>6,538,784</u>
Less accumulated depreciation for:				
Land improvements	61,572	879	-	62,451
Buildings and improvements	2,763,648	114,017	-	2,877,665
Furniture and equipment	387,291	2,447	-	389,738
Total Accumulated Depreciation	<u>3,212,511</u>	<u>117,343</u>	<u>-</u>	<u>3,329,854</u>
Total Capital Assets Being Depreciated, Net	<u>1,304,565</u>	<u>1,904,365</u>	<u>-</u>	<u>3,208,930</u>
Total Capital Assets, Net	<u>\$ 1,514,506</u>	<u>\$ 1,904,365</u>	<u>\$ -</u>	<u>\$ 3,418,871</u>

NOTE 6 INTERNAL RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2019 is as follows:

<u>Amount</u>	<u>Due to (from) Fund</u>
\$ 1,783,553	Due to General Fund
(15,780)	Due from JBC Fund
(427)	Due from Athletics Fund
<u>(1,767,346)</u>	Due from Food Service Fund
<u>\$ -</u>	Total

Interfund balances between funds result mainly from the time lag between when reimbursable expenditures occur and payments between the funds have been made. The balances generally are paid shortly after year end.

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 6 INTERNAL RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

Interfund transfers for the year ended June 30, 2019 are as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Food Service Fund	\$ 480,451
Debt Service Fund	General Fund	811,780
General Fund	Capital Projects Fund	10,000,000

Transfers represent annual budgeted amounts transferred from the food service fund to the general fund for indirect charges related to food service operations. Transfers also include amounts deposited into a sinking fund (the Debt Service Fund) for future debt service payments as required by the repayment terms on the Qualified Zone Academy Bonds ("QZAB") and Qualified School Construction Bonds ("QSCB") disclosed in Note 7.

NOTE 7 LONG-TERM DEBT

The following summarizes the changes in the long-term liabilities of governmental activities for the year ended June 30, 2019:

	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2019</u>	<u>Amounts Due in One Year</u>
Bonds payable	\$ 123,561,000	\$102,545,000	\$ 5,895,000	\$220,211,000	\$ 9,950,000
Bonds premium	8,581,714	16,717,357	1,900,315	23,398,756	-
Bonds discount	(36,775)	-	3,559	(33,216)	-
Notes payable	79,036,000	-	75,645,000	3,391,000	270,000
Accumulated compensated absences	916,694	98,389	-	1,015,083	-
TOTALS	\$ 212,058,633	\$119,360,746	\$ 83,443,874	\$247,982,623	\$ 10,220,000

Payments of long-term debt are expected to be funded by the general fund.

General Obligation Bonds

Series A of 2010 QSCB, requiring sinking deposits through September 2027, bearing interest of 5.00%, interest payable semi-annually in March and September \$ 5,666,000

Series C of 2010 QZAB, requiring sinking deposits through September 2028, bearing interest of 6.495%, interest payable semi-annually in March and September 8,970,000

Series of 2011 QZAB, requiring sinking deposits through September 2026, bearing interest of 5.426%, interest payable semi-annually in March and September 2,000,000

Series A of 2014, maturing through March 2024, bearing interest ranging from 2.00% to 5.00%, interest payable semi-annually in March and September 2,400,000

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 7

LONG-TERM DEBT (CONTINUED)

General Obligation Bonds (Continued)

Series B of 2016, maturing through February 2031, bearing interest ranging from 2.00% to 4.00%, interest payable semi-annually in August and February	32,665,000
Series A of 2017, maturing through February 2028, bearing interest ranging from 1.30% to 2.81%, interest payable semi-annually in August and February	9,935,000
Series of 2017, maturing through June 2037, bearing interest ranging from 1.10% to 3.25%, interest payable semi-annually in June and December	9,250,000
Series of 2018, maturing through February 2029, bearing interest of 5%, interest payable semi-annually in August and February	19,170,000
Series of 2018 B, maturing through February 2028, bearing interest ranging from 3.00% to 4.00%, interest payable semi-annually in February and August	24,585,000
Series of 2018 A, maturing through June 2037, bearing interest of 5%, interest payable semi-annually in June and December	3,025,000
Series of 2019 A, maturing through January 2028 bearing interest ranging from 2.65% to 3.24%, interest payable semi-annually in July and January.	9,010,000
Series of 2019 B, maturing through January 2034 bearing interest of 5%, interest payable semi-annually in July and January.	58,925,000
Series of 2019 C, maturing through January 2037 bearing interest of 4%, interest payable semi-annually in July and January.	24,415,000
Series of 2019 D, maturing through January 2027 bearing interest ranging from 2.65% to 3.16%, interest payable semi-annually in July and January.	10,195,000
TOTAL BONDS	<u><u>\$ 220,211,000</u></u>

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 7 LONG-TERM DEBT (CONTINUED)

General Obligation Notes

Series of 2011 A QSCB , requiring sinking fund deposits through March 2030, bearing interest of 5.0888%, interest payable semi-annually in March and September 891,000

Construction Loan

Note payable maturing through March 2027, with interest as a fixed rate of 2.75% 2,500,000

TOTAL NOTES 3,391,000

TOTAL BONDS AND NOTES \$ 223,602,000

Annual debt service requirements to maturity, including the mandatory sinking fund deposits, for the bonds and notes are as follows:

<u>Year Ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2020	\$ 10,220,000	\$ 8,225,063	\$ 18,445,063
2021	9,340,000	9,530,350	18,870,350
2022	9,710,000	9,195,301	18,905,301
2023	10,205,000	8,832,576	19,037,576
2024	9,560,000	8,459,043	18,019,043
2025-2029	53,845,000	36,238,995	90,083,995
2030-2034	67,750,000	17,790,155	85,540,155
2035-2037	<u>35,445,000</u>	<u>3,315,900</u>	<u>38,760,900</u>
	206,075,000	101,587,383	307,662,383
Sinking fund deposits	<u>17,527,000</u>	-	<u>17,527,000</u>
TOTAL	<u>\$ 223,602,000</u>	<u>\$ 101,587,383</u>	<u>\$ 325,189,383</u>

During the fiscal year on June 4, 2019, the District issued General Obligation Bonds in the aggregate principal amount of \$102,545,000. General Obligation Bonds Series A of 2019 in the amount of \$9,010,000, General Obligation Bonds Series B of 2019 in the amount of \$58,925,000, General Obligation Bonds Series C of 2019 in the amount of \$24,415,000, and General Obligation Bonds Series D of 2019 in the amount of \$10,195,000.

The proceeds of the 2019 A Bonds were used to terminate the District's fixed payor swap associated with the General Obligation Notes, Series of 2009, General Obligation Notes, Series A of 2010, Series B of 2010, Series D of 2010, Series F of 2010 and Series H of 2010, and to pay costs of issuance.

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 7 LONG-TERM DEBT (CONTINUED)

The proceeds of the 2019 B Bonds were used to currently refund all of the District's outstanding General Obligation Notes Series of 2008, Series 2009, Series A of 2010, Series B of 2010, Series D of 2010, Series F of 2010, Series H of 2010, and to pay costs of issuance. The current refunding resulted in cash flow loss of \$11,134,072 over the life of the bonds and an economic loss of \$1,528,473.

The proceeds of the 2019 C Bonds were used to fund undertake certain capital improvement projects on various school facilities and to pay costs of issuance.

