

**State Public School  
Building Authority**

(A Component Unit of the  
Commonwealth of Pennsylvania)

Financial Statements and  
Required Supplementary Information

Year Ended June 30, 2017 with  
Independent Auditor's Report

**MaherDuessel**

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**STATE PUBLIC SCHOOL BUILDING AUTHORITY**  
(A Component Unit of the Commonwealth of Pennsylvania)

YEAR ENDED JUNE 30, 2017

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## Independent Auditor's Report

**The Board of Directors  
State Public School  
Building Authority**

We have audited the accompanying financial statements of the business-type activities and each major fund of the State Public School Building Authority (Authority), a component unit of the Commonwealth of Pennsylvania, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Authority as of June 30, 2017, and the respective changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Report on Summarized Comparative Information*

We have previously audited the Authority's June 30, 2016 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated September 1, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and historical pension information on pages i through vi and 25 through 28, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Maher Duessel*

Harrisburg, Pennsylvania  
August 31, 2017

# STATE PUBLIC SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Pennsylvania)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

This discussion and analysis of the financial performance of the State Public School Building Authority (Authority) is supplementary information required by the Governmental Accounting Standards Board. It introduces the basic financial statements and provides an analytical overview of the Authority's financial activities. Read it in conjunction with the financial statements that follow this discussion.

The Authority is a public corporation and a governmental instrumentality of the Commonwealth of Pennsylvania, created by the Act of July 5, 1947 (P.L. 1217, No. 498), known as the State Public School Building Authority Act (24 P.S. § 791.1 *et seq.*), for the purpose of financing the construction and improvement of public school facilities. The Authority is governed by a nine-member body composed of the Governor, State Treasurer, Auditor General, Secretary of Education, Secretary of General Services, President Pro Tempore of the Senate, Speaker of the House of Representatives, Minority Leader of the Senate, and Minority Leader of the House of Representatives. The Authority finances projects through the issuance of bonds, the principal and the interest of which are paid by the annual lease/loan payments collected from public schools. The Authority has no general liability with respect to these obligations and has no beneficial interest in the related assets held by trustees. Acting solely in an agency capacity, the Authority serves as a financing conduit, bringing the ultimate borrower and the ultimate lender together. The goal of the Authority is to make lower-cost tax-exempt financings available to school districts, area vocational/technical schools, and community colleges.

The Authority does not receive an appropriation from the Commonwealth of Pennsylvania. The Authority's two primary revenue sources are management fees charged to the Pennsylvania Higher Educational Facilities Authority (PHEFA) and investment income. PHEFA is operated by Authority staff and issues bonds for higher educational institutions. Administrative fees collected by PHEFA are remitted to the Authority's Administrative Fund in exchange for all management and administrative services and operating expenses. Since management fees alone do not cover the Authority's cost of operation, the Authority requires a sufficient net position balance to maintain the desired level of investment income.

Investments of the Authority consist of Federal Deposit Insurance Corporation (FDIC) insured certificates of deposit and U.S. Treasuries. Investment maturities are limited to five years.

**STATE PUBLIC SCHOOL BUILDING AUTHORITY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2017

The following table summarizes the financial position and results of operations of the Authority as of and for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Assets:		
Current assets	\$ 7,620,767	\$ 6,215,939
Noncurrent assets	<u>24,385,001</u>	<u>25,832,760</u>
Total assets	<u>32,005,768</u>	<u>32,048,699</u>
Deferred outflows of resources	<u>582,648</u>	<u>435,194</u>
Liabilities:		
Current liabilities	112,611	112,156
Long-term liabilities	<u>3,092,169</u>	<u>2,773,693</u>
Total liabilities	<u>3,204,780</u>	<u>2,885,849</u>
Deferred inflows of resources	<u>73,059</u>	<u>24,959</u>
Net position:		
Net investment in capital assets	75,670	49,404
Unrestricted	<u>29,234,907</u>	<u>29,523,681</u>
Total net position	<u>\$ 29,310,577</u>	<u>\$ 29,573,085</u>
Operating revenues:		
Management fees	\$ 1,122,648	\$ 1,181,971
Interest income	<u>231,455</u>	<u>321,341</u>
Total operating revenues	<u>1,354,103</u>	<u>1,503,312</u>
Operating expenses:		
Administration and depreciation	1,746,292	1,609,973
Trustee fees	(30,267)	(5,560)
Other post-employment benefits	<u>71,780</u>	<u>59,178</u>
Total operating expenses	<u>1,787,805</u>	<u>1,663,591</u>
Nonoperating revenues:		
Investment income - Administrative Fund	<u>171,194</u>	<u>170,672</u>
Total nonoperating revenues	<u>171,194</u>	<u>170,672</u>
Change in Net Position	(262,508)	10,393
Total net position - beginning of year	<u>29,573,085</u>	<u>29,562,692</u>
Total net position - end of year	<u>\$ 29,310,577</u>	<u>\$ 29,573,085</u>

# STATE PUBLIC SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Pennsylvania)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

### **Overview of the Financial Statements**

The three basic statements presented within the financial statements are as follows:

- Statement of Net Position – This statement presents information reflecting the Authority's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position represents the amount of total assets and deferred outflows of resources less total liabilities and deferred inflows of resources. The statement of net position is categorized as to current and noncurrent assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within one year of the statement date.
- Statement of Revenues, Expenses, and Changes in Fund Net Position – This statement reflects the operating revenues and expenses, as well as nonoperating revenues and expenses during the year. Major sources of operating revenues include management fees charged to PHEFA and interest earned on revolving loans. Major operating expenses are personnel, legal fees for bond issues, and office rent. The change in net position for an enterprise fund is similar to net profit or loss for any other business enterprise. Nonoperating activity consists primarily of the return on the Authority's investments.
- Statement of Cash Flows – The statement of cash flows is presented on the direct method of reporting, which reflects cash flows from operating, financing, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash for the year.

### **Program Description and Highlights**

The Authority provides services to borrowers including: processing invoices and making payments to construction contractors/vendors; providing monthly account reconciliation statements detailing income, expenditures, and balances; computation, compliance, and reporting assistance for federal arbitrage regulations; assistance with preparation of documents prior to issuing bonds; and preparation of required final cost documents to the Pennsylvania Department of Education. These services are provided at no cost to the borrowers.

