

SUGAR VALLEY RURAL CHARTER SCHOOL

Audited Financial Statements

June 30, 2019

SUGAR VALLEY RURAL CHARTER SCHOOL  
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June 30, 2019

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SUGAR VALLEY RURAL CHARTER SCHOOL

List of Report Distribution

June 30, 2019

Keystone Central School District  
Lock Haven, PA

Pennsylvania Department of Education  
Bureau of Budget and Fiscal Management  
333 Market Street Fourth Floor  
Harrisburg, Pennsylvania 17126



# MARGARET MCCLUSKEY CPA LLC

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
**SUGAR VALLEY RURAL CHARTER SCHOOL**  
Loganton, Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of

### Sugar Valley Rural Charter School

as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion 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 to the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sugar Valley Rural Charter School as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**INDEPENDENT AUDITORS' REPORT (continued)**

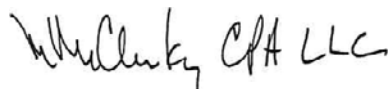
**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 12), budgetary information, supplementary pension information, other postemployment benefits information and related notes (pages 43 through 49) 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 and historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United State of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2019 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain 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 School's internal control over financial reporting and compliance.



Mifflinburg, Pennsylvania

December 18, 2019

**MANAGEMENT'S DISCUSSION**  
**AND ANALYSIS**  
**(Required Supplemental Information)**

# SUGAR VALLEY RURAL CHARTER SCHOOL

## Management Discussion and Analysis Year Ended June 30, 2019

This section of the Sugar Valley Rural Charter School's annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year that ended on June 30, 2019. Please read it in conjunction with the School's financial statements, which immediately follows this section.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Discussion Board's (GASB) Statement No. 34- *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Certain comparative information between the current year (2018-2019) and the prior year (2017-2018) is required to be presented in the MD&A.

### **FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2018-2019 fiscal year include the following:

- Net position was (\$1,884,335) on June 30, 2018, and (\$1,491,029) on June 30, 2019. The net position includes accounting changes to reflect PSERS deficits at the state level in the school district's financial statement. The increase in net position reflects \$393,306 more revenue than expenses.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of the annual report consists of

- Independent Auditors' Report
- Management's Discussion and Analysis
- Basic Financial Statements
  - School-wide Financial Statements
  - Fund Financial Statements
  - Notes to the Financial Statements
- Budget and Actual Comparison
- Information related to Pension Benefit Obligations
- Information related to Other Post Employment Benefit Obligations

The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are *school-wide financial statements* that provide both short-term and long-term information about the Schools overall financial status.



# SUGAR VALLEY RURAL CHARTER SCHOOL

## Management Discussion and Analysis Year Ended June 30, 2019

- The remaining statements are *fund financial statements* that focus on individual parts of the school, reporting the school's operations in more detail than the school-wide statements.
  - The *governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
  - *Proprietary funds* statements offer short-and long-term financial information about the activities the school operates *like businesses*.
  - *Fiduciary funds* statements provide information about the financial relationships in which the School acts solely as a trustee or agent for the benefit of others to whom the resources belong.

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

Following is a description of the School-wide financial statements and the fund financial statements ---

### **School-wide Statements**

The school-wide financial statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. 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 statement of net position includes all of the School's assets and liabilities.

The two school-wide statements report the School's net position and how they have changed. Net position represents the difference between the School's assets and liabilities. Consideration of net position is one way to measure the School's financial health or position. Over time, increases or decreases in the School's net position are an indicator of whether its financial position is improving or deteriorating. To assess the overall health of the School you also need to consider additional non-financial factors such as changes in the tuition rate received from Home School district of students and the condition of school buildings and other facilities.

In the school wide financial statements the School's activities are shown in two categories:

- *Governmental activities*-Most of the School's basic services are included here, such as regular and special education, transportation, administration, and community education. The tuition received from Home School district of students and state aids finance most of these activities.
- *Business Type activities*-The school's cafeteria is a business type activity.

# SUGAR VALLEY RURAL CHARTER SCHOOL

## Management Discussion and Analysis Year Ended June 30, 2019

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the School's funds - focusing on its most significant or "major" funds - not the School as a whole. Funds are accounting devices the School uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law.

The School has three kinds of funds:

- *Governmental funds*- Most of the School's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short- term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the School-wide statements, we provide additional information at Exhibits D and F that explains the relationship (or differences) between the School-wide statements and the governmental funds statements.
- *Proprietary funds* – Services for which the School charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the School-wide statements.

The school uses enterprise funds to report activities that provide supplies and services for the schools other programs and activities. The school currently has one enterprise fund for the cafeteria.

Enterprise funds are established in the School to account for goods and services provided to the student body and staff. The food service fund is the primary enterprise fund of the school. The prices charged by the cafeteria may not materially exceed its expenditures. Any funds remaining from operations must be used only for the maintenance and improvement of the school's cafeteria facilities.

- *Fiduciary funds*- The School is the trustee, or fiduciary, for assets that belong to others, such as the various student activity groups. The School 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. All of the School's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the

SUGAR VALLEY RURAL CHARTER SCHOOL

Management Discussion and Analysis  
Year Ended June 30, 2019

school-wide financial statements because the School cannot use these assets to finance its operations.

**Overview Summary**

Figure A-1 summarizes the major features of the School’s financial statements, including the portion of the School’s activities they cover and the types of information they contain.

*Figure A-1  
Major Features of the School-wide and Fund Financial Statements*

	<i>School Wide Statements</i>	<i>Fund Financial Statements</i>		
		<i>Governmental Funds</i>	<i>Proprietary Funds</i>	<i>Fiduciary Funds</i>
<i>Scope</i>	<i>Entire School (except fiduciary funds)</i>	<i>The activities of the school that are not Proprietary or Fiduciary, such as special education and building maintenance, food service, and community education</i>	<i>Activities the school that operate similar to private businesses:  Enterprise Fund</i>	<i>Instances in which the school administers resources on behalf of someone else, such as student activities funds</i>
<i>Required financial statements</i>	<ul style="list-style-type: none"> <li>• <i>Statement of net position</i></li> <li>• <i>Statement of activities</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Balance Sheet</i></li> <li>• <i>Statement of revenue, expenditures and changes in fund balances</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Statement of net position</i></li> <li>• <i>Statement of revenue, expenses, and changes in fund net position</i></li> <li>• <i>Statement of cash flows</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Statement of Fiduciary net position</i></li> <li>• <i>Statement of changes in fiduciary net position</i></li> </ul>
<i>Accounting Basis and Measurement focus</i>	<i>Accrual accounting and economic resources focus</i>	<i>Modified accrual accounting and current financial focus</i>	<i>Accrual accounting and economic resources focus</i>	<i>Accrual accounting and economic resources focus</i>
<i>Type of asset/liability information</i>	<i>All assets and liabilities, both financial and capital, short-term and long-term</i>	<i>Generally assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets of long-term liabilities included</i>	<i>All assets and liabilities, both financial and capital, and short-term and long-term</i>	<i>All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can</i>
<i>Type of inflow/outflow information</i>	<i>All revenues and expenses during the year, regardless of when the cash is received or paid</i>	<i>Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.</i>	<i>All revenues and expenses during the year, regardless of when cash is received or paid.</i>	<i>All additional and dedications during the year, regardless of when cash is received or paid.</i>

SUGAR VALLEY RURAL CHARTER SCHOOL

Management Discussion and Analysis  
Year Ended June 30, 2019

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

**Net position.** The School’s combined net position was (\$1,491,029) on June 30, 2019. (See Table A-2.)

*Table A-2  
Sugar Valley Rural Charter School  
Net position  
As of June 30, 2018 and 2019*

	<b>2018</b>	<b>2019</b>
<i>Current Assets</i> .....	6,783,292	7,198,498
<i>Capital Assets</i> .....	933,653	1,939,911
<b><i>Total Assets</i></b> .....	<b>7,716,945</b>	<b>9,138,409</b>
<b><i>Deferred Outflows of Resources</i></b> .....	<b>3,486,648</b>	<b>3,253,853</b>
<i>Current Liabilities</i> .....	426,881	475,140
<i>Accrued Salaries and Benefits</i> .....	412,605	466,232
<i>Net Pension Liability</i> .....	11,112,000	11,569,000
<i>Other Post Employment Liabilities</i> .....	1,017,893	1,147,273
<i>Long-term Debt</i> .....	0	0
<b><i>Total Liabilities</i></b> .....	<b>12,969,379</b>	<b>13,657,645</b>
<b><i>Deferred Inflows of Resources</i></b> .....	<b>118,549</b>	<b>225,646</b>
<i>Invested in Capital Assets Net of Related Debt</i> .....	933,653	1,939,911
<i>Unrestricted (deficit)</i> .....	(2,817,988)	(3,430,940)
<b><i>Total Net position</i></b> .....	<b>(1,884,335)</b>	<b>(1,491,029)</b>

The Sugar Valley Rural Charter School continues to exhibit a healthy financial picture due to stable enrollment and careful planning and spending.