The proceeds of the 2019 D Bonds were used to fund the District's unfunded actuarial accrued liability project and to pay costs of issuance.

On July 2, 2018, the District issued a Tax and Revenue Anticipation Note, Series 2018 in the principal amount of \$23,000,000. The 2018 TRAN was paid off by the District in December 2018.

NOTE 8 FUND BALANCES

As of June 30, 2019, fund balances are composed of the following:

	General Fund	Capital Reserve Fund	Capital Projects Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:						
Inventories	\$ 241,781	\$ -	\$ -	\$ -	\$ 7,302	\$ 249,083
Restricted:						
Capital projects	-	-	30,210,782	-	-	30,210,782
Debt service	-	-	-	8,500,809	-	8,500,809
Assigned:						
Capital projects	-	1,270,693	-	-	-	1,270,693
Student activities	-	-	-	-	377,580	377,580
Unassigned	8,461,729	-	-	-	-	8,461,729
TOTAL FUND BALANCES	<u>\$ 8,703,510</u>	<u>\$ 1,270,693</u>	<u>\$30,210,782</u>	<u>\$ 8,500,809</u>	<u>\$ 384,882</u>	<u>\$49,070,676</u>

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 9 PENSION PLAN

Plan Description

The District contributes to the Public School Employees' Retirement System ("PSERS"), a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the system include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available comprehensive annual financial report that includes the financial statements and required supplementary information for the plan. A copy of this report may be obtained by visiting the PSERS website 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 one year of credited service, (b) age 60 with 30 or more years of credited service, or (c) 35 or more years of service regardless of age. Act 120 of 2010 ("Act 120") preserves the benefits of existing members and introduced benefit reductions for individuals who became new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E ("Class T-E"), and Membership Class T-F ("Class T-F"). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service, or attain a total combination and age and service that is equal to or greater than 92, with a minimum of 35 years of service.

Benefits are generally equal to two percent or two and one-half percent, depending upon the 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 may be elected. For Class T-E and Class T-F members, the right to benefits is vested after 10 years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to two percent or two and one-half percent, depending upon the 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 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.

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 9 PENSION PLAN (CONTINUED)

Member Contributions

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

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

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

Members who joined the system after June 30, 2011 automatically contribute at the Membership Class T-E rate of 7.50 percent (base rate) of the member's qualifying compensation. All new hires after June 30, 2011 who elect Class T-F membership contribute at 10.30 percent (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 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50 percent and 9.50 percent, and Membership Class T-F contribution rate to fluctuate between 10.30 percent and 12.30 percent.

Employer Contributions

The District's contractually required annual contribution is based on an actuarially determined amount that, when combined with the employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2019, the rate of the employer contribution was 33.43 percent of covered payroll, which was comprised of 32.60 percent for pension contributions and 0.83 percent for healthcare premium assistance. The District's contribution to PSERS for the year ended June 30, 2019 was \$39,218,999. The Library's contribution to PSERS for the year ended June 30, 2019 was \$472,327.

Pension Liability and Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2019, the District and the Library reported a total liability of \$423,644,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by rolling forward the system's total pension liability as of June 30, 2017 to June 30, 2018. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District's and Library's proportion was 0.8825 percent, which was an increase of 0.0462 percent from its proportion measured as of June 30, 2017.

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 9 PENSION PLAN (CONTINUED)

For the year ended June 30, 2019, the District and the Library recognized net pension expense of \$5,553,508. At June 30, 2019, the District and the Library reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ 2,076,317	\$ -
Changes of assumptions	7,893,000	-
Difference between expected and actual experience	3,410,254	6,557,322
Changes in proportions	24,276,000	2,851,378
Difference between employer contributions and proportionate share of total contributions	922,245	37,839
Contributions subsequent to the date of measurement	39,691,326	-
	\$ 78,269,142	\$ 9,446,539

An amount of \$39,691,326 is reported as deferred outflows of resources resulting from the District's and the Library's contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts will be reported as deferred outflows and resources and deferred inflows of resources related to pensions, and will be recognized in pension expense as follows:

Year Ended June 30,	
2020	\$ 14,827,048
2021	11,702,787
2022	635,557
2023	1,967,251
2024	(1,366)
	\$ 29,131,277

Actuarial Assumptions

The total pension liability as of June 30, 2018 was determined by rolling forward the District's total pension liability as of 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 percent of pay.
- Investment return – 7.25 percent, including inflation of 2.75 percent.
- Salary Growth – Effective average of 5.00 percent, 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.

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 9 PENSION PLAN (CONTINUED)

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 ended June 30, 2015.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	20.0%	5.2%
Fixed income	36.0%	2.2%
Commodities	8.0%	3.2%
Absolute return	10.0%	3.5%
Risk parity	10.0%	3.9%
Infrastructure/MLPs	8.0%	5.2%
Real estate	10.0%	4.2%
Alternative investments	15.0%	6.7%
Cash	3.0%	0.4%
Financing (LIBOR)	-20.0%	0.9%
	<u>100.0%</u>	

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

Discount Rate

The discount used to measure the total pension liability was 7.25 percent. 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 which are actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

ALLENTOWN SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2019

NOTE 9 PENSION PLAN (CONTINUED)

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

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

	1% Decrease 6.25%	Current Rate Discount Rate 7.25%	1% Increase 8.25%
District's and Library's proportionate share of the net pension liability	\$525,138,000	\$423,644,000	\$337,828,000

NOTE 10 JOINT VENTURE

The District is a participating member of the Lehigh Carbon Community College (“the College”). The College is governed by a Board of Trustees composed of representatives from each of the 13 member school districts and two at-large representatives. A vote of two-thirds of all member school districts is required for approval of the College's annual operating and debt service budget. Each member school district pays a share of the operating costs of the College based on a five-year average of student membership from each school district. Each member school district also pays a share of the debt service budget of the College based upon the 2005 market valuation as certified by the Pennsylvania State Tax Equalization Board. The financial statements of the College are available from the College business office located at 4526 Education Park Drive, Schnecksville, PA 18078-2598. For the year ended June 30, 2019, the District's share of the operating and debt service budget was \$1,636,840.

NOTE 11 POSTEMPLOYMENT HEALTHCARE PLANS

District Healthcare Plan

Plan Description

The District administers a single-employer defined benefit healthcare plan (the “Retiree Health Plan”). The plan provides healthcare, prescription drug, dental and/or vision insurance, at various costs to the member and the District, for the life of the member or until the member is eligible for Medicare, depending on the terms of the contract when they retire, for eligible retirees and their spouses through the District's health insurance plan. The Retiree Health Plan covers both active and retired members. Benefit provisions are established and may be amended through negotiation with the District and the unions representing the District's employees. The Retiree Health Plan does not issue a publicly available financial report.

ALLENTOWN SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2019

NOTE 11 POSTEMPLOYMENT HEALTHCARE PLANS (CONTINUED)

Employees covered by benefit terms. At June 30, 2019, the following employees were covered by the benefit terms:

Retired participants	116
Active employees	2,010

Funding Policy

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

Total OPEB Liability

The District's total OPEB liability of \$14,353,815 was measured as of July 1, 2017, and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Entry Age Normal
Inflation	2.5%
Salary Increases	Composed of a 2.5% cost of living adjustment, 1% real wage growth, and merit increases which vary by age from 2.75% - 0%
Discount Rate	2.98%
Healthcare cost trend rates	6% for 2018, 5.5% from 2019 - 2021. Rate decreases from 5.4% in 2022 to 3.8% in 2075. 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. Retiree contributions are assumed to increase at the same rate as the Healthcare cost trend rate.