# STATE PUBLIC SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Pennsylvania)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

Program highlights for the fiscal year ended June 30, 2017 include the following:

- Issued eight financings on behalf of schools totaling \$808,007,300. The bond proceeds are used by the schools to construct and acquire new facilities as well as to refund prior bond issues.
- Completed five revolving loans for \$6,050,000. The Authority makes low-interest loans to schools for construction, renovation, and equipment purchases. Revolving loans are generally made for a term not to exceed ten years. Loan disbursements totaled \$4,362,470 for all active loans during the year ended June 30, 2017.

### **Financial Highlights**

#### ***Net Position***

Net position decreased by \$262,508 or 0.9% due to a combination of lower revenue along with rising pension costs.

#### ***Operating Revenues***

The Authority derives its operating revenues from two sources: management fees charged to PHEFA and earned interest from the Revolving Loan Fund. Fees collected this year from PHEFA decreased by \$59,323 or 5.0% due to refundings of Authority bonds by local authorities.

Interest and investment income from the Revolving Loan Fund decreased by \$89,886 or 28.0% due to an unrealized loss on a U.S Treasury Note. The market value of the \$3,000,000 Treasury Note decreased by approximately \$61,000 to \$3,006,681. Overall, operating revenues decreased by \$149,209 or 9.9%.

#### ***Operating Expenses***

Operating expenses increased in 2017 by \$124,214 or 7.5% primarily due to rising pension costs.

# STATE PUBLIC SCHOOL BUILDING AUTHORITY

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

### ***Nonoperating Revenues***

There was little change in nonoperating revenues as interest rates remained stable. Nonoperating revenues increased by \$522 or 0.3% in 2017.

### **Capital Asset and Debt Administration**

#### ***Capital Assets***

As of June 30, 2017, the Authority had invested approximately \$389,000 in capital assets, including furniture, equipment, and automobiles. Net of accumulated depreciation, the Authority's net capital assets as of June 30, 2017 totaled approximately \$76,000. During the fiscal year ended June 30, 2017, the Authority purchased capital assets of approximately \$41,000 and disposed of approximately \$11,000 of assets. As of June 30, 2016, the Authority had invested approximately \$359,000 in capital assets, including furniture, equipment, and automobiles. Net of accumulated depreciation, the Authority's net capital assets as of June 30, 2016 totaled approximately \$49,000. During the fiscal year ended June 30, 2016, the Authority purchased capital assets of approximately \$32,000 and disposed of approximately \$26,000 of assets.

#### ***Debt Administration***

As of June 30, 2017, the Authority had approximately \$2.83 billion of conduit debt outstanding (nonrecourse debt to the Authority that is repaid solely from revenues derived from the related facilities acquired). This is a decrease of approximately \$207 million from June 30, 2016. The outstanding conduit debt is not recorded on the statement of net position. A schedule of conduit debt outstanding is included in Note 12 of the notes to the financial statements. The Authority has no outstanding debt financing for its operation.

**STATE PUBLIC SCHOOL BUILDING AUTHORITY**  
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MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

**Contacting the Authority's Management**

This financial report is designed to provide interested parties with a general overview of the Authority's finances. If you have any questions about this report or need additional information, contact:

State Public School Building Authority  
1035 Mumma Road, Suite 300  
Wormleysburg, PA 17043

Phone – 717-975-2200

Email – [fmgmt@spsba.org](mailto:fmgmt@spsba.org)

# STATE PUBLIC SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Pennsylvania)

## STATEMENT OF NET POSITION

JUNE 30, 2017

(with comparative totals as of June 30, 2016)

	Business-type Activities - Enterprise Funds			
	Administrative	Revolving	2017	2016
		Loan		
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 463,949	\$ 5,033,372	\$ 5,497,321	\$ 4,206,048
Receivables:				
Accrued interest - investments	58,181	13,171	71,352	73,110
Accrued interest - revolving loans	-	15,777	15,777	14,673
Revolving loans - current	-	2,035,552	2,035,552	1,921,116
Management fees and other	765	-	765	992
Due from (to) other funds	79,370	(79,370)	-	-
Total current assets	602,265	7,018,502	7,620,767	6,215,939
Noncurrent assets:				
Investments	11,327,833	10,185,348	21,513,181	23,817,734
Revolving loans	-	2,796,150	2,796,150	1,965,622
Capital assets:				
Capital assets	388,851	-	388,851	359,039
Less accumulated depreciation	(313,181)	-	(313,181)	(309,635)
Total noncurrent assets	11,403,503	12,981,498	24,385,001	25,832,760
<b>Total Assets</b>	<b>12,005,768</b>	<b>20,000,000</b>	<b>32,005,768</b>	<b>32,048,699</b>
<b>Deferred Outflows of Resources</b>				
Deferred outflows of resources for pension	582,648	-	582,648	435,194
<b>Total Deferred Outflows of Resources</b>	<b>582,648</b>	<b>-</b>	<b>582,648</b>	<b>435,194</b>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accrued expenses	27,265	-	27,265	36,375
Trustee fee payable	35,000	-	35,000	41,000
Compensated absences	50,346	-	50,346	34,781
Total current liabilities	112,611	-	112,611	112,156
Noncurrent liabilities:				
Trustee fee payable	91,000	-	91,000	150,000
Compensated absences	151,921	-	151,921	86,206
Other post-employment benefits	494,049	-	494,049	422,269
Net pension liability	2,355,199	-	2,355,199	2,115,218
Total noncurrent liabilities	3,092,169	-	3,092,169	2,773,693
<b>Total Liabilities</b>	<b>3,204,780</b>	<b>-</b>	<b>3,204,780</b>	<b>2,885,849</b>
<b>Deferred Inflows of Resources</b>				
Deferred inflows of resources for pension	73,059	-	73,059	24,959
<b>Total Deferred Inflows of Resources</b>	<b>73,059</b>	<b>-</b>	<b>73,059</b>	<b>24,959</b>
<b>Net Position</b>				
Net investment in capital assets	75,670	-	75,670	49,404
Unrestricted	9,234,907	20,000,000	29,234,907	29,523,681
<b>Total Net Position</b>	<b>\$ 9,310,577</b>	<b>\$ 20,000,000</b>	<b>\$ 29,310,577</b>	<b>\$ 29,573,085</b>