**Changes in Net position.** Total revenues were more than expenses, increasing net position \$393,306 (See Table A-3).

SUGAR VALLEY RURAL CHARTER SCHOOL

Management Discussion and Analysis  
Year Ended June 30, 2019

*Table A-3*  
*Sugar Valley Rural Charter School*  
*Change in Net position*  
*For the year ended June 30, 2018 and 2019*

	<b>2018</b>	<b>2019</b>
<b>Revenues</b>		
<i>Instruction/Support Services</i> .....	8,636,080	9,037,973
<i>Food Service</i> .....	287,556	302,971
<i>Investment Earnings</i> .....	10,149	67,797
<i>Misc. Income</i> .....	8,705	21,324
<i>Other General Revenues</i> .....	5,776	17
<i>Gain/(loss) on sale of fixed assets</i> .....	(10,972)	(337)
<b>Total</b> .....	<b>8,937,294</b>	<b>9,429,745</b>
<b>Expenses</b>		
<i>Instruction</i> .....	4,674,571	5,195,342
<i>Instruction Student Support</i> .....	1,011,869	1,156,075
<i>Administrative and Financial Support Services</i> .....	853,663	864,423
<i>Operation and Maintenance of Plant Services</i> .....	951,295	976,447
<i>Pupil Transportation</i> .....	78,575	89,513
<i>Student Activities</i> .....	113,377	142,521
<i>Facilities Acquisition Services</i> .....	0	8,510
<i>Communities Services</i> .....	0	79,135
<i>Depreciation</i> .....	156,314	184,340
<i>Food Service</i> .....	322,130	340,133
<b>Total</b> .....	<b>8,161,794</b>	<b>9,036,439</b>
<b>Transfers</b>		
<i>From Governmental activities</i> .....	(32,565)	(22,680)
<i>Into Business type activities for support of food services</i> .....	32,565	22,680
<b>Net Transfers</b> .....	<b>0</b>	<b>0</b>
<b>Change in net position</b> .....	<b>775,500</b>	<b>393,306</b>
<b>Prior Period Adjustment</b> .....	<b>(759,541)</b>	<b>0</b>
<b>Ending of year net position</b> .....	<b>(1,884,335)</b>	<b>(1,491,029)</b>

The School's total revenues were \$9,429,475 for the year ended June 30, 2019. Tuition from the student's home school district accounted for most of the revenue, the remainder came from federal and state programs and interest on investments.

# SUGAR VALLEY RURAL CHARTER SCHOOL

## Management Discussion and Analysis Year Ended June 30, 2019

- The federal and state governments subsidized certain programs with grants and contributions. Federal contributions were \$630,363 and state contributions were \$73,567.
- We received \$8,664,440 from local sources (mostly tuition from the home school districts).

The total cost of all programs and services was \$9,036,439. The School's expenses are predominantly related to educating and caring for students.

- The cost of all governmental activities this year was \$8,696,306. The cost for business like activities was \$340,133.

### **FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS**

#### **Governmental Funds**

The financial performance of the School is also reflected in its governmental fund. As the School completed the year, its governmental fund reported a fund balance of \$6,128,801. The committed balance represents \$3,000,000 for construction, \$733,768 for summer wages and \$1,000,000 for summer operating expenses. The assigned balance is \$1,395,033 for future operating expenditures including, but not limited to, costs associated with the increasing costs of the PSERS retirement program. The SVRCS Board uncommitted the remaining funds for Summer Payroll and Summer Operating expenses on 11/19/19.

Sugar Valley Rural Charter School has established a fund balance for the purpose of unanticipated expenditures as well as large startup costs of a new school year, improvements based on student needs, for the raising of academic standards and the development of unique educational opportunities for the good of the greater SVRCS community. Funds may be allocated to such areas as curriculum, personnel costs and professional development, capital improvements, cyclical maintenance, and the enhancement of community participation at the SVRCS.

Revenues for the School's governmental fund were \$9,126,475 (\$8,660,658 in 2018) while total expenses were \$8,781,644 (\$7,340,710 2018). In the governmental funds, revenues that are measurable but not available within 60 days of year end, are recorded as deferred inflows.

Total governmental fund revenue increased by \$465,817 from the previous year. Tuition is based on average money spent per student in the Home School District. There was an increase in tuition rates in 2018-2019. We had more students in 2018-2019 compared to 2017-2018

# SUGAR VALLEY RURAL CHARTER SCHOOL

## Management Discussion and Analysis Year Ended June 30, 2019

Total governmental fund expenditures increased by \$ 1,440,934 from the previous year.

In fiscal ending June 30, 2019 salaries increased a minimum of 2% of the base pay for staff from the previous year. The School continues to look at various cost containment measures to minimize the effect rising health insurance premiums have on the costs of the school's employee compensation packages.

### **General Fund Budgetary Highlights**

As a charter school, we need to prepare our budget months before the sending school district is required to complete their updated tuition rates, therefore the best estimate of the tuition from the sending school district is to use the current year's information. Generally there is an increase in tuition rates from one school year to the next.

- Actual revenues were \$330,117 more than expected.
- The actual expenditures were \$573,968 more than budget.

### **Proprietary Fund**

Proprietary funds are established in the School to account for goods and services provided to the student body and staff. The food service fund is the enterprise fund of the school. The prices charged by the cafeteria may not materially exceed its expenditures. In 2019, the food service fund expenses exceeded revenues by \$36,526. A transfer from the general fund of \$22,680 provided support for the food service fund, At June 30, 2019 the food service fund had an accumulated deficit of (\$134,875) and net investment in fixed assets of \$51,683, for total Net Position deficit of (\$83,192).

### **CAPITAL ASSETS**

By the end of 2018-2019 the School had invested \$2,891,786 in a broad range of capital assets, including computer and audio-visual equipment, site and building improvement, playground equipment, furniture and equipment for the students and staff. Total depreciation expense for the year was \$193,259. Accumulated Depreciation at June 30, 2019 was \$1,232,232.

## SUGAR VALLEY RURAL CHARTER SCHOOL

Management Discussion and Analysis  
Year Ended June 30, 2019

### **FACTORS BEARING ON THE SCHOOL'S FUTURE**

Our future funding is dependent on student tuition from school districts and from grant awards. Our enrollment rate has remained stable and has seen growth over the last several years. We continue to investigate grant opportunities. We currently and will continue to operate within our budget. We are committed to providing a rewarding working environment for our employees while supplying our students with an effective learning experience.

The School has put into place enrollment caps by grade level and a lottery system for those grades that are at capacity. We currently have 5 grades at capacity with waiting lists, 5 grades with less than 5 openings, and 3 grades with more than 5 openings.

The school is in its 20<sup>th</sup> year of operation and is going through the charter renewal process through our home district of KCSD and expect a positive result.

### **CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customer, and investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information contacts the Business Office, Sugar Valley Rural Charter School, 236 East Main Street, Loganton, PA 17747.



**BASIC**  
**FINANCIAL**  
**STATEMENTS**

**SUGAR VALLEY RURAL CHARTER SCHOOL**

EXHIBIT A

Statement of Net Position

June 30, 2019

	Governmental Activities	Business-Type Activities	Elimination of Internal Balances	Total
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and Cash Equivalents	6,957,594	76,522	-	7,034,116
Due from Other Funds	12,285	28,170	(40,455)	-
Due from Other Governments	61,306	-	-	61,306
State Revenue Receivable	-	352	-	352
Federal Revenue Receivable	63,119	6,565	-	69,684
Inventories	-	2,033	-	2,033
Other Current Assets	30,861	146	-	31,007
<b>Total Current Assets</b>	<b>7,125,165</b>	<b>113,788</b>	<b>(40,455)</b>	<b>7,198,498</b>
<b>Noncurrent Assets:</b>				
Land	280,357	-	-	280,357
Buildings	1,022,908	-	-	1,022,908
Site Improvements (net of accumulated depreciation)	26,325	-	-	26,325
Building Improvements (net of accumulated depreciation)	228,405	-	-	228,405
Furniture and Equipment (net of accumulated depreciation)	242,010	51,638	-	293,648
Vehicles (net of accumulated depreciation)	88,268	-	-	88,268
<b>Total Noncurrent Assets</b>	<b>1,888,273</b>	<b>51,638</b>	<b>-</b>	<b>1,939,911</b>
<b>Total Assets</b>	<b>9,013,438</b>	<b>165,426</b>	<b>(40,455)</b>	<b>9,138,409</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Related to Pension Benefits	3,013,485	75,368	-	3,088,853
Related to Other Post Employment Benefits	160,933	4,067	-	165,000
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>3,174,418</b>	<b>79,435</b>	<b>-</b>	<b>3,253,853</b>
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Accounts Payable	69,395	169	-	69,564
Accrued Salaries and Benefits	466,232	-	-	466,232
Payroll Deductions and Benefits	401,706	-	-	401,706
Due to Other Funds	28,170	12,285	(40,455)	-
Unearned Revenue	-	1,033	-	1,033
Other Current Liabilities	-	2,837	-	2,837
<b>Total Current Liabilities</b>	<b>965,503</b>	<b>16,324</b>	<b>(40,455)</b>	<b>941,372</b>
<b>Noncurrent Liabilities:</b>				
Net Pension Liability	11,286,716	282,284	-	11,569,000
Net Liability for Other Post Employment Benefits	1,121,363	25,910	-	1,147,273
<b>Total Noncurrent Liabilities</b>	<b>12,408,079</b>	<b>308,194</b>	<b>-</b>	<b>12,716,273</b>
<b>Total Liabilities</b>	<b>13,373,582</b>	<b>324,518</b>	<b>(40,455)</b>	<b>13,657,645</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Related to Pension Benefits	174,632	2,367	-	176,999
Related to Other Post Employment Benefits	47,479	1,168	-	48,647
<b>Total Deferred Inflows of Resources</b>	<b>222,111</b>	<b>3,535</b>	<b>-</b>	<b>225,646</b>
<b>NET POSITION</b>				
Investment in Capital Assets, Net of Related Debt	1,888,273	51,638	-	1,939,911
Unrestricted deficit	(3,296,110)	(134,830)	-	(3,430,940)
<b>Total Net Position</b>	<b>(1,407,837)</b>	<b>(83,192)</b>	<b>-</b>	<b>(1,491,029)</b>