The discount rate was based on the S&P Municipal Bond 20-Year High Grade Rate Index at July 1, 2018.

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 11 POSTEMPLOYMENT HEALTHCARE PLANS (CONTINUED)

Separate mortality rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement. A recent actuarial experience study was not performed.

Changes in Assumptions

The discount rate changed from 3.13% to 2.98%. The trend assumption was updated. Assumptions for salary, mortality, withdrawal, and retirement were updated based on new PSERS assumptions.

Changes in the total OPEB Liability

The District's total OPEB liability has been measured as of July 1, 2017. The net OPEB liability is \$14,353,815, all of which is unfunded. As of June 30, 2019, the total OPEB liability of \$14,353,815 is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position.

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

Total OPEB liability

Service cost	\$	834,043
Interest		443,271
Changes of assumptions		6,609
Benefit payments		<u>(563,090)</u>
 Net change in total OPEB liability		 720,833
Total OPEB liability - 7/1/17		<u>13,632,982</u>
Total OPEB liability - 7/1/18	\$	<u><u>14,353,815</u></u>

ALLENTOWN SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2019

NOTE 11 POSTEMPLOYMENT HEALTHCARE PLANS (CONTINUED)

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 \$562,848. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 6,137	\$ 196,241
Difference between expected and actual experience	-	557,360
Contributions subsequent to the date of measurement	652,137	-
	\$ 658,274	\$ 753,601

\$652,137 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending June 30, 2020. The amount reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	
2020	\$ (62,329)
2021	(62,329)
2022	(62,329)
2023	(62,329)
2024	(62,329)
Thereafter	(435,819)
	\$ (747,464)

Sensitivity of the total OPEB liability to changes in the discount rate.

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

	1% Decrease 1.98%	Current Rate Discount Rate 2.98%	1% Increase 3.98%
District's total OPEB liability	\$ 15,515,071	\$ 14,353,815	\$ 13,264,642

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

The following shows presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare trend rates that

ALLENTOWN SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2019

are 1 percentage point higher or 1 percentage point lower than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rate	1% Increase
	Between 2.8% to 5%	Between 3.8% to 6%	Between 4.8% to 7%
District's total OPEB liability	\$ 12,544,693	\$ 14,353,815	\$ 16,543,708

PSERS Health Insurance Premium Assistance Plan

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

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

Premium Assistance Eligibility Criteria

Retirees of the System can participate in the PSERS Plan if they satisfy the following criteria:

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

Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lessor 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 district employer or the PSERS' Health Options Program. As of June 30, 2018 there were no assumed future benefit increases to participating eligible retirees.

Employer Contributions. The School Districts' contractually required contribution rate for fiscal year ended June 30, 2019 was 0.83% of covered payroll, an actuarially determined 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 PSERS Plan from the District were \$986,000 for the year ended June 30, 2019.

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 11 POSTEMPLOYMENT HEALTHCARE PLANS (CONTINUED)

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

At June 30, 2019, the District and the Library reported a liability of \$18,400,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2017 to June 30, 2018. The District's and Library'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 of all School Districts in the PSERS Plan. At June 30, 2019, the District's proportion was 0.8825 percent, which was an increase of 0.0462 from its proportion measured as of June 30, 2018.

For the year ended June 30, 2019, the District and Library recognized OPEB expense of \$31,860. 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 investment earnings	\$ 31,048	\$ -
Difference between expected and actual experience	113,608	-
Changes of assumptions	290,892	697,246
Changes in proportions	1,102,000	-
Difference between employer contributions and proportionate share of total contributions	8,568	6,849
Contributions subsequent to the date of measurement	<u>1,010,545</u>	<u>-</u>
	<u>\$ 2,556,661</u>	<u>\$ 704,095</u>

\$1,010,545 reported as deferred outflows of resources related to OPEB resulting from District and Library 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,	
2020	\$ 129,768
2021	129,768
2022	129,768
2023	125,017
2024	120,816
Thereafter	<u>206,884</u>
	<u>\$ 842,021</u>

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 11 POSTEMPLOYMENT HEALTHCARE PLANS (CONTINUED)

Actuarial Assumptions

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

- Actuarial cost method – Entry Age Normal – level % of pay.
- Investment return – 2.98% - S&P 20 Year Municipal Bond Rate.
- Salary growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit and seniority increases.
- Premium Assistance reimbursement 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 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-2014 Morality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Change in Actuarial Assumptions

The discount rate used to measure the Total OPEB liability decreased from 3.13% as of June 30, 2017 to 2.98% as of June 30, 2018.

A recent actuarial experience study was not performed.

Investments

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

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 11 POSTEMPLOYMENT HEALTHCARE PLANS (CONTINUED)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.9%	0.3%
US Core Fixed Income	92.8%	1.2%
Non-US Developed Fixed	1.3%	0.4%
	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total OPEB liability was 2.98%. Under the plan's funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

Due to the short term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a "pay-as-you-go" plan. A discount rate of 2.98% which represents the S&P 20 year Municipal Bond Rate at June 30, 2018, was applied to all projected benefit payments to measure the total OPEB liability.

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates

The following presents the District's Proportionate Share of the net OPEB liability as well as what the District's Proportionate Share of the net OPEB liability would be if it was calculated using health cost trends that are 1-percentage point lower or 1-percentage higher than the current rate:

	1% Decrease <u>Between 4% to 6.75%</u>	Current Trend Rate <u>Between 5% to 7.75%</u>	1% Increase <u>Between 6% to 8.75%</u>
District's proportionate share of the net OPEB liability	\$ 18,396,000	\$ 18,400,000	\$ 18,403,000

ALLENTOWN SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2019

NOTE 11 POSTEMPLOYMENT HEALTHCARE PLANS (CONTINUED)

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

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

	1% Decrease 1.98%	Current Rate Discount Rate 2.98%	1% Increase 3.98%
District's proportionate share of the net OPEB liability	\$20,925,000	\$18,400,000	\$16,303,000

OPEB plan fiduciary net position.

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

NOTE 12 CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

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

Litigation

Certain litigation claims are pending against the District. In the opinion of District management and legal counsel, the potential losses, if any, on such claims would not have a materially adverse effect on the District's finances.

ALLENTOWN SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2019

NOTE 13 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following general fund functions incurred expenditures in excess of appropriations in the following amounts for the year ended June 30, 2019:

Regular programs, elementary/secondary	\$ 208,000
Special programs, elementary/secondary	3,969,575
Vocational education programs	518,114
Other instructional programs	869,871
Adult vocational education programs	811,186
Nonpublic school programs	1,356,837
Pupil personnel	1,489,964
Pupil health	1,826,728
Business	348,078
Operation and maintenance of plant services	2,177,428
Student transportation services	1,452,303
Student activities	422,928
Debt service: principal, interest and fiscal agent fees	730,142
Site and building acquisition services	203,785

The excess of expenditures over appropriations was financed with current year savings in other budget appropriation line items and revenues in excess of anticipated amounts.