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

# STATE PUBLIC SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Pennsylvania)

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

YEAR ENDED JUNE 30, 2017

(with comparative totals for the year ended June 30, 2016)

	Business-type Activities - Enterprise Funds			
	Administrative	Revolving	2017	2016
		Loan		
<b>Operating Revenues:</b>				
Management fees	\$ 1,122,648	\$ -	\$ 1,122,648	\$ 1,181,971
Interest income - from revolving loans	-	100,896	100,896	92,543
Investment income - Revolving Loan Fund	-	130,559	130,559	228,798
Total operating revenues	1,122,648	231,455	1,354,103	1,503,312
<b>Operating Expenses:</b>				
Administration	1,732,078	-	1,732,078	1,601,741
Trustee fees	(30,267)	-	(30,267)	(5,560)
Other post-employment benefits	71,780	-	71,780	59,178
Depreciation expense	14,214	-	14,214	8,232
Total operating expenses	1,787,805	-	1,787,805	1,663,591
<b>Operating Income (Loss)</b>	<b>(665,157)</b>	<b>231,455</b>	<b>(433,702)</b>	<b>(160,279)</b>
<b>Non-Operating Revenues (Expenses):</b>				
Investment income	171,014	-	171,014	170,672
Other income	180	-	180	-
Total non-operating revenues (expenses)	171,194	-	171,194	170,672
Change in net position before transfers	(493,963)	231,455	(262,508)	10,393
Transfers in (out)	231,455	(231,455)	-	-
<b>Change in Net Position</b>	<b>(262,508)</b>	<b>-</b>	<b>(262,508)</b>	<b>10,393</b>
<b>Net Position:</b>				
Beginning of year	9,573,085	20,000,000	29,573,085	29,562,692
End of year	\$ 9,310,577	\$ 20,000,000	\$ 29,310,577	\$ 29,573,085

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

# STATE PUBLIC SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Pennsylvania)

## STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017

(with comparative totals for the year ended June 30, 2016)

	Business-type Activities - Enterprise Funds			
	Administrative	Revolving		2016
		Loan	2017	
<b>Cash Flows From Operating Activities:</b>				
Receipts from PHEFA	\$ 1,122,875	\$ -	\$ 1,122,875	\$ 1,185,798
Payments to suppliers	(338,461)	-	(338,461)	(392,907)
Payments to employees	(1,215,552)	-	(1,215,552)	(1,202,287)
Proceeds from loan repayments	-	3,417,505	3,417,505	2,674,746
Loan disbursements	-	(4,362,470)	(4,362,470)	(1,506,377)
Interest and investing earnings from Revolving Loan Fund	-	301,772	301,772	302,502
Net cash provided by (used in) operating activities	(431,138)	(643,193)	(1,074,331)	1,061,475
<b>Cash Flows From Non-Capital and Related Financing Activities:</b>				
Transfer to administrative fund from revolving loan fund	242,730	(242,730)	-	-
Net cash provided by (used in) non-capital and related financing activities	242,730	(242,730)	-	-
<b>Cash Flows From Capital and Related Financing Activities:</b>				
Purchase of capital assets	(40,480)	-	(40,480)	(31,842)
Net cash used in capital and related financing activities	(40,480)	-	(40,480)	(31,842)
<b>Cash Flows From Investing Activities:</b>				
Proceeds from sales and maturities of investments	2,172,167	2,071,333	4,243,500	6,000,000
Purchases of investments	(2,000,000)	-	(2,000,000)	(7,250,000)
Interest received	162,584	-	162,584	182,548
Net cash provided by (used in) investing activities	334,751	2,071,333	2,406,084	(1,067,452)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	105,863	1,185,410	1,291,273	(37,819)
<b>Cash and Cash Equivalents:</b>				
Beginning of year	358,086	3,847,962	4,206,048	4,243,867
End of year	\$ 463,949	\$ 5,033,372	\$ 5,497,321	\$ 4,206,048

(Continued)

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

# STATE PUBLIC SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Pennsylvania)

## STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017

(with comparative totals for the year ended June 30, 2016)

(Continued)

	Business-type Activities - Enterprise Funds			
	Administrative	Revolving		2016
		Loan	2017	
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</b>				
Operating income (loss)	\$ (665,157)	\$ 231,455	\$ (433,702)	\$ (160,279)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	14,214	-	14,214	8,232
Investment income - unrealized (gain) loss	-	61,052	61,052	(51,093)
Changes in:				
Accrued interest receivable	-	9,265	9,265	32,254
Revolving loans receivable	-	(944,965)	(944,965)	1,168,369
Management fees and other receivables	228	-	228	3,827
Deferred outflows of resources for pension	(147,454)	-	(147,454)	(273,368)
Accounts payable and accrued expenses	(9,110)	-	(9,110)	(71,835)
Trustee fee payable	(65,000)	-	(65,000)	(45,000)
Compensated absences	81,280	-	81,280	11,288
Other post-employment benefits	71,780	-	71,780	59,178
Net pension liability	239,981	-	239,981	354,943
Deferred inflows of resources for pension	48,100	-	48,100	24,959
Total adjustments	234,019	(874,648)	(640,629)	1,221,754
Net cash provided by (used in) operating activities	\$ (431,138)	\$ (643,193)	\$ (1,074,331)	\$ 1,061,475

(Concluded)

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

**STATE PUBLIC SCHOOL BUILDING AUTHORITY**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF PENNSYLVANIA)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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**1. Summary of Significant Accounting Policies**

The State Public School Building Authority (Authority) is a public corporation and a governmental instrumentality of the Commonwealth of Pennsylvania (Commonwealth), created by the Act of July 5, 1947 (P.L. 1217, No. 498), known as the State Public School Building Authority Act (24 P.S. § 791.1 *et seq.*), for the purpose of financing the construction and improvement of public school facilities. The Authority is governed by a nine-member Board of Directors (Board). The Authority finances projects through the issuance of bonds, the principal and interest of which are paid by the annual lease/loan payments collected from public schools. The Authority provides for the financing needs of school districts, area vocational/technical schools, and community colleges (schools).