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

**SUGAR VALLEY RURAL CHARTER SCHOOL**

EXHIBIT B

Statement of Activities  
For the Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental Activities:</b>							
Depreciation - Unallocated	184,340				(184,340)	-	(184,340)
Instruction	5,195,342		5,518,500		323,158	-	323,158
Support Services							
Instructional Student Support	1,156,075		1,223,165		67,090	-	67,090
Administration and Business Services	864,423		922,101		57,678	-	57,678
Operation and Maintenance of Plant	976,447		1,038,283		61,836	-	61,836
Pupil Transportation (including interest of 955)	89,513		95,497		5,984	-	5,984
Non-Instructional Services							
Student Activities	142,521		152,151		9,630	-	9,630
Communities Services	79,135		79,196		61	-	61
Facilities Acquisition Services	8,510		9,080		570	-	570
<b>Total Governmental Activities</b>	8,696,306	-	9,037,973	-	341,667	-	341,667
<b>Business-Type Activities:</b>							
Food Services	340,133	61,076	241,895	-	-	(37,162)	(37,162)
<b>Total</b>	9,036,439	61,076	9,279,868	-	341,667	(37,162)	304,505
General Revenues:							
Other General Revenue - Donations					17	-	17
Investment Earnings					67,161	636	67,797
Miscellaneous Income/(Loss)					21,324	-	21,324
Loss on Disposal of Fixed Assets					(337)	-	(337)
Transfers Between Governmental/Business Type Activities					(22,680)	22,680	-
<b>Total General Revenues</b>					65,485	23,316	88,801
<b>Change in Net Position</b>					407,152	(13,846)	393,306
<b>Net Position - Beginning</b>					(1,814,989)	(69,346)	(1,884,335)
<b>Net Position - Ending</b>					<u>(1,407,837)</u>	<u>(83,192)</u>	<u>(1,491,029)</u>

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

**SUGAR VALLEY RURAL CHARTER SCHOOL**

EXHIBIT C

Balance Sheet  
Governmental Funds  
June 30, 2019

	<b>General Fund</b>	<b>Total Governmental Funds</b>
<b><u>ASSETS</u></b>		
Cash and Cash Equivalents	6,957,594	6,957,594
Due from Other Funds	12,285	12,285
Due from Local Governments	61,306	61,306
Federal Revenue Receivable	63,119	63,119
<b>Total Assets</b>	<b><u>7,094,304</u></b>	<b><u>7,094,304</u></b>
<b><u>LIABILITIES</u></b>		
Due to Other Funds	28,170	28,170
Accounts Payable	69,395	69,395
Accrued Salaries and Benefits	466,232	466,232
Payroll Withholdings and Benefits	401,706	401,706
<b>Total Liabilities</b>	<b><u>965,503</u></b>	<b><u>965,503</u></b>
<b><u>FUND BALANCES</u></b>		
Committed Fund Balance	4,733,768	4,733,768
Assigned Fund Balance	1,395,033	1,395,033
Unassigned Fund Balance	-	-
<b>Total Fund Balances</b>	<b><u>6,128,801</u></b>	<b><u>6,128,801</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>7,094,304</u></b>	<b><u>7,094,304</u></b>

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

**SUGAR VALLEY RURAL CHARTER SCHOOL**

EXHIBIT D

Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Position  
June 30, 2019

<b>Total Fund Balances - Governmental Funds</b>	6,128,801
Prepayments of expenses are recognized as expenses in the governmental funds but are recognized as assets in the full accrual statement of net position	30,861
Net capital assets are not recorded in the governmental fund statements but are recorded in the full accrual statement of net position.	1,888,273
Long-term liabilities that are not due and payable in the current period are not reported as liabilities in the governmental fund statements. Long-term liabilities at year end consist of:	
Net Liability for Pension Benefits	(11,286,716)
Net Liability for Other Post Employment Benefits	(1,121,363)
Deferred Outflows of Resources are not recorded in the governmental fund statements	
Related to Pension Benefits	3,013,485
Related to Other Post Employment Benefits	160,933
Deferred Inflows of Resources are not recorded in the governmental fund statements	
Related to Pension Benefits	(174,632)
Related to Other Post Employment Benefits	(47,479)
<b>Total Net Position - Governmental Activities</b>	<u><u>(1,407,837)</u></u>

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

**SUGAR VALLEY RURAL CHARTER SCHOOL**

**EXHIBIT E**

**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2019**

	<b>General</b>	<b>Total</b>
	<b>Fund</b>	<b>Governmental</b>
	<b>Funds</b>	
<b><u>REVENUES</u></b>		
Local Sources	8,664,440	8,664,440
State Sources	61,754	61,754
Federal Sources	400,281	400,281
<b>Total Revenues</b>	<b>9,126,475</b>	<b>9,126,475</b>
<b><u>EXPENDITURES</u></b>		
Instruction	4,598,573	4,598,573
Support Services	2,935,403	2,935,403
Non-Instructional Services	206,938	206,938
Facilities Acquisition, Construction and Improvement	1,040,730	1,040,730
<b>Total Expenditures</b>	<b>8,781,644</b>	<b>8,781,644</b>
<b>Excess of Revenue Over Expenditures</b>	<b>344,831</b>	<b>344,831</b>
<b><u>OTHER FINANCING SOURCES(USES)</u></b>		
Interfund Transfers Out - to Food Service Fund	(22,680)	(22,680)
<b>Total Other Financing (Uses)</b>	<b>(22,680)</b>	<b>(22,680)</b>
<b>Change in Fund Balance</b>	<b>322,151</b>	<b>322,151</b>
<b>Fund Balance - Beginning</b>	<b>5,806,650</b>	<b>5,806,650</b>
<b>Fund Balance - Ending</b>	<b>6,128,801</b>	<b>6,128,801</b>

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

**SUGAR VALLEY RURAL CHARTER SCHOOL**

EXHIBIT F

Reconciliation of the Governmental Funds  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
to the Statement of Net Activities  
For the Year Ended June 30, 2019

<b>Net Change In Fund Balances - Governmental Funds</b>	322,151
Capital outlays are reported in governmental funds as expenditures. In the Statement of Activities, the costs of those assets are allocated over estimated useful lives as depreciation. This is the amount by which capital outlays exceeded depreciation and the net book value of assets disposed of during the year.	999,137
Amounts that are expensed in the fund statements that represent prepayments are recorded on the full accrual basis in the statements of net position and activities. This reconciling item represents a decrease in prepaid expense, as compared to last year.	(6,369)
Long-term liabilities that are not due and payable in the current period are not reported as liabilities in the governmental fund statements. These reconciling items represent the increase in these accounts as compared to the prior year	
Net Pension Liability	(445,849)
Net Liability for Other Post Employment Benefits	(128,308)
Deferred Outflows of Resources are not recorded in the governmental fund statements. These reconciling items represent the increase/(decrease) in these accounts as compared to the year.	
Related to Pension Benefits	(253,444)
Related to Other Post Employment Benefits	26,288
Deferred Inflows of Resources are not recorded in the governmental fund statements. These reconciling items represent the (increase)/decrease in these accounts as compared to the year.	
Related to Pension Benefits	(109,267)
Related to Other Post Employment Benefits	2,813
<b>Change In Net Position of Governmental Activities</b>	<u><u>407,152</u></u>