NOTE 14 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 except for worker's compensation, for which the District retains risk of loss. For insured programs, there were no significant reductions in insurance coverage during the 2018-2019 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 15 RELATED PARTY TRANSACTIONS

The District has various transactions with Allentown Public Library, which are related because of a common board of directors. The Library received a substantial portion of its support from the District during the year ended June 30, 2019. The District also provides certain general and administrative services to the Library. As of June 30, 2019, the District owed the Library \$378,386 for the Library's portion of the state retirement and social security subsidies.

NOTE 16 CAPITAL IMPROVEMENT COMMITMENTS

As of June 30, 2019, the District is committed to various capital projects. Anticipated project commitments are as follows:

	Contract Amounts	Completed at 6/30/2019	Estimated Balance To Complete
Capital projects	\$36,039,873	\$15,569,182	\$ 20,470,691

ALLENTOWN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 17 DERIVATIVE INSTRUMENTS

On June 4, 2019 the District terminated its 2009 and 2010 fixed rate SWAPS in conjunction with the issuance of the 2019A Series General Obligations Bonds (see Note 7 for debt issuance details). At the time of termination the District received \$8,807,721 as proceeds on the issuance and paid that amount to terminate the SWAPS. The receipt and payment were recorded in the governmental fund level statements as other financing sources and uses.

NOTE 18 DEFICIT NET POSITION

For governmental activities and business-type activities (food service fund), the unrestricted net deficit amounts of \$350,403,318 and \$3,639,815, respectively, includes the effect of deferring the recognition of pension and OPEB contributions made subsequent to the measurement date of the net pension and OPEB liabilities, the unamortized portion of contributions made in excess of the District's share of its proportionate contributions to its pension and OPEB plans, and the deferred outflows resulting from the change in the District's share of the net pension and net OPEB liabilities. This is offset by the District's actuarially determined pension and OPEB liabilities and the deferred inflows resulting from the differences between projected and actual investment earnings and expected and actual experience.

NOTE 19 SUBSEQUENT EVENTS

Subsequent to year end, a global pandemic due to the spread of the COVID-19 coronavirus caused the United States government to declare a national emergency. The pandemic has led to widespread voluntary and government-mandated closings of schools, local stores and businesses, which has resulted in significant job losses. These job losses have the potential to have a significant impact on all aspects of the School District's operations. In addition, due to the temporary closure of all businesses that are not deemed life sustaining, State and Federal tax revenues are also significantly decreased. This decrease could result in less grant money that is relied upon by counties, school districts, and local municipalities to fund specific projects. In addition, the School District's own source revenue or derived revenues could be affected negatively. Schools were required to close and to develop a plan to continue education for students, the costs of implementation will impact the School District. Overall, decreased funding and increased costs could result in the School District having to curtail or eliminate some services.

Management of the School District has evaluated subsequent events through the report issuance date. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements other than the event noted above.

On July 2, 2019, the District issued a Tax and Revenue Anticipation Note, Series 2019 in the principal amount of \$25,000,000. The 2019 TRAN was paid off by the District in December 2019.

The District has evaluated all subsequent events through May 01, 2020, the date the financial statements were available to be issued.

REQUIRED
SUPPLEMENTARY
INFORMATION

ALLENTOWN SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE DISTRICT'S AND LIBRARY'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 JUNE 30, 2019

	Measurement Date				
	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
District's and Library's proportion of the net pension liability	0.8825%	0.8363%	0.8195%	0.7993%	0.8260%
District's and Library's proportion of the net pension liability dollar value	\$ 423,644,000	\$ 413,035,000	\$ 406,118,000	\$ 346,219,000	\$ 326,936,000
District's and Library's covered payroll	\$ 118,846,819	\$ 111,339,682	\$ 106,128,827	\$ 100,546,278	\$ 105,406,602
District's and Library's proportionate share of the net pension liability as a percentage of its covered payroll	356.46%	370.97%	382.67%	344.34%	310.17%
Plan fiduciary net position as a percentage of the total pension liability	54.00%	51.84%	50.14%	54.36%	57.24%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

ALLENTOWN SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE DISTRICT AND LIBRARY PENSION CONTRIBUTIONS
 JUNE 30, 2019

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 39,691,326	\$ 37,400,043	\$ 33,037,254	\$ 26,572,054	\$ 20,611,987
Contributions in relation to the contractually required contribution	<u>39,691,326</u>	<u>37,400,043</u>	<u>33,037,254</u>	<u>26,572,054</u>	<u>20,611,987</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's and Library's covered payroll	\$ 121,752,534	\$ 118,846,819	\$ 111,339,682	\$ 106,128,827	\$ 100,546,278
Contributions as a percentage of covered payroll	32.60%	31.47%	29.67%	25.04%	20.50%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

ALLENTOWN SCHOOL DISTRICT
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS -
RETIREES HEALTH PLAN
JUNE 30, 2019

Measurement Date	2018	2017
Service cost	\$ 834,043	\$ 852,198
Interest	443,271	362,333
Differences between expected and actual experience	-	(650,254)
Changes of assumptions	6,609	(228,949)
Benefit payments	(563,090)	(876,473)
Net change in total OPEB liability	720,833	(541,145)
Total OPEB liability - Beginning of Year	13,632,982	14,174,127
Total OPEB liability - End of Year	\$ 14,353,815	\$ 13,632,982
Covered payroll	\$ 107,069,600	\$ 107,069,600
District's total OPEB liability as a percentage of covered payroll	13.41%	12.73%

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.

ALLENTOWN SCHOOL DISTRICT
 SCHEDULE OF DISTRICT'S AND LIBRARY'S PROPORTIONATE SHARE OF
 THE NET OPEB LIABILITY - PSERS PLAN
 JUNE 30, 2019

	Measurement Date		
	2018	2017	2016
District's and Library's proportion of the net OPEB liability	0.8825%	0.8363%	0.8195%
District's and Library's proportion of the net OPEB liability	\$ 18,400,000	\$ 17,039,000	\$ 17,652,000
District's and Library's covered payroll	\$ 118,846,819	\$ 111,339,682	\$ 106,128,827
District's and Library's proportionate share of the net OPEB liability as a percentage of its covered payroll	15.48%	15.30%	16.63%
Plan fiduciary net position as a percentage of the total OPEB liability	5.56%	5.73%	5.47%

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.

ALLENTOWN SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S AND LIBRARY'S
CONTRIBUTIONS - PSERS PLAN
JUNE 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 1,010,545	\$ 978,010	\$ 936,996
Contributions in relation to the contractually required contribution	<u>1,010,545</u>	<u>978,010</u>	<u>936,996</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's and Library's covered payroll	\$ 121,752,410	\$ 118,846,819	\$ 111,339,682
Contributions as a percentage of covered payroll	0.83%	0.82%	0.84%

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.