***(a) Reporting Entity***

The Authority is a component unit of the Commonwealth. Criteria considered in making this determination include the Commonwealth's appointment of the Authority's Board pursuant to statute and the Commonwealth's ability to impose its will on the Authority.

***(b) Measurement Focus and Basis of Accounting***

The accounts of the Authority are organized on the basis of funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses. The Authority's funds are enterprise funds and, accordingly, utilize the accrual basis of accounting and follow the economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded at the time liabilities are incurred. The Authority reports the following major enterprise funds:

Administrative Fund

The Administrative Fund is used to account for the unrestricted revenue, primarily management fees and expenses of the Authority's operations, as well as for payment of bond issue trustee fees the Authority has agreed to pay on behalf of certain schools.

Revolving Loan Fund

The Revolving Loan Fund is used to account for loans to schools.

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**STATE PUBLIC SCHOOL BUILDING AUTHORITY**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF PENNSYLVANIA)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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***(c) Cash and Cash Equivalents***

The Authority considers money market pools and investments with a maturity date of 90 days or less from the purchase date to be cash and cash equivalents.

***(d) Due from Other Funds/Due to Other Funds***

During the course of its operations, the Authority has numerous transactions between funds to finance operations and provide services. To the extent that certain transactions between funds had not been paid or received as of June 30, 2017, balances of interfund amounts receivable or payable have been recorded.

***(e) Investments***

Federal Deposit Insurance Corporation (FDIC) insured certificates of deposit are recorded at cost and U.S. Treasury Securities are recorded at fair value.

The Authority categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

***(f) Capital Assets and Depreciation***

Capital assets are reported at cost. Depreciation is calculated using the straight-line basis and assets have estimated useful lives ranging from three to seven years.

In conjunction with certain conduit debt issuances, the Authority takes title to property on behalf of the borrower and leases such property back to the borrower. The agreements entered into as part of these transactions are not deemed to have any economic value to the Authority and, therefore, the Authority does not report the related property in the financial statements.

***(g) Deferred Inflows and Outflows of Resources***

In conjunction with pension accounting requirements, the differences in the Authority's expected and actual experience, the difference between projected and actual earnings on pension plan investments, changes of assumptions, changes in proportion, and

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**STATE PUBLIC SCHOOL BUILDING AUTHORITY**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF PENNSYLVANIA)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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Authority contributions subsequent to the measurement date are recorded as deferred inflows or outflows of resources related to pension on the statement of net position. These amounts are determined based on the actuarial valuation performed for the pension plan.

**(h) Trustee Fees**

The Authority has agreed to pay trustee fees on certain pre-1986 pooled bonds issued by PHEFA and reimburse schools for payment of trustee fees up to \$1,000 annually for bonds issued under the October 17, 2001 School Subsidy Program Resolution. A liability is recorded for the estimated future payment of trustee fees.

**(i) Compensated Absences**

Employees earn annual leave based on 2.7% to 10% of regular hours paid. A maximum of 45 days may be carried forward at the end of each calendar year. Employees are paid for accumulated annual leave upon termination or retirement. Employees earn sick leave based on 4.24% or 5% of regular hours paid. A maximum of 300 sick days may be carried forward at the end of each calendar year. Retiring employees that meet service, age, or disability requirements are paid from 30% to 50% of their days available at retirement. Employees are paid 100% of sick days earned in their last year of employment if they are above the 300-day maximum limit.

Accumulated annual and sick leave liability is calculated based on the salary rates in effect as of the statement of net position date. No liability is recorded for nonvesting accumulating rights to receive sick leave benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that is estimated will be taken upon retirement of the employees.

**(j) Net Position**

Net position is categorized as follows:

Net Investment in Capital Assets – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category.

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Unrestricted Net Position – This category represents the net position of the Authority not otherwise defined.

***(k) Operating Revenues***

Operating revenue for the Administrative Fund consists of management fees charged to the Pennsylvania Higher Educational Facilities Authority (PHEFA), relating to various bond, note, and lease issues outstanding. Management fees are recognized as revenue as of the periodic billing date. Operating revenue for the Revolving Loan Fund includes interest earned from revolving loans and investment income.

***(l) Interfund Transfers***

Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported after nonoperating revenues/expenses.

***(m) Conduit Debt Obligations***

The Authority issues taxable and tax-exempt instruments (bonds, notes, or other obligations), which do not constitute a debt of the Authority or the Commonwealth. These debt instruments are limited obligations of the Authority, payable solely from payments made by the related borrowing institutions and related assets held by trustees. The Authority has no general liability with respect to these obligations and has no beneficial interest in the related assets held by trustees. Acting solely in an agency capacity, the Authority serves as a financing conduit, bringing the ultimate borrower and the ultimate lender together. The Authority has elected to exclude these obligations and the related assets held by trustees from the financial statements. The Authority has disclosed the outstanding balance in Note 12.

***(n) Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

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***(o) Pending Changes in Accounting Principles***

In June of 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.”* This Statement addresses reporting by governments that provide other post-employment benefits (OPEB) to their employees and for governments that finance OPEB for employees of other governments. The provisions of GASB Statement No. 75 are effective for the Authority’s June 30, 2018 financial statements.

In March of 2016, the GASB issued Statement No. 82, *“Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73.”* This Statement addresses certain issues that have been raised with respect to previous pension standards. Certain provisions of GASB Statement No. 82 are effective for the Authority’s June 30, 2018 financial statements.

In March of 2017, the GASB issued Statement No. 85, *“Omnibus 2017.”* This Statement addresses practice issues identified during implementation and application of certain GASB Statements related to a variety of topics, including blending component units, goodwill, fair value measurement and application, and post-employment benefits. The provisions of GASB Statement No. 85 are effective for the Authority’s June 30, 2018 financial statements.