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

**SUGAR VALLEY RURAL CHARTER SCHOOL**

**EXHIBIT G**

Statement of Net Position

Proprietary Fund

June 30, 2019

	<b>Food Service Fund</b>
<b><u>ASSETS</u></b>	
Cash and Cash Equivalents	76,522
Due from Other Funds	28,170
State Receivables	352
Federal Receivables	6,565
Inventories	2,033
Prepaid Expenses	146
<b>Total Current Assets</b>	<b>113,788</b>
<b>Noncurrent Assets:</b>	
Furniture and Equipment (Net of Accumulated Depreciation)	51,638
<b>Total Noncurrent Assets</b>	<b>51,638</b>
<b>Total Assets</b>	<b>165,426</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>	
Related to Pension Benefits	75,368
Related to Other Post Employment Benefits	4,067
<b>Total Deferred Outflows of Resources</b>	<b>79,435</b>
<b><u>LIABILITIES</u></b>	
<b>Current Liabilities:</b>	
Accounts Payable	169
Due to Other Funds	12,285
Unearned Revenues	1,033
Other Current Liabilities	2,837
<b>Total Current Liabilities</b>	<b>16,324</b>
<b>Noncurrent Liabilities:</b>	
Net Pension Liability	282,284
Net Liability for Other Post Employment Benefits	25,910
<b>Total Noncurrent Liabilities</b>	<b>308,194</b>
<b>Total Liabilities</b>	<b>324,518</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>	
Related to Pension Benefits	2,367
Related to Other Post Employment Benefits	1,168
<b>Total Deferred Inflows of Resources</b>	<b>3,535</b>
<b><u>NET POSITION</u></b>	
Investment in Capital Assets, Net of Related Debt	51,638
Unrestricted (deficit)	(134,830)
<b>Total Net Position</b>	<b>(83,192)</b>

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



**SUGAR VALLEY RURAL CHARTER SCHOOL**

**EXHIBIT H**

**Statement of Revenues, Expenditures and Changes in Net Position**  
**Proprietary Fund**  
**For the Year Ended June 30, 2019**

	<b>Food Service Fund</b>
<b><u>OPERATING REVENUES</u></b>	
Food Service Revenue	61,076
<b>Total Operating Revenues</b>	<u>61,076</u>
<b><u>OPERATING EXPENSES</u></b>	
Salaries	81,854
Employee Benefits	79,903
Purchased Professional Services	7,030
Purchased Property Services	3,432
Supplies	158,995
Depreciation	8,919
<b>Total Operating Expenses</b>	<u>340,133</u>
<b>Operating Loss</b>	<u>(279,057)</u>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>	
Interest Income	636
State Sources	11,813
Federal Sources	230,082
<b>Total Non-Operating Revenues</b>	<u>242,531</u>
<b>Loss Before Contributions and Transfers</b>	(36,526)
<b><u>CONTRIBUTIONS AND TRANSFERS</u></b>	
Transfer In - from General Fund for Breakfast Program Meals	<u>22,680</u>
<b>Change in Net Position</b>	(13,846)
<b>Net Position - Beginning</b>	(69,346)
<b>Net Position - Ending</b>	<u><u>(83,192)</u></u>

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

**SUGAR VALLEY RURAL CHARTER SCHOOL**

EXHIBIT I, page 1 of 2

Statement of Cash Flows  
Proprietary Fund  
For the Year Ended June 30, 2019

	<b>Food Service Fund</b>
<b><u>CASH FLOWS PROVIDED/(USED) BY OPERATING ACTIVITIES</u></b>	
Cash Received from Users	62,040
Cash payments for Employee Services and Benefits	(142,509)
Cash payments for Goods and Services	(133,564)
	<hr/>
Net Cash (Used) by Operating Activities	(214,033)
<b><u>CASH FLOWS PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</u></b>	
Cash Transferred from General Fund for Breakfast Program	22,680
State Subsidies	9,969
Federal Subsidies	174,534
	<hr/>
Net Cash Provided By Non-Capital Financing Activities	207,183
<b><u>CASH FLOWS (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>	
Purchases of Equipment	(16,040)
<b><u>CASH FLOWS PROVIDED BY INVESTING ACTIVITIES</u></b>	
Investment Earnings	636
	<hr/>
<b>Net Increase in Cash and Cash Equivalents</b>	(22,254)
<b>Cash and Cash Equivalents - Beginning</b>	<hr/>
	98,776
<b>Cash and Cash Equivalents - Ending</b>	<hr/> <hr/>
	76,522
 <b>Non-Cash Non-Capital Financing Activities</b>	
Revenue Representing Donated Commodities	22,305

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

**SUGAR VALLEY RURAL CHARTER SCHOOL**

EXHIBIT I, page 2 of 2

Statement of Cash Flow  
Proprietary Fund  
For the Year Ended June 30, 2019

	<b><u>Food Service Fund</u></b>
<b><u>Reconciliation of Operating Loss to Net Cash Provided By Operating Activities</u></b>	
<b>Operating Loss</b>	(279,057)
<b>Adjustments to Reconcile Operating Loss to Net Cash Provided By Operating Activities</b>	
Depreciation and Net Amortization	8,919
Non-Cash Value of Commodities Used	22,305
(Increase)/Decrease in Inventories	3,903
Increase/(Decrease) in Interfund Payables	10,258
Increase/(Decrease) in Accounts Payable	169
Increase/(Decrease) in Refund of Advanced Sales	964
Increase/(Decrease) in Net Pension/OPEB Liabilities and Deferred Inflows/Outflows of Resources	<u>18,506</u>
<b>Net Cash Provided By Operating Activities</b>	<b><u><u>(214,033)</u></u></b>

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

**SUGAR VALLEY RURAL CHARTER SCHOOL**

EXHIBIT J

Statement of Net Position  
Fiduciary Funds  
June 30, 2019

	<u>Student Activity</u>	<u>Private Purpose Trust</u>	<u>Total Fiduciary</u>
<b><u>ASSETS</u></b>			
Cash and Cash Equivalents	38,132	-	38,132
Accounts Receivable		482	482
<b>Total Assets</b>	<b>38,132</b>	<b>482</b>	<b>38,614</b>
<b><u>LIABILITIES</u></b>			
Other Current Liabilities	38,132	-	38,132
<b>Total Liabilities</b>	<b>38,132</b>	<b>-</b>	<b>38,132</b>
<b><u>NET POSITION</u></b>			
Restricted	-	482	482
<b>Total Net Position</b>	<b>-</b>	<b>482</b>	<b>482</b>

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

**SUGAR VALLEY RURAL CHARTER SCHOOL**

**EXHIBIT K**

Statement of Changes in Net Position  
Fiduciary Funds  
For the Year Ended June 30, 2019

	<u>Private Purpose Trust</u>
<b><u>ADDITIONS</u></b>	
Gifts and Contributions	-
<b><u>DEDUCTIONS</u></b>	
Scholarships and Awards Presented	<u>100</u>
<b>Change in Net Position</b>	(100)
<b>Net Position - Beginning</b>	<u>582</u>
<b>Net Position - Ending</b>	<u><u>482</u></u>

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

## **NOTES TO BASIC FINANCIAL STATEMENTS**

### **NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Sugar Valley Rural Charter School (the School), located in Loganton, Clinton County, Pennsylvania, was formed in accordance with Act 22 of 1997, which permits local citizens to conceive, implement, and operate public schools that are independent of local school boards. The School's original charter was approved on December 14, 1999 and was renewed for each of the five year periods beginning July 1, 2005, 2010 and 2015.

The process to renew the Charter for the five year period July 1, 2020 through June 30, 2025 has begun. In its initial vote on renewal, the School's home district, Keystone Central School District, has voted not to renew the charter. After that vote, as allowed by Title 24 P.S. Education Section 1729-A --- "PA Charter School Law" (Act 22 of 1997), there will be public hearings, followed by a second vote. If that vote is unfavorable, the School plans to file an appeal of that vote with the Commonwealth of Pennsylvania State Charter Appeal Board ("CAB").

The PA Charter School Law defines specific conditions that are grounds to deny a charter renewal. The School's management has reviewed those conditions and sees no basis for nonrenewal. The School's management therefore believes that they will be successful in renewal of the charter, either with the Keystone Central School District's second vote, or on appeal to CAB, or on appeal to the Commonwealth Court of Pennsylvania.

The School has successfully appealed negative votes in the renewal processes of 2005 and 2010. Appeal was not necessary for renewal effective July 1, 2015, because Keystone Central School District approved renewal of the School's Charter after public hearings.

The Charter School Law provides that the charter will remain in effect until final disposition of appeals.

If the charter is not renewed, the School's assets, after disposition of any liabilities, would be distributed on a proportional basis to the school entities with students enrolled in the School for the last full or partial school year of the School.