SUPPLEMENTARY
INFORMATION

ALLENTOWN SCHOOL DISTRICT
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2019

	Special Revenue Funds			Totals
	Athletic Fund	JBC Fund	Playground Fund	
ASSETS				
Cash and cash equivalents	\$ 84,295	\$ 260,224	\$ 52,381	\$ 396,900
Inventory	-	7,302	-	7,302
TOTAL ASSETS	<u>\$ 84,295</u>	<u>\$ 267,526</u>	<u>\$ 52,381</u>	<u>\$ 404,202</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES:				
Due to other funds	\$ -	\$ 15,780	\$ 427	\$ 16,207
Accounts payable	-	2,266	-	2,266
Accrued salaries	-	705	-	705
Payroll deductions and withholdings	-	142	-	142
TOTAL LIABILITIES	<u>-</u>	<u>18,893</u>	<u>427</u>	<u>19,320</u>
FUND BALANCES:				
Nonspendable - inventory	-	7,302	-	7,302
Assigned	84,295	241,331	51,954	377,580
TOTAL FUND BALANCES	<u>84,295</u>	<u>248,633</u>	<u>51,954</u>	<u>384,882</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 84,295</u>	<u>\$ 267,526</u>	<u>\$ 52,381</u>	<u>\$ 404,202</u>

ALLENTOWN SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2019

	Special Revenue Funds			Totals
	Athletic Fund	JBC Fund	Playground Fund	
REVENUES				
Local sources	\$ 20,686	\$ 91,365	\$ -	\$ 112,051
State sources	-	4,581	-	4,581
TOTAL REVENUES	<u>20,686</u>	<u>95,946</u>	<u>-</u>	<u>116,632</u>
EXPENDITURES				
Operation of noninstructional services	19,544	47,833	8,158	75,535
TOTAL EXPENDITURES	<u>19,544</u>	<u>47,833</u>	<u>8,158</u>	<u>75,535</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,142</u>	<u>48,113</u>	<u>(8,158)</u>	<u>41,097</u>
NET CHANGE IN FUND BALANCES	1,142	48,113	(8,158)	41,097
FUND BALANCE, BEGINNING OF YEAR	<u>83,153</u>	<u>200,520</u>	<u>60,112</u>	<u>343,785</u>
FUND BALANCE, END OF YEAR	<u>\$ 84,295</u>	<u>\$ 248,633</u>	<u>\$ 51,954</u>	<u>\$ 384,882</u>

SINGLE
AUDIT
SUPPLEMENT



Zelenkofske Axlerod LLC

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

INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Allentown School District
Allentown, 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Allentown School District ("the District") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 01, 2020.

Internal Control Over Financial Reporting

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

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings #2019-003, #2019-004, and #2019-005 to be material weaknesses.

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Board of School Directors
Allentown School District

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings #2019-001 (2018-001) and #2019-002 (2018-001) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as findings #2019-003 (2018-003), #2019-004, and #2019-005.

Allentown School District's Response to the Findings

The Allentown School District's response to the findings identified by our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Allentown School District's response and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Zelenkofske Axlerod LLC

ZELENKOFKSKE AXELROD LLC

May 01, 2020
Jamison, Pennsylvania



Zelenkofske Axelrod LLC

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REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Allentown School District
Allentown, Pennsylvania

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

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Board of School Directors
Allentown School District
Page 2

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as findings #2019-003, #2019-004 and #2019-005. Our opinion on each major federal program is not modified with respect to these matters.

Allentown School District's Response to the Findings

The Allentown School District's response to the findings identified by our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Allentown School District's response and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

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



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CERTIFIED PUBLIC ACCOUNTANTS

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Board of School Directors
Allentown School District
Page 3

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified deficiencies in internal control over compliance that we consider to be material weaknesses as Findings #2019-003, #2019-004, and #2019-005.

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.

Zelenkofske Axlerod LLC

ZELENKOFKSKE AXELROD LLC

May 01, 2020
Jamison, Pennsylvania

ALLENTOWN SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning - Ending	Program or Award Amount	Total Received for Year	Accrued (Deferred) Revenue 07/01/18	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue 06/30/19
U.S. DEPARTMENT OF EDUCATION										
Passed through PA State System of Higher Education										
Gaining Early Awareness and Readiness for Undergraduate Programs	I	84.334	2018-GEARUP3-ASD-04	09/25/17-09/24/18	963,496	496,273	343,792	152,481	152,481	-
Gaining Early Awareness and Readiness for Undergraduate Programs	I	84.334	2019-GEARUP3-ASD-05	09/25/18-09/24/19	1,163,455	389,550	-	597,209	597,209	207,659
Total CFDA #84.334						<u>885,823</u>	<u>343,792</u>	<u>749,690</u>	<u>749,690</u>	<u>207,659</u>
Passed through PA Department of Education										
Title I Grants to Local Educational Agencies	I	84.010	S010A170038	7/01/17-9/30/19	9,498,036	3,692,074	1,646,403	2,045,671	2,045,671	-
Title I Grants to Local Educational Agencies	I	84.010	S010A180038	8/31/18-9/30/19	12,134,901	7,801,008	-	9,227,377	9,227,377	1,426,369
Title I Grants to Local Educational Agencies	I	84.010	S010A160038-16A	6/14/17-9/30/18	463,150	318,415	(29,068)	347,483	347,483	-
Title I Grants to Local Educational Agencies	I	84.010	S010A170038	10/1/18-9/30/19	76,112	31,713	-	28,378	28,378	(3,335)
Title I Grants to Local Educational Agencies	I	84.010	S010A170038-17B	1/7/19-9/30/19	482,325	214,367	-	398,139	398,139	183,772
Total CFDA #84.010						<u>12,057,577</u>	<u>1,617,335</u>	<u>12,047,048</u>	<u>12,047,048</u>	<u>1,606,806</u>
Twenty-First Century Community Learning Centers										
Twenty-First Century Community Learning Centers	I	84.287	4100068046	10/01/17-09/30/18	399,000	174,660	95,651	79,009	79,009	-
Twenty-First Century Community Learning Centers	I	84.287	4100068046	10/01/18-09/30/19	473,991	297,201	-	402,999	402,999	105,798
Twenty-First Century Community Learning Centers	I	84.287	4100071616	01/01/18-12/31/18	399,000	205,525	49,202	156,323	156,323	-
Twenty-First Century Community Learning Centers	I	84.287	4100071616	01/01/19-12/31/19	473,991	101,633	-	159,590	159,590	57,975
Twenty-First Century Community Learning Centers	I	84.287	4100078078	10/01/17-09/30/18	400,000	131,609	52,635	78,974	78,974	-
Twenty-First Century Community Learning Centers	I	84.287	4100078078	10/01/18-09/30/19	474,991	129,814	-	186,823	186,823	57,009
Twenty-First Century Community Learning Centers	I	84.287	4100078076	10/01/17-09/30/18	400,000	179,207	59,350	119,857	119,857	-
Twenty-First Century Community Learning Centers	I	84.287	4100078076	10/01/18-09/30/19	473,991	142,576	-	243,703	243,703	101,127
Twenty-First Century Community Learning Centers	I	84.287	4100078079	10/01/17-09/30/18	400,000	139,811	71,104	68,707	68,707	-
Twenty-First Century Community Learning Centers	I	84.287	4100078079	10/01/18-09/30/19	473,991	201,334	-	284,915	284,915	83,581
Total CFDA #84.287						<u>1,703,370</u>	<u>327,942</u>	<u>1,780,900</u>	<u>1,780,900</u>	<u>405,472</u>
English Language Acquisition State Grants										
English Language Acquisition State Grants	I	84.365	S365A170038	7/01/17-9/30/18	571,931	114,386	114,386	-	-	-
English Language Acquisition State Grants	I	84.365	S365A180038	8/31/18-9/30/19	546,927	351,596	-	546,927	546,927	195,331
Total CFDA #84.365						<u>465,982</u>	<u>114,386</u>	<u>546,927</u>	<u>546,927</u>	<u>195,331</u>
Mathematics and Science Partnerships										
Mathematics and Science Partnerships	I	84.366	075-170007	6/01/17-9/30/18	959,399	359,775	(55,275)	415,050	415,050	-
Total CFDA #84.366						<u>359,775</u>	<u>(55,275)</u>	<u>415,050</u>	<u>415,050</u>	<u>-</u>
Supporting Effective Instruction State Grants										
Supporting Effective Instruction State Grants	I	84.367	S367A180051	8/31/18-09/30/19	1,277,154	821,027	-	1,103,244	1,103,244	282,217
Total CFDA #84.367						<u>821,027</u>	<u>-</u>	<u>1,103,244</u>	<u>1,103,244</u>	<u>282,217</u>
Student Support and Academic Enrichment Program										
Student Support and Academic Enrichment Program	I	84.424	S424A180039	8/31/18-9/30/19	688,065	196,590	-	119,202	119,202	(77,388)
Total CFDA #84.424						<u>196,590</u>	<u>-</u>	<u>119,202</u>	<u>119,202</u>	<u>(77,388)</u>
Temporary Emergency Impact Aid for Displaced Students										
Temporary Emergency Impact Aid for Displaced Students	I	84.938C	S938C180022	07/01/17-06/30/18	1,930,721	1,930,721	1,930,721	-	-	-
Temporary Emergency Impact Aid for Displaced Students	I	84.938C	S938B180016-18A	09/19/18-07/31/19	137,747	-	-	137,747	137,747	137,747
Total CFDA #84.938C						<u>1,930,721</u>	<u>1,930,721</u>	<u>137,747</u>	<u>137,747</u>	<u>137,747</u>
Subtotal						<u>18,420,865</u>	<u>4,278,901</u>	<u>16,899,808</u>	<u>16,899,808</u>	<u>2,757,844</u>
Continued on next page.										