In June of 2017, the GASB issued Statement No. 87, *“Leases.”* This Statement improves the accounting and financial reporting for leases. The provisions of GASB Statement No. 87 are effective for the Authority’s June 30, 2020 financial statements.

The effects of these statements have not yet been determined.

**2. Cash and Cash Equivalents and Investments**

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types, including U.S. Treasury bills, other short-term U.S. government obligations, short-term commercial paper issued by a public corporation, banker’s acceptances, and insured or collateralized time deposits and certificates of deposit. The statutes allow pooling of governmental funds for investment purposes.

The deposit and investment policy of the Authority adhere to state statutes and prudent business practice. The governments’ funds are either maintained in collateralized interest-bearing checking accounts, external investment pools, insured certificates of deposit, or U.S.

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Treasury Notes, which are considered permissible investments of the Authority. There were no deposit or investment transactions during the year that were in violation of either state statutes or the policy of the Authority.

Under the Authority's investment policy, any investment not expressly listed in the policy as permitted is prohibited. Prohibited investments include, but are not limited to, any type of swap, derivative instrument, or stock option of a corporation created by an act of Congress.

The Authority uses an external investment pool to ensure safety and maximize efficiency, liquidity, and yield for Authority funds. These funds are invested in the Pennsylvania Treasurer's INVEST Program (State Treasurer's Investment Pool), which separately issues audited financial statements that are available to the public. The fair value of the Authority's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth provides external regulatory oversight for the external investment pool. The Authority is invested in INVEST - Daily Pool, which requires no minimum balance, no minimum initial investments, and has no required investment period.

At June 30, 2017, the Authority's cash and cash equivalents and investments, as presented on the statement of net position, consisted of the following:

	<u>Administrative</u>	<u>Revolving Loan</u>	<u>Total</u>	<u>Effective Duration (in years)</u>
Cash and cash equivalents:				
Collateralized interest-bearing checking account	\$ 16,645	\$ 17,178	\$ 33,823	-
State Treasurer's Investment Pool	<u>447,304</u>	<u>5,016,194</u>	<u>5,463,498</u>	0.163
<b>Total cash and cash equivalents</b>	<u><u>\$ 463,949</u></u>	<u><u>\$ 5,033,372</u></u>	<u><u>\$ 5,497,321</u></u>	
Investments:				
FDIC insured certificates of deposit	\$ 11,327,833	\$ 7,178,667	\$ 18,506,500	1.113
U.S. Treasury Note	<u>-</u>	<u>3,006,681</u>	<u>3,006,681</u>	1.918
<b>Total investments</b>	<u><u>\$ 11,327,833</u></u>	<u><u>\$ 10,185,348</u></u>	<u><u>\$ 21,513,181</u></u>	
Portfolio effective duration				1.007

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At June 30, 2017, the Authority's cash and cash equivalents and investments held in financial institutions consisted of the following:

	Administrative	Revolving Loan	Total
Cash and cash equivalents:			
Collateralized interest-bearing checking account	\$ 59,647	\$ 17,178	\$ 76,825
State Treasurer's Investment Pool	447,304	5,016,194	5,463,498
<b>Total cash and cash equivalents</b>	<b>\$ 506,951</b>	<b>\$ 5,033,372</b>	<b>\$ 5,540,323</b>
Investments:			
FDIC insured certificates of deposit	\$ 11,327,833	\$ 7,178,667	\$ 18,506,500
U.S. Treasury Note	-	3,000,000	3,000,000
<b>Total investments</b>	<b>\$ 11,327,833</b>	<b>\$ 10,178,667</b>	<b>\$ 21,506,500</b>

The Authority's investment policy limits investment maturities as a means of managing its exposure to declines in fair values.

**(a) Interest Rate Risk**

The Authority's investment policy limits interest rate risk by investing in a laddered portfolio comprised of certificates of deposit. The maximum maturity is limited to five years. The certificates of deposit are noncallable.

**(b) Credit Risk**

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority's investment policy minimizes credit risk by limiting investments to only those permissible, as defined previously. The Authority's fixed investments are FDIC insured certificates of deposit and U.S. Treasury Notes. The State Treasurer's Investment Pool carries Standard & Poor's highest money market funds rating of AAAm.

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***(c) Custodial Credit Risk – Deposits***

In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be recovered. The Authority's investment policy limits custodial credit risk by depositing in certificates of deposit that are FDIC insured or collateralized. Collateral for the Authority's certificates of deposit shall be held at the Federal Reserve in either the name of the Authority or the Commonwealth. Short-term deposits, not qualified for FDIC insurance, shall be collateralized with securities held by third-party in accordance with Act 72 of 1971.

The Authority's FDIC insured certificates of deposit are in the custody of a local bank and insured through the Certificate of Deposit Account Registry Service (CDARS). CDARS distributes deposits over banks in its network in increments of less than the standard FDIC insurance maximum to ensure that both principal and interest are eligible for full FDIC protection while working with a single participating bank in the network. Authority deposits, not qualified for FDIC insurance, are collateralized with securities held by a third-party trust in accordance with state law concerning public deposits, which allows pooling of public accounts into a single collateral pool.

***Custodial Credit Risk – Investments***

For an investment, this is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investment policy limits credit risk by investing in financial institutions that have a minimum capital (equity) balance of \$25,000,000 and at least five years of operation. Investments in the State Treasurer's Investment Pool are uninsured, uncollateralized, and not held in the Authority's name.

***(d) Fair Value of Investments***

As of June 30, 2017, the Authority's FDIC insured certificates of deposits in the amount of \$18,506,500 and U.S. Treasury Note in the amount of \$3,006,681 are classified as Level 1 investments.

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**3. Revolving Loans Receivable**

Revolving loans receivable relate to the Revolving Loan Fund, which makes loans to schools for construction, renovation, and equipment purchases. These fixed rate loans are for up to \$3,000,000 with a maximum term of ten years. The Authority sets the interest rates for new loans on a quarterly basis.

At June 30, 2017, the Authority had revolving loans receivable of \$4,831,702 with interest rates of 2.0%.