#### **A. Use of Governmental Accounting Standards and Adoption of New Standard**

Although the School is a non-profit organization, the School operates under current standards prescribed by the Pennsylvania Department of Education. That Department requires that the School's financial statements be prepared in conformity with U.S. generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The GASB has issued codification of governmental accounting and financial reporting standards. This codification is recognized as U.S. generally accepted accounting principles for state and local governments.

#### **B. Reporting Entity**

The Governmental Accounting Standards Board 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 School as a reporting entity, management has addressed all potential component units which may or may not fall within the School's financial accountability and evaluated the nature and significance of the relationships. No component units were identified for inclusion in these financial statements. Accordingly, this report includes all of the funds of Sugar Valley Rural Charter School, but no component units.

#### **C. Basis of Presentation**

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

**Government-wide Financial Statements** The statement of net position and the statement of activities display information about the School as a whole. These statements include all the financial activities of the School, except for fiduciary funds. The statements distinguish between those activities of the School that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities of the School at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School's governmental activities and for the one business-type activity of the School. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular program. The School receives tuition from neighboring districts, based on enrollment. This revenue is allocated proportionally to instruction, support services, and other functions in the government-wide financial statements. Substantially all grant revenues are presented as program revenues related to the functions each supports. Revenues which are not classified as program revenues are presented as general revenues of the School. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School.

**NOTE 1**    **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fund Financial Statements** During the year, the School segregates transactions related to certain School functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Currently, the School has no non-major funds. Fiduciary funds are reported by type.

**D. Fund Accounting**

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

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

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

**Proprietary Funds** Proprietary funds focus on the determination of changes in net position, financial position and cash flows and are classified as either enterprise or internal service.

**Enterprise Funds** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School's major, and only, enterprise fund is –

**Food Service Fund** This fund accounts for the financial transactions related to the food service operations of the School. The food service provides meals and snacks to students and staff. They can also provide food service for other events under School sponsorship.

**Fiduciary Funds** Fiduciary fund reporting focuses on net position and changes in net position. The School has two types of fiduciary funds – a private-purpose trust fund and an agency fund. The private-purpose trust fund is held by the School to provide an award to graduating students and is, therefore, not available to support the School's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**E. Measurement Focus and Basis of Accounting**

**Economic Resources Measurement Focus and Accrual Basis of Accounting** The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting, as are the proprietary fund and the fiduciary fund financial statements. In the accrual basis of accounting, revenues resulting from exchange transactions are recognized when the exchange takes place. Revenues from non-exchange transactions are recognized as follows:

- Revenue from a student's resident District is recognized in the period in which the student attends the School.
- Grants which are expenditure-driven are recognized as revenue when the specified reimbursable expense is incurred, provided any other eligibility criteria have also been met. Any amounts that have been received, but not expended by year end, are recorded as unearned revenues.
- Grants which are not expenditure-driven are recognized as revenue when the applicable recognition criteria have been met. Any amounts that remain unused at year end are recorded as restricted fund net assets.

Expenditures are recognized when liabilities are incurred.

**NOTE 1**    **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Current Financial Resources Measurement Focus and Modified Accrual Basis of Accounting***    The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. In the modified accrual basis of accounting, revenues are recognized as outlined above, but with the added criteria that revenues should only be recognized when both measurable and available to finance expenditures of the fiscal period.

The School has defined that revenues are “available” if received within 60 days of year end. However, the School has noted that revenues from expenditure-driven grants are generally available for collection soon after the related expenditures are incurred. As a matter of practicality and consistency, the School has decided to consider all such expenditure-driven grant revenue as available when the related expenditure has been incurred, provided any other eligibility criteria have also been met.

Revenues that are measurable, but do not meet the definition of “available” are recorded as deferred inflows of resources.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

***F. Use of Restricted and Unrestricted Resources***

The School's policy is to first apply restricted resources, rather than unrestricted resources, when an expense is incurred for purposes for which both restricted and unrestricted net position, or fund balance, are available.

***G. Interfund Activity***

The Food Service Fund serves free breakfast to all students. Transfers are made from the General Fund to the Food Service Fund, to pay for the breakfasts served to students who are not eligible for assistance under the School Breakfast Program for low income families.

Transfers totaling \$ 22,680 were made from the General Fund to the Food Service Fund for breakfasts.

***I. Inventories***

The School inventory consists of Food Service Fund food and supplies, and is valued on a FIFO (first-in, first-out) method.

***J. Prepaid Expenses***

In the government-wide statements, prepaid expenses are recorded as assets in the specific governmental fund in which future benefits will be derived. In the governmental fund statements pre-payments of insurances and other similar services are not allocated between and among accounting periods. Rather, they are accounted for as expenditures in the period of acquisition. In the proprietary fund statements, the pre-payment of expenses is reported as a current asset.



**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**K. Capital Assets**

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. The school also capitalizes all computers. Donated capital assets are recorded at estimated fair market 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 asset lives are not capitalized.

All capital assets reported as used in governmental activities are depreciated using the straight-line method over the following estimated useful lives –

<u>Assets</u>	<u>Years</u>
Buildings and Components	10-30
Building and Site Improvements	7-20
Furniture and Equipment	3-12
Vehicles	5-10

Proprietary funds equipment purchases are capitalized in the proprietary fund at cost and depreciated on a straight-line basis over 5-15 years.

**L. Governmental Fund Balance Classifications**

The School categorizes its governmental fund type fund balances into classifications defined by GASB standards. These standards define five possible classifications of fund balance. These classifications are:

- Un-spendable – This classification includes amounts that cannot be spent because they are either not in spendable form (inventories, prepayments, etc) or are legally required to be maintained intact.
- Restricted – This classification includes amounts when constraints on the uses of resources are imposed by external entities (grantors, contributors, creditors) or by law.

Unrestricted:

- Committed – This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by actions of the Board, which holds the highest level of decision making authority. Committed fund balances are created by action of the Board. Commitments can also be removed by action of the Board. At June 30, the School had committed fund balance for new construction \$3,000,000, summer payroll costs \$ 733,768, and summer operating costs \$1,000,000. The commitments of \$1,733,768 (related to summer payroll and operating costs) were rescinded on November 19, 2019.
- Assigned – This classification includes amounts that are constrained by the School's intent to be used for specific purposes, but are neither restricted nor committed. Intent can be expressed by a committee or individual who has been granted authority to assign funds by the Board. The Finance committee has been granted authority to assign fund balance for future costs including pension obligations.
- Unassigned – Unassigned fund balance is the residual classification for the general fund.

In regard to use of unrestricted fund balance amounts, the School considers that committed amounts would be reduced first, followed by assigned amounts and then by unassigned amounts when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications could be used.

**M. Estimates**

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***N. Definition of Operating Income***

The School's only proprietary fund is its food service fund. The School defines amounts received for meals and other school functions as operating revenue. Subsidies received from federal and state sources, as well as transfers from the general fund, are defined as non-operating revenue.

***O. Statement of Cash Flows***

For purposes of the statement of cash flows, the School considers highly liquid financial instruments with an original maturity from the time of acquisition by the School of three months or less to be cash equivalents.

***P. Income Taxes***

The School is exempt from federal income taxes under Code Section 501(c) (3) of the Internal Revenue Code. In addition, the School qualifies for charitable deductions under Internal Revenue Code Section 170(b) (1) (A) and is not a private foundation. Federal filings for 2015 and forward are open to examination.

**NOTE 2 CASH AND CASH EQUIVALENTS AND INVESTMENTS**

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

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

*Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository.*

The deposit and investment policy of the School adheres to state statutes and prudent business practices.

All financial assets of the School were bank deposits in the year 208-19.

**Deposits with Banks**

GASB standards require that the School disclose information about risks associated with its deposits. Deposits with financial institutions are exposed to the following risk –

**Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of a depository bank failure, the School's deposits might not be recovered. The School's policy is to mitigate this risk by requiring each depository to furnish proper security for deposits in accordance with law. As of June 30, 2019, the carrying amount of the School's deposits was \$ 7,072,248, and the bank balance was \$ 7,098,915. Of this balance, \$250,000 was covered by federal depository insurance, and \$ 6,848,915 was exposed to custodial credit risk because it was uninsured. The uninsured amount was collateralized with securities held by the depository bank or its agent. These securities, were not held in the School's name.

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 2 CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)**

Cash and cash equivalents reported on the financial statements represent –

Bank value of deposits with financial institutions	7,098,915
Plus Deposits In Transit	-
Less Outstanding Checks	(26,667)
Total Cash and Cash Equivalents	<u>7,072,248</u>
General Fund	6,957,594
Proprietary Fund	76,522
Student Activities Fund	<u>38,132</u>
Total Cash and Cash Equivalents	<u>7,072,248</u>

**NOTE 3 DUE FROM GOVERNMENTS**

Amounts due from other governments represent receivables due from local school districts for tuition revenues. Amounts are also due from federal and state sources for grants.

The School's management believes all receivables are fully collectable and has not established an allowance for doubtful accounts.