The accompanying notes are an integral part of this schedule.

ALLENTOWN SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning - Ending	Program or Award Amount	Total Received for Year	Accrued (Deferred) Revenue 07/01/18	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue 06/30/19
<u>U.S. DEPARTMENT OF EDUCATION</u>										
Passed through Bucks County I.U. Education for Homeless Children and Youth	I	84.196	081-17-0403	10/01/17-09/30/18	106,250	44,271	35,610	8,661	8,661	-
Total CFDA #84.196						<u>44,271</u>	<u>35,610</u>	<u>8,661</u>	<u>8,661</u>	<u>-</u>
Passed through Carbon Lehigh I.U. Special Education Grants to States	I	84.027	H027A170093	07/01/17-09/30/18	2,892,488	2,892,488	2,892,488	-	-	-
Special Education Grants to States	I	84.027	H027A180093	07/01/18-09/30/19	3,029,451	2,201,836	-	3,029,451	3,029,451	827,615
Passed through Intermediate Unit 1 Special Education Grants to States	I	84.027	OIP-2017-18-01	10/01/17-06/30/18	12,000	488	488	-	-	-
Special Education Grants to States	I	84.027	OIP-2018-19-03	08/01/18-06/30/19	12,000	-	-	9,371	9,371	9,371
Total CFDA #84.027						<u>5,094,812</u>	<u>2,892,976</u>	<u>3,038,822</u>	<u>3,038,822</u>	<u>836,986</u>
Passed through Carbon Lehigh I.U. Special Education Preschool Grants	I	84.173	H173A170090	07/01/17-06/30/18	17,220	17,220	17,220	-	-	-
Special Education Preschool Grants	I	84.173	H173A180090	07/01/18-06/30/19	19,352	-	-	19,352	19,352	19,352
Total CFDA #84.173						<u>17,220</u>	<u>17,220</u>	<u>19,352</u>	<u>19,352</u>	<u>19,352</u>
Subtotal Special Education Cluster (IDEA)						<u>5,112,032</u>	<u>2,910,196</u>	<u>3,058,174</u>	<u>3,058,174</u>	<u>856,338</u>
TOTAL U.S. DEPARTMENT OF EDUCATION						<u>23,577,168</u>	<u>7,224,707</u>	<u>19,966,643</u>	<u>19,966,643</u>	<u>3,614,182</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>										
Passed through PA Department of Education Temporary Assistance for Needy Families	I	93.558	4100071391	07/01/17-06/30/18	511,000	419,773	419,773	-	-	-
Temporary Assistance for Needy Families	I	93.558	4100081164	07/01/18-06/30/19	511,000	-	-	375,481	375,481	375,481
Total CFDA #93.558, TANF Cluster						<u>419,773</u>	<u>419,773</u>	<u>375,481</u>	<u>375,481</u>	<u>375,481</u>
Refugee and Entrant Assistance Discretionary Grants	I	93.576	4100079265	01/02/18-09/30/18	50,390	50,390	4,211	46,179	46,179	-
Refugee and Entrant Assistance Discretionary Grants	I	93.576	4100081652	10/01/18-09/30/21	51,553	-	-	44,463	44,463	44,463
Total CFDA #93.576						<u>50,390</u>	<u>4,211</u>	<u>90,642</u>	<u>90,642</u>	<u>44,463</u>
Promoting Safe and Stable Families	I	93.556	4100067075	07/01/17-06/30/18	137,851	33,836	33,836	-	-	-
Promoting Safe and Stable Families	I	93.556	4100067075	07/01/18-06/30/19	151,637	103,779	-	148,558	148,558	44,779
Total CFDA #93.556						<u>137,615</u>	<u>33,836</u>	<u>148,558</u>	<u>148,558</u>	<u>44,779</u>
Passed through PA Dept of Public Welfare Community-Based Child Abuse Prevention Grants	I	93.590	4100067075	07/01/17-06/30/18	2,065	2,065	2,065	-	-	-
Total CFDA #93.590						<u>2,065</u>	<u>2,065</u>	<u>-</u>	<u>-</u>	<u>-</u>
Medical Assistance Program	I	93.778	N/A	07/01/17-06/30/18	137,960	110,123	110,123	-	-	-
Medical Assistance Program	I	93.778	N/A	07/01/18-06/30/19	129,911	21,759	-	129,911	129,911	108,152
Total CFDA #93.778 Medicaid Cluster						<u>131,882</u>	<u>110,123</u>	<u>129,911</u>	<u>129,911</u>	<u>108,152</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						<u>741,725</u>	<u>570,008</u>	<u>744,592</u>	<u>744,592</u>	<u>572,875</u>

Continued on next page.

The accompanying notes are an integral part of this schedule.