Maturities of revolving loans receivable for each of the following fiscal years are as follows:

	Principal	Interest	Total
2018	\$ 2,035,552	\$ 84,858	\$ 2,120,410
2019	1,515,931	46,692	1,562,623
2020	1,020,360	18,717	1,039,077
2021	259,859	2,605	262,464
	\$ 4,831,702	\$ 152,872	\$ 4,984,574

Unfunded commitments on loans issued as of June 30, 2017 are \$5,821,070.

**4. Interfund Accounts**

Individual fund receivable and payable balances at June 30, 2017 were as follows:

	Due from Other Funds	Due to Other Funds
Administrative Fund	\$ 79,370	\$ -
Revolving Loan Fund	-	79,370
	\$ 79,370	\$ 79,370

This balance represents the fourth quarter interest transfer from the Revolving Loan Fund to the Administrative Fund.

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Interfund transfers for the year ended June 30, 2017 were as follows:

	Transfers In	Transfers Out
Administrative Fund	\$ 231,455	\$ -
Revolving Loan Fund	-	231,455
	\$ 231,455	\$ 231,455

Interest earned from investments and revolving loans is transferred from the Revolving Loan Fund to the Administrative Fund quarterly to fund the general operations of the Authority.

## 5. Capital Assets

The Authority's capital assets include furniture, equipment, and vehicles. A summary of changes in capital assets for the year ended June 30, 2017 follows:

	Capital Assets (at cost)	Accumulated Depreciation	Capital Assets (net)
Balance, July 1, 2016	\$ 359,039	\$ 309,635	\$ 49,404
Additions	40,480	14,214	26,266
Disposals	(10,668)	(10,668)	-
Balance, June 30, 2017	\$ 388,851	\$ 313,181	\$ 75,670

## 6. Long-Term Liabilities

The following represents the changes in the Authority's long-term liabilities for the year ended June 30, 2017:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
Compensated absences liability	\$ 120,987	\$ 118,922	\$ 37,642	\$ 202,267	\$ 50,346
Trustee fee payable	\$ 191,000	\$ -	\$ 65,000	\$ 126,000	\$ 35,000

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**7. Related-Party Transactions – Administrative Fund**

The Administrative Fund provides for the operation of both the Authority and PHEFA.

Administrative fees collected by PHEFA are deposited directly into the Authority's Administrative Fund in exchange for all management and administrative services and operating expenses. During the year ended June 30, 2017, the amount received from PHEFA was \$1,122,648. The management and board members are identical for both the Authority and PHEFA.

**8. Operating Lease**

The Authority leases its office facilities under a noncancelable operating lease that expires June 30, 2022. Total rental expense was \$108,814 for the year ended June 30, 2017. The minimum lease payments until expiration in 2022 are \$373,717 with lease payments as follows:

2018	\$ 70,882
2019	72,654
2020	74,470
2021	76,705
2022	79,006
	<hr/>
	\$ 373,717
	<hr/>

**9. Pension Plan**

***Plan Description***

All full-time employees of the Authority contribute to the Commonwealth of Pennsylvania State Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan (Plan). Article II of the Commonwealth's constitution assigns the authority to establish and amend the benefit provision of the Plan to the General Assembly. SERS issues a publicly available financial report that can be obtained at [www.SERS.pa.gov](http://www.SERS.pa.gov).

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YEAR ENDED JUNE 30, 2017

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***Summary of Significant Accounting Policies***

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pension, and pension expense, information about the fiduciary net position of SERS, as well as additions to and deductions from SERS fiduciary net position have been determined on the same basis as they are reported in the financial statements of SERS. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Investments are reported at fair value.

***Benefits Provided***

Membership in SERS is mandatory for all full-time Authority employees. SERS provides retirement, death, and disability benefits according to statute. Retirement benefits vest after five years of credited service.

Employees who retire at age 60, or with 35 years of service if under age 60, are entitled to an unreduced annual retirement benefit. For employees hired prior to January 1, 2011, the general annual benefit provided by statute is 2.5% of the member's highest three-year average salary times years of service. Effective January 1, 2011, the general annual benefit required by statute was reduced to 2.0%.

***Contributions***

Covered employees are required by statute to contribute to SERS at a rate of 6.25% of their gross pay. The employees' contributions are recorded in an individually identified account, which is also credited with interest, calculated quarterly to yield 4% per annum, as mandated by statute. Accumulated employee contributions and credited interest vest immediately and are returned to the employee upon termination of service if the employee is not eligible for other benefits. Authority employee contributions to SERS for the year ended June 30, 2017 approximated \$45,000.

The Authority's contractually required contribution rate for the year ended June 30, 2017 was 29.95% of annual payroll. The SERS funding policy provides for periodic employer contributions at actuarially determined rates based on SERS funding valuation, expressed as a percentage of annual retirement covered payroll, such that employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. However, Act 2010-120 imposed rate increase collars (limits on annual rate increases) on employer contributions. The collar for Commonwealth fiscal year 15/16 was 4.5% and will no longer apply effective July 1, 2017.

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The Authority's contributions to SERS for the years ended June 30, 2017, 2016, and 2015 were \$218,844, \$174,149, and \$139,541, respectively.

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

At June 30, 2017, the Authority reported a liability of \$2,355,199 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's portion of the net pension liability was allocated by SERS to each employer based on a projected-contribution method. At December 31, 2016, the Authority's proportion of the net pension liability was approximately 0.0122 percent, which is an increase of 0.0006 percent from its proportion measured as of December 31, 2015.

At June 30, 2017, the Authority reported deferred outflows and inflows of resources related to pension from the following sources:

<u>Deferred Outflows of Resources for Pension</u>	
Differences between expected and actual experience	\$ 33,996
Net difference between projected and actual earnings on pension plan investments	197,932
Changes of assumptions	143,863
Changes in proportion and differences between Authority contributions and proportionate share of contributions	93,132
Contributions subsequent to the measurement date	<u>113,725</u>
Total deferred outflows of resources for pension	<u>\$ 582,648</u>
<u>Deferred Inflows of Resources for Pension</u>	
Differences between expected and actual experience	\$ 52,693
Changes in proportion and differences between Authority contributions and proportionate share of contributions	<u>20,366</u>
Total deferred inflows of resources for pension	<u>\$ 73,059</u>

For the year ended June 30, 2017, the Authority recognized pension expense of \$359,471.