**NOTE 4 LEASE OBLIGATIONS**

The School leases its facilities from Sugar Valley Concerned Citizens (a non-profit organization) under a lease agreement which expires on June 30, 2020. This agreement will automatically renew for a five year term upon the grant of a renewal of the School's charter. Rent expense under this lease for the year ended June 30, 2019 was \$472,800 and is reported in the general fund.

Future minimum lease payments under this lease are as follows:

2019 - 2020	<u>472,800</u>
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Beginning September 1, 2017, the School also leased modular buildings, paying a total of \$1,070 which is included in general fund expense. This lease expired August 30, 2018.

The school also leases copiers and other equipment under operating leases. Lease expense for equipment was \$18,879 for the year ended June 30, 2019. Lease payments are expected to approximate this amount over the next five years.

**NOTES TO FINANCIAL STATEMENTS**  
**PAGE 7**

**NOTE 5 CHANGES IN CAPITAL ASSETS**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
<i>Capital Assets Not Being Depreciated</i>				
Land	275,357	5,000		280,357
Assets not yet in service	3,215		(3,215)	-
<i>Capital Assets Being Depreciated -</i>				
Buildings and Components		1,046,704		1,046,704
Site Improvements	149,277			149,277
Building Improvements	672,615	21,172		693,787
Furniture and Equipment	571,075	93,806	(13,968)	650,913
Vehicles	232,808	20,347		253,155
Total Assets Being Depreciated	<u>1,625,775</u>	<u>1,182,029</u>	<u>(13,968)</u>	<u>2,793,836</u>
Less Accumulated Depreciation For -				
Buildings and Components		23,796		23,796
Site Improvements	111,788	11,164		122,952
Building Improvements	426,234	39,150		465,384
Furniture and Equipment	342,746	79,788	(13,631)	408,903
Vehicles	134,443	30,442		164,885
Total Accumulated Depreciation	<u>1,015,211</u>	<u>184,340</u>	<u>(13,631)</u>	<u>1,185,920</u>
Total Capital Assets Being Depreciated, Net	<u>610,564</u>	<u>997,689</u>	<u>(337)</u>	<u>1,607,916</u>
Governmental Activities Capital Assets, Net	<u>889,136</u>	<u>1,002,689</u>	<u>(3,552)</u>	<u>1,888,273</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activities</b>				
<i>Capital Assets Being Depreciated</i>				
Equipment	100,276	16,040	(18,366)	97,950
Less Accumulated Depreciation For - Equipment	<u>55,759</u>	<u>8,919</u>	<u>(18,366)</u>	<u>46,312</u>
Total Capital Assets Being Depreciated, Net	<u>44,517</u>	<u>7,121</u>	<u>-</u>	<u>51,638</u>
Business-Type Activities Capital Assets, Net	<u>33,556</u>	<u>7,121</u>	<u>-</u>	<u>51,638</u>

Depreciation Expense was reported as follows:

<b>Governmental Activities</b>	
Unallocated activities	<u>184,340</u>
<b>Business-Type Activities</b>	
Food Service Fund	<u>8,919</u>

The School has identified idle equipment used in governmental activities with original cost of \$ 11,791 and net book value of \$ 5,446.

**NOTE 6    COMPENSATED ABSENCES**

Compensated absences are absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the School and its employees is accrued as employees earn the rights to the benefits. The School had no liabilities for compensated absences as of June 30, 2019.

**NOTE 7    PENSION PLAN**

***General Information about the Pension Plan***

Plan description

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

Measurement of financial information

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

Benefits provided

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

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

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

**NOTE 7 PENSION PLAN (Continued)**

Contributions

*Member Contributions:*

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

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

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

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

*Employer Contributions:*

The School's contractually required contribution rate for fiscal year ended June 30, 2019 was 32.60% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School were \$1,157,853 for the year ended June 30, 2019.

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

At June 30, 2019, the School reported a liability of \$11,569,000 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 School's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2019, the School's proportion was .0241 percent, which was an increase of .0016 percent from its proportion measured as of June 30, 2018.

Pension liability, and the deferred inflows and outflows related to pensions discussed below, have been allocated between the general fund and the food service fund, based on each fund's share of pension contribution

For the year ended June 30, 2019, the School recognized pension expense of \$1,986,636. At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	93,000	(177,000)
Changes in Assumptions	216,000	-
Net difference between projected and actual investment earnings	1,565,000	-
Changes in Proportion	57,000	-
Difference between employer contributions and proportionate share of total contributions	-	-
Contributions subsequent to the measurement date	1,157,853	
	<u>3,088,853</u>	<u>(177,000)</u>

**NOTE 7 PENSION PLAN (Continued)**

\$1,157,857 reported as deferred outflows of resources related to pensions resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2020	(936,000)
2021	(639,000)
2022	(223,000)
2023	44,000
	<u>(1,754,000)</u>

Actuarial Assumptions

The total pension liability as of June 30, 2018 was determined by rolling forward the System'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 1% of pay.
- Investment return – 7.25%, includes inflation of 2.75%.
- Salary Growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP- 2015 Mortality Improvement Scale.

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

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

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

<u>Asset Class</u>	<u>Allocation</u>	<u>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%	9.0%
	<u>100%</u>	

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

**NOTE 7 PENSION PLAN (Continued)**

Discount rate

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

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

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

	1% Decrease <u>6.25%</u>	Rate <u>7.25%</u>	1% Increase <u>8.25%</u>
Schools proportionate share of the net pension liability	14,341,000	11,569,000	9,226,000

Additional information about the Plan's fiduciary net position

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

**NOTE 8 OTHER POST EMPLOYMENT BENEFITS – (OPEB)**

The School participates in the Pennsylvania School Employees Retirement Plan (PSERS). PSERS provides both pension benefits, as described above, and OPEB benefits in the form of health insurance premium assistance (Premium Assistance). The School has also adopted its own Sugar Valley Rural Charter School Postemployment Benefit Plan which provides health insurance benefits to eligible retirees.

**1. PREMIUM ASSISTANCE PROGRAM**

**General information about Premium Assistance:**

Plan Description

As part of the PSERS System, Premium Assistance is a governmental cost sharing, multiple-employer postemployment benefit plan for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at [www.psers.pa.gov](http://www.psers.pa.gov).

Measurement of financial information

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



**NOTE 8 OTHER POST EMPLOYMENT BENEFITS – (OPEB) (Continued)**

Benefits Provided

Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive Premium Assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive Premium Assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program (HOP). As of June 30, 2018 there are no assumed future benefit increases to participating eligible retirees.

Eligibility Criteria

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

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

Employer Contributions

The School's contractually required contribution rate for the fiscal year ended June 30, 2019 was .83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Premium Assistance were \$29,462 for the year ended June 30, 2019.

Actuarial Assumptions

The total Premium Assistance liability as of June 30, 2019 was determined by rolling forward the System's total Premium Assistance 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 1% 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 or seniority increases.
- Premium Assistance reimbursement capped at \$1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP- 2015 Mortality Improvement Scale.
- Participation rate:
  - Eligible retirees will elect to participate pre-age 65 at 50%
  - Eligible retirees will elect to participate post-age 65 at 70%

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

The following assumptions were used to determine the contribution rate:

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

**NOTE 8 OTHER POST EMPLOYMENT BENEFITS – (OPEB) (Continued)**

Investments

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

The Premium Assistance 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 for each succeeding year.

Premium Assistance OPEB- Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Cash	5.90%	0.03%
US Core Fixed Income	92.80%	1.20%
Non-US Developed Fixed	1.30%	0.04%
	<u>100.00%</u>	

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

Discount Rate

The discount rate used to measure the total Premium Assistance 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 Premium Assistance 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 Premium Assistance liability.

Sensitivity of the System Net OPEB liability to Change in Healthcare Cost Trends

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2018, retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200 per year. As of June 30, 2017, 93,380 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 3, 2016, 1,077 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on healthcare cost trends as depicted below.

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

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
School's proportionate share of the net Premium Assistance liability	502,000	502,000	503,000

**NOTE 8 OTHER POST EMPLOYMENT BENEFITS – (OPEB) (Continued)**

Sensitivity of the School’s proportionate share of the net Premium Assistance OPEB liability to changes in the discount rate

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

	1% Decrease 1.98%	Current Discount Rate 2.98%	1% Increase 3.98%
School's proportionate share of the net Premium Assistance liability	571,000	502,000	445,000

Premium Assistance fiduciary net position

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

**2. SUGAR VALLEY RURAL CHARTER SCHOOL POSTEMPLOYMENT BENEFITS PLAN**

Plan Description.

The Sugar Valley Charter School Postemployment Benefits Plan (the SVRCS Plan) is a single-employer defined benefit healthcare plan administered by the School. The School adopted the SVRCS Plan in February of 2016. The School has elected to pay benefits directly from School assets, rather than create and then fund a trust to provide benefits. As the SVRCS Plan has no trust, the SVRCS Plan does not have a stand-alone financial statement to present.