ALLENTOWN SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning - Ending	Program or Award Amount	Total Received for Year	Accrued (Deferred) Revenue 07/01/18	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue 06/30/19
U.S. DEPARTMENT OF AGRICULTURE										
Passed through PA Department of Agriculture										
National School Lunch Program	D	10.555	N/A	07/01/17-06/30/18	N/A	-	(7,461)	7,461	7,461	-
National School Lunch Program	D	10.555	N/A	07/01/18-06/30/19	N/A	706,978	-	703,202	703,202	(3,776)
						<u>706,978</u>	<u>(7,461)</u>	<u>710,663</u>	<u>710,663</u>	<u>(3,776)</u>
Passed through PA Department of Education										
National School Lunch Program	I	10.555	362	07/01/17-06/30/18	N/A	2,899,290	2,899,290	-	-	-
National School Lunch Program	I	10.555	362	07/01/18-06/30/19	N/A	6,457,921	-	7,696,340	7,696,340	1,238,419
Total CFDA# 10.555						<u>9,357,211</u>	<u>2,899,290</u>	<u>7,696,340</u>	<u>7,696,340</u>	<u>1,238,419</u>
School Breakfast Program	I	10.553	365	07/01/17-06/30/18	N/A	696,852	696,852	-	-	-
School Breakfast Program	I	10.553	365	07/01/18-06/30/19	N/A	1,477,485	-	1,773,465	1,773,465	295,980
Total CFDA# 10.553						<u>2,174,337</u>	<u>696,852</u>	<u>1,773,465</u>	<u>1,773,465</u>	<u>295,980</u>
Summer Food Service Program for Children	I	10.559	264	07/01/17-06/30/18	N/A	38,954	38,954	-	-	-
Summer Food Service Program for Children	I	10.559	264	07/01/18-06/30/19	N/A	143,680	-	163,264	163,264	19,584
Total CFDA# 10.559						<u>182,634</u>	<u>38,954</u>	<u>163,264</u>	<u>163,264</u>	<u>19,584</u>
Total Child Nutrition Cluster						<u>12,421,160</u>	<u>3,627,635</u>	<u>10,343,732</u>	<u>10,343,732</u>	<u>1,550,207</u>
Child and Adult Care Food program	I	10.558	164	07/01/17-06/30/18	N/A	8,444	8,444	-	-	-
Child and Adult Care Food program	I	10.558	164	07/01/18-06/30/19	N/A	204,559	-	242,613	242,613	38,054
Total CFDA# 10.558						<u>213,003</u>	<u>8,444</u>	<u>242,613</u>	<u>242,613</u>	<u>38,054</u>
Fresh Fruit and Vegetable Program	I	10.582	362	07/01/17-06/30/18	N/A	7,900	7,900	-	-	-
Fresh Fruit and Vegetable Program	I	10.582	362	07/01/18-06/30/19	N/A	71,567	-	77,724	77,724	6,157
Total CFDA# 10.582						<u>79,467</u>	<u>7,900</u>	<u>77,724</u>	<u>77,724</u>	<u>6,157</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE						<u>12,713,630</u>	<u>3,643,979</u>	<u>10,664,069</u>	<u>10,664,069</u>	<u>1,594,418</u>
U.S. DEPARTMENT OF JUSTICE										
STOP School Violence	D	16.839	2018-YS-EX-0006	09/29/18-09/29/22	133,333	-	-	95,551	95,551	95,551
Total CFDA# 16.839						<u>-</u>	<u>-</u>	<u>95,551</u>	<u>95,551</u>	<u>95,551</u>
TOTAL U.S. DEPARTMENT OF JUSTICE						<u>-</u>	<u>-</u>	<u>95,551</u>	<u>95,551</u>	<u>95,551</u>
TOTAL FEDERAL AWARDS						<u>\$ 37,032,523</u>	<u>\$ 11,438,694</u>	<u>\$ 31,470,855</u>	<u>\$ 31,470,855</u>	<u>\$ 5,877,026</u>

Source Codes:

- I - Indirect Funding
- D - Direct Funding

The accompanying notes are an integral part of this schedule.

ALLENTOWN SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A SCOPE OF THIS SCHEDULE

The schedule of expenditures of federal awards reflects federal expenditures for all individual grants which were active during the fiscal year.

NOTE B BASIS OF ACCOUNTING

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

NOTE C NONMONETARY FEDERAL AWARDS - DONATED COMMODITIES

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 under CFDA #10.555 represent surplus food consumed by the District during the 2018-2019 fiscal year. The District has food commodities totaling \$3,776 in inventory as of June 30, 2019.

NOTE D ACCESS PROGRAM

The ACCESS Program 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 \$2,021,733.

NOTE E ARRA PROGRAMS

The Qualified School Construction Bond Program ("QSCB") and Qualified Zone Academy Program ("QZAB") were authorized through the American Recovery and Reinvestment Tax Act ("ARRA"). These ARRA-funded programs are not covered by the single audit requirements and are not required to be included in the schedule of expenditures of federal awards ("SEFA") or in the determination of major programs. Federal subsidy reimbursements related to the QSCB and QZAB debt service payments are, therefore, not considered federal awards as it relates to the SEFA. The total amount of federal subsidy reimbursements received totaled \$862,732 for the year ended June 30, 2019.

NOTE F INDIRECT COST RATE

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

ALLENTOWN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PART A – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued (unmodified, qualified, adverse, or disclaimer): Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified? X Yes None reported
- Noncompliance material to financial Statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified? Yes X None reported

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

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?

X Yes No

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

84.010 84.027 & 84.173 84.367 84.366	Title I Grants to Local Educational Agencies Special Education Cluster (IDEA) Supporting Effective Instruction State Grants Mathematics & Science Partnerships
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Dollar threshold used to distinguish between Type A and Type B programs:

\$944,126

Auditee qualified as low-risk auditee?

Yes X No

ALLENTOWN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

PART B – FINDINGS RELATED TO FINANCIAL STATEMENTS

2019-001 (2018-001)

GENERAL FUND BUDGET

Condition

In reviewing the budget, we noted total expenditures does not appear to represent current activity levels of the District. Total expenditures was budgeted at \$317.9 million, and actual expenditures in 2018-2019 were \$329.6 million.

Criteria

The fundamental purpose of budgetary control is to plan beforehand for the operations of the District and then maintain the operations according to the plan.

Effect

Budgetary comparisons to actual results stimulate the early identification of operational problems and help ensure that timely decisions are made resolving the problems, resulting in better coordination and control of business efforts and in more effective use of the District's resources.

Cause

The District did not amend its budget during the year to account for changes in planned spending.

Recommendation

We recommended that the District amend its budget during the year so that the budget more accurately reflects the actual spending of the District.

Status

During our current year audit, we noted that the budget still does not provide a realistic representation of activity levels of the District. There continues to be significant variances when budgeted figures are compared to actual amounts. This finding is still applicable for the current year.

View of Responsible Officials

The School District agrees with the finding.

2019-002 (2018-002)

PERSONNEL FILES

Condition

Of the 45 personnel records requested for reviewing census data for pension and OPEB testing, we noted that Human Resources could not provide pertinent employee information for five employees from personnel files.

ALLENTOWN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Criteria

The District must maintain valid personnel files for former and current employees.

Effect

Certain information for census data testing was not able to be confirmed as a result of the missing personnel files.

Cause

The District does not properly maintain personnel files.

Recommendation

We recommended that the District organize and catalog personnel files so they may be located.

View of Responsible Officials

The School District agrees with the finding.

2019-003 (2018-003)

ACTIVITIES ALLOWED/UNALLOWED

U.S. Department of Education – An award passed through the Commonwealth of Pennsylvania,
Pennsylvania Department of Education – Title I Grants to Local Educational Agencies (CFDA# 84.010)

Condition

Of the 25 expenditures selected for testing, 3 teachers did not have current child abuse clearances on file and 2 teachers did not have current background checks on file.

Criteria

Teachers charged to Title I must have current child abuse clearances and current background checks on file.

Effect

The effect is teachers are not in compliance with child abuse clearances and background checks.

Cause

Personnel files are not kept up to date and teacher child abuse clearances and background checks are not monitored.

Recommendation

We recommended that the District ensures all personnel have the required child abuse clearances and background checks by keeping a database of all District personnel.

ALLENTOWN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

View of Responsible Officials

The School District agrees with the finding and is working towards implementing better controls in their human resource department.