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Deferred outflows of resources related to Authority pension contributions subsequent to the measurement date totaling \$113,725 will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows and inflows of resources for pension will be recognized in pension expense as follows:

2018	\$	122,826
2019		122,826
2020		106,078
2021		38,719
2022		5,415
	<u>\$</u>	<u>395,864</u>

***Actuarial Methods and Assumptions***

The following methods and assumptions were used in the December 31, 2016 actuarial valuation. These methods and assumptions were applied to all periods included in the measurement period:

Actuarial cost method	Entry age
Amortization method	Straight-line amortization of difference between projected and actual earnings on pension plan investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits
Investment rate of return	7.25% net of expenses, including inflation
Projected salary increases	Average of 5.60% with range of 3.70% - 8.90%, including inflation
Asset valuation method	Fair (market) value
Inflation	2.60%
Mortality rate	Projected RP-2000 Mortality Tables adjusted for actual plan experiences and future improvement
Cost-of-living adjustments (COLAs)	Ad hoc

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Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The *18th Investigation of Actuarial Experience*, which was published in March of 2016, analyzed experience from 2011 through 2015. The SERS Board accepted the actuarial assumptions set forth in the *18th Investigation of Actuarial Experience* at its March 2016 meeting.

In addition to the five-year experience study, SERS reviews its investment return assumption in light of economic conditions every year as part of its annual valuation. Based on this work, the SERS actuary recommended, and the SERS Board adopted at the April 2017 meeting, a reduction in the targeted investment return rate assumption to 7.25% for the 2016 actuarial valuation from 7.5% used for the 2015 actuarial valuation based on the experience study. The SERS actuary also recommended and the SERS Board adopted a reduction in the inflation rate to 2.6% for the 2016 valuation from the 2.75% used for the 2015 actuarial valuation based on the experience study. The change in inflation rate also impacted the general salary growth rate, which was lowered to 2.9% for the 2016 valuation from 3.05% used for the 2015 valuation based on the experience study. Projected salary increases changed from an average of 5.70%, with a range of 3.85% - 9.05% for December 31, 2015, to an average of 5.60%, with a range of 3.70% - 8.90% for December 31, 2016.

The long-term expected real rate of return on pension plan investments is 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 target allocation and best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Private Equity	16.00%	8.00%
Global Public Equity	43.00%	5.30%
Real Assets	12.00%	5.44%
Hedge Funds	12.00%	4.75%
Fixed Income	14.00%	1.63%
Cash	3.00%	-0.25%
Total	100.00%	

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***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 employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary. Based on those assumptions, SERS fiduciary net position was projected to be available to make all projected future benefit payments of current active and non-active SERS members. Therefore, the long-term expected rate of return on SERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the Authority's proportionate share of 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.

	<b>1% Decrease (6.25%)</b>	<b>Current Discount Rate (7.25%)</b>	<b>1% Increase (8.25%)</b>
Authority's proportionate share of the net pension	\$ 2,914,668	\$ 2,355,199	\$ 1,876,094

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued SERS financial report.

**10. Other Post-Employment Benefits (OPEB)**

The Authority contributes to the Commonwealth's Retired Employees Health Program (REHP), a single-employer defined benefit postemployment healthcare plan administered by the Pennsylvania Employee Benefits Trust Program (PEBTF) acting as a third-party administrator on behalf of the Commonwealth Office of Administration. Nearly all Commonwealth agencies and several of the Commonwealth's discretely presented

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component units participate in REHP. The REHP provides medical benefits to retired employees and their eligible dependents. These benefits are provided as a result of negotiated union contracts and through administrative policy.

The REHP does not issue stand-alone financial statements; however, REHP footnote disclosures will be included in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2017. The REHP's total unfunded liability represents 373% of covered payroll at January 1, 2015, the most recent available information.

REHP members who retired after July 1, 2005 are required to pay contributions based on their final salary. Contribution requirements of the plan members and the participating employers are established and may be amended by the PEBTF governing board. During the year ended June 30, 2017, the Authority's required contribution to REHP was \$362 biweekly per employee. The employer contribution rate is based on the pay as you go cash contribution for current retiree benefits. The annual required contribution (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, which is allocated to the participating employers, including the Authority, by the Governor's Budget Office. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed 30 years. The Authority's contributions to REHP for the years ended June 30, 2017, 2016, and 2015 were \$84,708, \$97,812 and \$81,162, respectively. The Authority's share of the Commonwealth's net OPEB liability for the difference between the ARC and the pay- as-you-go contribution was determined by the Governor's Budget Office to be \$494,049 as of June 30, 2017. A noncurrent liability has been recorded for this amount.

## **11. Board-Designated Net Position**

The Board-designated net position is as follows:

### ***Revolving Loan Fund***

The Board-designated net position in the Revolving Loan Fund is \$20 million. The Revolving Loan Fund makes loans to schools for construction, renovation, and equipment purchases. Interest earned in the Revolving Loan Fund is transferred quarterly to the Administrative Fund and is used to fund the general operations of the Authority.

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YEAR ENDED JUNE 30, 2017

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**12. Conduit Debt Obligations**

As discussed in Note 1, the following 83 non-recourse bond issues and leases with an aggregate principal of \$2,828,301,134 were outstanding at June 30, 2017:

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## (A Component Unit of the Commonwealth of Pennsylvania)