Benefits Provided

The SVRCS Plan was established in accordance with Act 110 of October 20, 1988, and Act 43 of July 8, 1989, by which the Pennsylvania Public Education Code was amended, obligating the School to make the school group health insurance coverage available to its retirees who have met certain criteria. For subsidized members, the School will pay 100% of the single premium for medical, prescription drug, and vision coverage for the retired employee. Retirees can elect dental coverage by paying the full premium. Spouses and dependents are not eligible to receive subsidized coverage.

Members who do not meet the requirements for subsidized coverage, but do meet requirements of Act 110/43 are eligible to receive coverage for themselves, their spouse and dependents, by paying the full premium determined for the purpose of COBRA.

Coverage continues until the retiree reaches Medicare Age or age 65, whichever comes first.

Eligibility Criteria

Subsidized members must reach age 59 ½ and have 15 years of service with Sugar Valley Rural Charter School. Unsubsidized employees are eligible under Act 110/43 upon retiring with 30 years PSERS service or upon superannuation retirement.

At June 30, 2017 there were 91 active employees, 1 inactive employee receiving benefits and no inactive employees entitle to but not yet receiving benefits.

Employer Contributions

The School pays premiums for subsidized members as they become due.

**NOTE 8 OTHER POST EMPLOYMENT BENEFITS - (OPEB) (Continued)**

Multiple Year Reporting

Pursuant to GASB No. 75, an actuarial valuation can be used over a two year period. The figures reported reflect the measurement date of June 30, 2018 for the fiscal year ended June 30, 2019 and are based on an actuarial valuation date of July 1, 2017.

Actuarial Assumptions

The following actuarial assumptions were used in calculating the School's net OPEB liability and deferred inflows and outflows of resources.

- Actuarial cost method – Entry Age Normal.
- Discount Rate – 2.98%, Based on S&P Municipal Bond 20-Year High Grade Rate Index at July 1, 2018.
- Salary Growth - Salary increases are composed of a 2.5% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to 0%.
- Withdrawal – Rates of withdrawal vary by age, gender and years of service. Sample rates for employees with more than 10 years of service are shown below

Age	Male Rate	Female Rate
25	3.08%	6.02%
30	3.08%	4.82%
35	1.80%	3.42%
40	1.61%	1.92%
45	1.64%	1.98%
50	2.30%	2.47%
55	4.06%	3.73%
60	6.68%	7.68%

Rates for new employees start at 27.48% for both men and women and decrease with age and service.

- Retirement – Assumed retirement rates are based on PSERS plan experience and vary by age, service and gender.

Age	Age 55 & 25 Years of Service		Superannuation	
	Males	Females	Males	Females
55	19%	19%	27%	10%
56	17%	17%	32%	30%
57	17%	17%	32%	30%
58	17%	17%	32%	35%
59	22%	21%	31%	36%
60	14%	17%	31%	36%
61	29%	30%	29%	31%
62	51%	61%	51%	61%
63	26%	26%	26%	26%
64	21%	22%	21%	22%
65	100%	100%	100%	100%

- Per Capita Claims Cost – The per capita claims cost for medical and prescription drug is based on the expected portion of the group's overall cost attributed to individuals in the specified age and gender brackets. Dental and vision cost are assumed to not vary with age and gender

Age	Medical and Prescription Coverage	
	Males	Females
45-49	\$6,687	\$9,658
50-54	\$8,856	\$10,915
55-59	\$10,787	\$11,421
60-64	\$14,076	\$13,120

- Health care cost trends – 6% in 2018, and 5.5% in 2019 through 2021. Rates gradually decrease from 5.4% in 2022 to 3.9% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Disability – No disability is assumed.
- 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 Buck Modified 2016 projection scale to reflect mortality improvement.
- Percent of Eligible Retirees Electing Coverage in the Plan:
  - 100% of retirees receiving a subsidy are assumed to elect coverage
  - 0% of retirees eligible under Act 110/43 are assumed to elect coverage
  -

**NOTE 8 OTHER POST EMPLOYMENT BENEFITS - (OPEB) (Continued)**

Changes in Assumptions –

The discount rate changed from 3.13% at June 30, 2017 to 2.98% at June 30, 2018.

Sensitivity of the System Net OPEB liability to Change in Healthcare Cost Trends

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

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
SVRCS Plan net liability	531,632	645,273	754,386

Sensitivity of the School's proportionate share of the net Premium Assistance OPB liability to changes in the discount rate

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

	<u>1% Decrease 1.98%</u>	<u>Current Discount Rate 2.98%</u>	<u>1% Increase 3.98%</u>
SVRCS Plan net liability	697,301	645,273	571,703

Change in SVRCS Plan Liability

Liability Balance at 6/30/2017	559,892
Service Costs	66,825
Interest	19,394
Changes in Benefit Terms	-
Differences Between Expected and Actual Experience	-
Changes in Assumptions	(838)
Benefit Payments	-
Other Changes	-
Total Change	<u>85,381</u>
Liability Balance at 6/30/2018	<u><u>645,273</u></u>

**NOTE 8 OTHER POST EMPLOYMENT BENEFITS – (OPEB) (Continued)**

**3. Summary of OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

At June 30, 2019, the School reported net OPEB liabilities as follows:

Proportionate share of Premium Assistance	502,000
SVRCS Plan	<u>645,273</u>
Total	<u>1,147,273</u>

The net liability for Premium Assistance was measured as of June 30, 2018. The liability was calculated by rolling forward the liability as of June 30, 2017 to June 30, 2018. The School's proportion of the net Premium Assistance liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2019, the School's proportion was .0241 percent, which was an increase of .0016 percent from its proportion measured as of June 30, 2018.

The net liability for the SVRCS Plan was measured as of June 30, 2018. The liability is calculated based on actuarial report as of June 30, 2017 as rolled forward to June 30, 2018.

For the year ended June 30, 2019, the School recognized OPEB expense of:

Proportionate share of Premium Assistance	33,082
SVRCS Plan	<u>95,870</u>
Total	<u>128,952</u>

At June 30, 2019, the School reported deferred outflows of resources and deferred inflows as follows:

**Premium Assistance**

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	3,000	-
Changes in Assumptions	8,000	(19,000)
Net difference between projected and actual investment earnings	1,000	-
Changes in Proportion	57,000	-
Difference between employer contributions and proportionate share of total contributions	-	-
Contributions subsequent to the measurement date	29,462	-
	<u>98,462</u>	<u>(19,000)</u>

**SVRCS Plan**

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	-	(28,853)
Changes in Assumptions	66,538	(794)
Contributions subsequent to the measurement date	-	-
	<u>66,538</u>	<u>(29,647)</u>

**NOTE 8 OTHER POST EMPLOYMENT BENEFITS – (OPEB) (Continued)**

	<u>Total</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	3,000	(28,853)
Changes in Assumptions	74,538	(19,794)
Net difference between projected and actual investment earnings	1,000	-
Changes in Proportion	57,000	-
Difference between employer contributions and proportionate share of total contributions	-	-
Contributions subsequent to the measurement date	29,462	-
	<u>165,000</u>	<u>(48,647)</u>

The net liabilities, the deferred outflows/inflows, and OPEB expenses have been allocated between the general fund and the food service fund, based on each fund's share of Premium Assistance contribution.

The total \$29,462 reported as deferred outflows of resources resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year Ended June 30:	Premium Assistance	SVRCS Plan	Total
2020	9,000	2,173	11,173
2021	9,000	2,173	11,173
2022	9,000	2,173	11,173
2023	8,000	2,173	10,173
2024	8,000	2,173	10,173
thereafter	7,000	26,026	33,026
	<u>50,000</u>	<u>36,891</u>	<u>86,891</u>

**NOTE 9 CONTINGENT LIABILITIES**

**Grant Programs**

The School participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2018 may be impaired. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**NOTE 10 RISK MANAGEMENT**