2019-004

ACTIVITIES ALLOWED/UNALLOWED

U.S. Department of Education – An award passed through the Commonwealth of Pennsylvania, Pennsylvania Department of Education – Mathematics and Science Partnerships (CFDA# 84.366)

Condition

Of the 20 expenditures selected for testing, one expenditure was not properly approved.

Criteria

Per District policy, expenditures over \$21,800 require Board approval.

Effect

The effect is purchases are being made without following District policies.

Cause

District policies are not being followed by the Grants Department for expenditures.

Recommendation

We recommended that the District ensures all expenditures follow Board policies for proper approvals prior to purchases being made.

View of Responsible Officials

The School District agrees with the finding and is working towards implementing better controls in their Purchasing Department.

ALLENTOWN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

PART C – FINDINGS RELATED TO FEDERAL AWARDS

2019-003

ACTIVITIES ALLOWED/UNALLOWED

U.S. Department of Education – An award passed through the Commonwealth of Pennsylvania, Pennsylvania Department of Education – Title I Grants to Local Educational Agencies (CFDA# 84.010). See full finding in Part B.

2019-004

ACTIVITIES ALLOWED/UNALLOWED

U.S. Department of Education – An award passed through the Commonwealth of Pennsylvania, Pennsylvania Department of Education – Mathematics and Science Partnerships (CFDA# 84.366). See full finding in Part B.

2019-005

PERIOD OF AVAILABILITY

U.S. Department of Education – An award passed through the Commonwealth of Pennsylvania, Pennsylvania Department of Education – Mathematics and Science Partnerships (CFDA# 84.366)

Condition

Of the 20 expenditures selected for testing, two expenditures were not spent within the grant period.

Criteria

The grant period ended 9/30/18, all expenditures were to be complete as of that date.

Effect

The effect is purchases were made after the grant period end date.

Cause

Purchases were not made within the grant period.

Recommendation

We recommended that the District ensures all expenditures that are within the grant period before purchases are made.

View of Responsible Officials

The School District agrees with the finding and is working towards implementing better controls in the grants department.

ALLENTOWN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

STATUS OF PRIOR YEAR FINDINGS

2018-001 – Repeated as a current year finding 2019-001

2018-002 – Repeated as a current year finding 2019-002

2018-003 – Repeated as a current year finding 2019-003

2018-004 – Resolved



31 South Penn Street § P.O. Box 328 § Allentown, PA 18105
Administration Center § 484-765-4024 § Fax: 484-765-4025

CORRECTIVE ACTION PLAN

Corrective Action Plan Name of auditee: Allentown School District
Auditee identification number: 23-6003488
Name of audit firm: Zelenkofske Axelrod LLC
Period covered by the audit: July 1, 2018 – June 30, 2019
CAP prepared by Name: Position: Josephine Cacace, Director of Finance
Telephone number: 484-765-4024

- A. Current Findings on the Schedule of Findings, Questioned Costs, and Recommendations.
1. General fund budget is not indicative of actual activity levels in the district.
 - a. Comments
 - i. In 2018-2019 the district budgeted based on prior year projections, without consistent monitoring of current, actual revenue/expenses. The district agrees with this finding and has been working with Carbon Lehigh Intermediate Unit 21 (“CLIU 21”) to develop a budget process.
 - b. Action(s) Taken or Planned on the Finding
 - i. The FY 20-21 budget process includes a template for each department and school with a three-year history so budgets are developed based on actual expenses. Each department and school is creating a FY 20-21 budget with this template. Beth Mohylsky, Assistant Director of Finance and CLIU Budget Analyst have been working with each department and school to meet internal interim deadlines on this project, as mapped out by CLIU 21. This is the first year that the district has such a process in place and the expectation is that the budget will be a more accurate depiction of revenues and expenditures during the year. The preliminary FY 20-21 budget will be presented in May 2020.
 2. During testing of census data used in preparation of the actuarial valuations of the pension and OPEB plans, it was discovered that five of the 45 (or 11%) selected personnel files could not be located.
 - a. Comments
 - i. In 2018-2019, the district had inconsistent processes for updating personnel files. The district agrees with this finding and has been working with CLIU 21 to remediate and develop a process.
 - b. Action(s) Taken or Planned on Each Finding
 - i. The district is developing its Position Control system to account for all positions in the district. CLIU 21 has been working with Anthony Pidgeon, Executive Director of Human Resources and each group in the district systematically to ensure that Position Control is correct in the Skyward system. All groups except for the teacher bargaining unit have been finalized. The teacher bargaining unit has an expected completion date of September 30, 2020.
 - ii. The district is in the process of implementing a new electronic system to onboard staff members that will be more consistent than previous processes. This process will be complete by August 30, 2020. This action is being managed by Anthony Pidgeon, Executive Director of Human Resources and implemented by Somaris Allen, Manager of Human Resources.

- iii. The district is also doing a manual review of employees and files by position and building. With this process, each physical personnel file will be cross-checked against the current employees in the Skyward system to verify accuracy and completeness. This action is being managed by Anthony Pidgeon, Executive Director of Human Resources and implemented by Somaris Allen, Manager of Human Resources.
- 3. Of the 25 teacher files selected for testing, three teachers did not have current child abuse clearances on file (12% of the sample) and two teachers did not have current background checks on file (8% of the sample).
 - a. Comments
 - i. The records have been updated. The district agrees with this finding and has updated internal processes so that updating and notifications are timely.
 - b. Action(s) Taken or Planned on Each Finding
 - i. The district is auditing paper files and updating Skyward fields to ensure that employee records are updated and complete. This action is being performed by Somaris Allen, Manager of Human Resources and is being monitored by Anthony Pidgeon, Executive Director of Human Resources. This action will be completed by June 30, 2020.
 - ii. The district will have an electronic notification to alert HR staff and the employee of their clearance expiration. This action is being performed by Somaris Allen, Manager of Human Resources and is being monitored by Anthony Pidgeon, Executive Director of Human Resources. This action will be completed by June 30, 2020.
 - iii. The district will implement random yearly audits of teacher files. This action will be performed by Somaris Allen, Manager of Human Resources and monitored by Anthony Pidgeon, Executive Director of Human Resources.
- 4. Mathematics & Science Partnership Grant – (1) Of the 20 expenditures selected for testing, one (5%) was not properly approved. (2) Of the 20 expenditures selected for testing, two (10%) were not spent within the grant period.
 - a. Comments
 - i. In 2018-2019 years and prior, nontraditional grants were managed by department directors, not the Grants department. Recently, the Grants department has implemented structures and processes for nontraditional grants compliance and monitoring. These new systems of monitoring are now a part of the workflows for Melissa Smith, Director of Grants and Delomico Williams, Assistant Grants Accountant.
 - b. Action(s) Taken or Planned on Each Finding
 - i. In 2018, Grant oversight and monitoring shifted to Equity and Accountability. Under this group, Melissa Smith, Director of Grants, Beth Mohlysky, Assistant Director of Finance and Josephine Cacace, Director of Finance are working with CLIU 21 to develop the Grants budget and refine the budget process. There will be a FY 20-21 preliminary budget presented in May 2020.
 - ii. In 2019, Delomico Williams, Assistant Grants Accountant began supporting the traditional and non-traditional grant budget development, which included spending plans and monitoring processes. This new workflow began rolling out with the largest grants first and will continue to be rolled out for all grants in the district.



Thomas Parker, Superintendent