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

**ADDITIONAL REQUIRED**  
**SUPPLEMENTARY**  
**INFORMATION**



**SUGAR VALLEY RURAL CHARTER SCHOOL**

**SCHEDULE A**

**Schedule of Revenues, Expenditures and Changes in Fund Balances, Budget and Actual**

**General Fund**

**For the Year Ended June 30, 2019**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b><u>REVENUES</u></b>				
Local Sources	8,329,358	8,329,358	8,664,440	335,082
State Sources	8,000	8,000	61,754	53,754
Federal Sources	459,000	459,000	400,281	(58,719)
<b>Total Revenues</b>	<b>8,796,358</b>	<b>8,796,358</b>	<b>9,126,475</b>	<b>330,117</b>
<b><u>EXPENDITURES</u></b>				
Regular Instruction	3,433,470	3,433,470	3,277,995	155,475
Special Programs	1,255,956	1,255,956	1,237,849	18,107
Other Instructional Programs	105,631	105,631	82,729	22,902
<i>Total Instruction</i>	<i>4,795,057</i>	<i>4,795,057</i>	<i>4,598,573</i>	<i>196,484</i>
Pupil Services	197,149	197,149	212,913	(15,764)
Instructional Staff Services	261,452	261,452	228,003	33,449
Administrative Services	686,650	686,650	648,420	38,230
Pupil Health	229,174	229,174	216,734	12,440
Business Services	129,210	129,210	125,736	3,474
Operation & Maintenance of Plant Services	1,021,787	1,021,787	1,015,654	6,133
Student Transportation Services	109,927	109,927	83,412	26,515
Central & Other Support Services	473,989	473,989	404,531	69,458
<i>Total Support Services</i>	<i>3,109,338</i>	<i>3,109,338</i>	<i>2,935,403</i>	<i>173,935</i>
Student Activities	170,961	170,961	130,302	40,659
Community Services	-	-	76,536	(76,536)
Scholarships and Awards	-	-	100	(100)
Facilities Acquisition and Improvement	-	-	1,040,730	(1,040,730)
<i>Total Non-Instructional Services</i>	<i>170,961</i>	<i>170,961</i>	<i>1,247,668</i>	<i>(1,076,707)</i>
<b>Total Expenditures</b>	<b>8,075,356</b>	<b>8,075,356</b>	<b>8,781,644</b>	<b>(706,288)</b>
<b>Other Financing Sources (Uses)</b>				
Interfund Transfers - Out	(155,000)	(155,000)	(22,680)	132,320
Budgetary Reserve	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(155,000)</b>	<b>(155,000)</b>	<b>(22,680)</b>	<b>132,320</b>
<b>Net Change in Fund Balance</b>	<b>566,002</b>	<b>566,002</b>	<b>322,151</b>	<b>(243,851)</b>
<b>Fund Balance - Beginning</b>	<b>6,080,678</b>	<b>6,080,678</b>	<b>5,806,650</b>	<b>(274,028)</b>
<b>Fund Balance - Ending</b>	<b>6,646,680</b>	<b>6,646,680</b>	<b>6,128,801</b>	<b>(517,879)</b>

See accompanying Notes to Required Supplementary Information

**SUGAR VALLEY RURAL CHARTER SCHOOL****SCHEDULE B**

Schedule of School's Proportionate Share of Net Pension Liability  
Commonwealth of Pennsylvania School Employees Retirement System (PSERS)  
30-Jun-19

Measurement date*	2019	2018	2017	2016	2015
	30-Jun-18	30-Jun-17	30-Jun-16	30-Jun-15	30-Jun-14
School's proportion of the net pension liability (asset)	0.0241%	0.0225%	0.0270%	0.0188%	0.0169%
School's proportionate share of the net pension liability (asset)	11,569,000	11,112,000	10,258,000	8,143,000	6,689,000
School's covered-employee payroll	3,242,009	2,996,369	2,675,420	2,422,716	2,197,302
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	356.85%	370.85%	383.42%	336.11%	304.42%
Plan fiduciary net position as a percentage of the total pension liability	54.00%	51.84%	50.14%	54.36%	57.23%

\* The amounts presented for each fiscal year were determined as of the measurement date, which is June 30 of the preceding year.

**SUGAR VALLEY RURAL CHARTER SCHOOL**

**SCHEDULE C**

Schedule of School's Contributions for Pension Benefits  
Commonwealth of Pennsylvania School Employees Retirement System - PSERS  
30-Jun-19

Measurement date	<u>2019</u> <u>30-Jun-19</u>	<u>2018</u> <u>30-Jun-18</u>	<u>2017</u> <u>30-Jun-17</u>	<u>2016</u> <u>30-Jun-16</u>	<u>2015</u> <u>30-Jun-15</u>
Contractually required contribution	1,157,853	1,035,636	890,021	670,423	496,657
Contributions in relation to the contractually required contribution	<u>1,157,853</u>	<u>1,035,636</u>	<u>890,021</u>	<u>670,423</u>	<u>496,657</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
School's covered-employee payroll	3,551,696	3,242,009	2,996,369	2,675,420	2,422,716
Contributions as a percentage of covered-employee payroll	32.6%	31.9%	29.7%	25.1%	20.5%

**SUGAR VALLEY RURAL CHARTER SCHOOL**

**SCHEDULE D**

Schedule of School's Proportionate Share of Net Premium Assistance OPEB Liability  
Commonwealth of Pennsylvania School Employees Retirement System (PSERS)  
30-Jun-19

Measurement date*	2019	2018	2017
	<u>30-Jun-18</u>	<u>30-Jun-17</u>	<u>30-Jun-16</u>
School's proportion of the net Premium Assistance OPEB liability (asset)	0.0241%	0.0225%	0.0270%
School's proportion of the net Premium Assistance OPEB liability (asset)	502,000	458,000	446,000
School's covered-employee payroll	3,242,009	2,996,369	2,675,420
School's proportionate share of the net Premium Assistance OPEB liability(asset) as a percentage of its covered-employee payroll	15.48%	15.29%	16.67%
Plan fiduciary net position as a percentage of the total Premium Assistance OPEB liability	5.56%	5.73%	5.47%

\* The amounts presented for each fiscal year were determined as of the measurement date, which is June 30 of the preceding year.

**SUGAR VALLEY RURAL CHARTER SCHOOL**

**SCHEDULE E**

Schedule of School's Contributions for Premium Assistance OPEB Benefits  
Commonwealth of Pennsylvania School Employees Retirement System - PSERS  
30-Jun-19

Measurement date	<u>2019</u> <u>30-Jun-19</u>	<u>2018</u> <u>30-Jun-18</u>	<u>2017</u> <u>30-Jun-17</u>
Contractually required contribution	29,479	27,082	25,000
Contributions in relation to the contractually required contribution	<u>29,479</u>	<u>27,082</u>	<u>25,000</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
School's covered-employee payroll	3,551,695	3,242,009	2,996,369
Contributions as a percentage of covered-employee payroll	0.83%	0.84%	0.83%

**SUGAR VALLEY RURAL CHARTER SCHOOL**

**SCHEDULE F**

Schedule of Changes in Net Liability and Covered Payroll for the SVRCS Plan - OPEB  
30-Jun-19

Measurement date	<u>2019</u> <u>30-Jun-18</u>	<u>2018</u> <u>30-Jun-17</u>
OPEB Liability at beginning of measurement period	559,892	453,251
Service Costs	66,825	64,626
Interest	19,394	12,722
Changes in Benefit Terms	-	-
Differences Between Expected and Actual Experience	-	(32,247)
Changes in Assumptions	(838)	74,366
Benefit Payments	-	(12,826)
Other Changes	-	-
Total Change	<u>85,381</u>	<u>106,641</u>
OPEB Liability at end of measurement period	<u><u>645,273</u></u>	<u><u>559,892</u></u>
Covered Payroll	3,061,024	3,061,024
OPEB Liability as a Percent of Covered Payroll	21%	18%

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**NOTE 1  
ACTUAL-**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES, BUDGET AND  
Schedule A**

An operating budget is adopted prior to the beginning of each year for the General Fund on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required.

Legal budgetary control is maintained at the sub-function/major object level. The Board of Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval. 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. The budget was not amended during the year ended June 30, 2018.

In order to preserve a portion of an appropriation for which an expenditure has been committed by a purchase order, contract or other form of commitment, an encumbrance is recorded. Budgeted appropriations lapse at year end, and no reserves are created for encumbrances outstanding at year end.

Included in the General Fund budget, are program budgets as prescribed by the federal and state agencies funding the program. These budgets are approved on a program by program basis by the federal and state funding agencies.

**NOTE 2**

**SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY- Schedule B**

and

**SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS FOR PENSION BENEFITS – Schedule C**

Information about the significant methods and assumptions used in the actuarially determined calculations can be found in Note 7 to the financial statements.

**NOTE 3**

**SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PREMIUM ASSISTANCE OPEB  
LIABILITY – Schedule D**

and

**SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS FOR PREMIUM ASSISTANCE OPEB BENEFITS –  
Schedule E**

Information about the significant methods and assumptions used in the actuarially determined calculations can be found in Note 8 to the financial statements.

**NOTE 4**

**SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND COVERED EMPLOYEE PAYROLL L OF THE SVRCS  
PLAN - OPEB – Schedule F**

Information about the significant methods and assumptions used in the actuarially determined calculations can be found in Note 8 to the financial statements.

No assets are accumulated in a trust to fund benefits.



## MARGARET MCCLUSKEY CPA LLC

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

Board of Trustees  
**SUGAR VALLEY RURAL CHARTER SCHOOL**  
Loganton, PA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sugar Valley Rural Charter School, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 18, 2019.

#### Internal Control over Financial Reporting

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

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

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

#### Compliance and Other Matters

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

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mifflinburg, PA

December 18, 2019