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School	Final Maturity	Indebtedness	
		Issued	Outstanding
Community College of Philadelphia, Revenue Bonds, Series of 2017	2023	\$ 11,922,300	\$ 11,922,300
Chester Upland School District, Revenue Bonds, Series of 2017	2030	7,500,000	7,500,000
Lehigh Career and Technical Institute, Lease Revenue Bonds, Series A & B of 2017	2040	45,865,000	45,610,000
Delaware County Community College, Revenue Bonds, Series of 2017	2036	9,650,000	9,650,000
Chester Upland School District, Revenue Bonds, Series A & B of 2016	2030	25,130,000	25,130,000
The School District of Philadelphia, Lease Revenue Bonds, Series A of 2016	2036	570,010,000	550,360,000
Community College of Allegheny County, Revenue Bonds, Series of 2016	2027	9,250,000	9,250,000
The School District of the City of Harrisburg, Revenue Bonds, Series A & B of 2016	2033	128,680,000	128,680,000
Westmoreland County Community College, Revenue Bonds, Series A & B of 2016	2035	46,705,000	44,860,000
Community College of Philadelphia, Revenue Bonds, Series of 2015	2028	52,075,000	50,575,000
Montgomery County Community College, Revenue Bonds, Series of 2015	2035	51,640,000	50,625,000
Colonial Intermediate Unit No. 20, Lease Revenue Bonds, Series of 2015	2025	11,040,000	10,330,000
Community College of Allegheny County, Revenue Bonds, Series of 2015	2035	4,000,000	3,715,000
Upper Bucks County Area Vocational Technical School, Lease Revenue Bonds, Series of 2015	2025	2,933,000	1,941,000
Delaware County Community College, Revenue Bonds, Series of 2015	2032	40,395,000	40,395,000
School District of Philadelphia, Lease Revenue Bonds, Series 2015A	2026	80,000,000	79,995,000
North Montco Technical Career Center, Lease Revenue Bonds, Series of 2015	2030	8,815,000	8,125,000
Harrisburg Area Community College, Revenue Bonds, Series of 2015	2030	19,965,000	18,205,000
Dauphin County Technical School, Lease Revenue Bonds, Series of 2015	2030	19,405,000	19,200,000
Delaware County Community College, Revenue Bonds, Series of 2014	2034	14,410,000	13,400,000
Central Pennsylvania Institute of Science and Technology, Revenue Bonds, Series A & AA of 2014	2027	6,305,000	4,990,000
Albert Gallatin Area School District, Revenue Bonds, Series 2014	2024	18,160,000	15,295,000
Venango County Area Vocational-Technical School, Lease Revenue Bonds, Series of 2014	2023	2,632,000	1,981,000
School District of the City of Harrisburg, Revenue Bonds, Series B-1, B-2, and C of 2014	2034	77,245,000	59,035,000
School District of the City of Harrisburg, Revenue Bonds, Series A of 2014	2020	23,880,000	23,705,000
Harrisburg Area Community College, Revenue Bonds, Series of 2014	2027	22,510,000	18,645,000
Upper Bucks County Technical School, Lease Revenue Bonds, Series of 2014	2043	17,765,000	17,060,000
Chester Upland School District, Revenue Bonds, Series of 2014	2023	7,155,000	5,875,000
Northampton County Area Community College, Revenue Bonds, Series A & B of 2014	2034	42,720,000	36,925,000
Montgomery County Intermediate Unit, Revenue Bonds, Series of 2013	2034	5,342,784	4,556,721
Montgomery County Community College, Revenue Bonds, Series of 2013	2038	51,605,000	45,000,000
Wilkes-Barre Area Career and Technical Center, Revenue Bonds, Series of 2013	2034	8,710,000	7,205,000
Central Montgomery County Area Vocational Technical School, Revenue Bonds, Series of 2013	2024	13,060,000	9,520,000
Lehigh Carbon Community College, Revenue Bonds, Series A & B of 2013	2033	5,290,000	3,455,000
Delaware County Community College, Revenue Bonds, Series of 2013	2023	2,400,000	1,440,000
Harrisburg Area Community College, Revenue Bonds, Series of 2013	2021	8,185,000	4,265,000
Community College of Philadelphia, Revenue Bonds, Series A & B of 2013	2020	4,975,092	1,250,850
Crawford County Career and Technical Center, Lease Revenue Bonds, Series of 2013	2039	11,950,000	11,760,000
School District of Philadelphia, Lease Revenue Bonds, Series of 2012	2032	264,995,000	231,295,000
Butler County Community College, Revenue Bonds, Series A & B of 2012	2037	8,775,000	6,920,000
Career Technology Center of Lackawanna County, Lease Revenue Bonds, Series of 2012	2032	17,170,000	14,490,000
Harrisburg Area Community College, Revenue Bonds, Series of 2012	2032	14,860,000	12,565,000
Jefferson County-Dubois Area Vocational-Technical School, Revenue Bonds, Series of 2012	2029	11,425,000	8,870,000
Community College of Allegheny County, Revenue Bonds, Series of 2012	2034	40,000,000	37,575,000
Westmoreland County Community College, Revenue Bonds, Series A & B of 2012	2031	21,875,000	16,345,000
Mon Valley Career & Technology Center, General Obligation Secured Bonds, Series of 2012	2026	8,020,000	6,155,000
Indiana County Technology Center, Revenue Bonds, Series of 2012	2024	3,810,000	2,585,000
Delaware County Community College, Revenue Bonds, Series of 2011	2021	2,000,000	959,237
Harrisburg Area Community College, Revenue Bonds, Series of 2011	2031	51,010,000	41,005,000
Federally Taxable Revenue Bonds (Qualified Zone Academy Bonds), Series D of 2011	2029	24,716,000	24,716,000
Federally Taxable Revenue Bonds (Qualified School Construction Bonds), Series C of 2011	2029	185,436,000	185,436,000
Community College of Allegheny County, Revenue Bonds, Series A of 2011	2025	15,800,000	11,505,000
Community College of Allegheny County, Revenue Bonds, Series of 2011	2025	4,445,000	3,155,000
Butler County Community College, Revenue Bonds, Series A & B of 2011	2029	13,635,000	9,650,000

(Continued)

**STATE PUBLIC SCHOOL BUILDING AUTHORITY**  
(A Component Unit of the Commonwealth of Pennsylvania)

**NOTES TO FINANCIAL STATEMENTS**

YEAR ENDED JUNE 30, 2017

School	Final Maturity	Indebtedness	
		Issued	Outstanding
Franklin County Career and Technology Center, Revenue Bonds, Series of 2011	2039	14,090,000	12,325,000
Chester Upland School District, Revenue Bonds, Series A, B, C & D of 2011	2025	55,115,000	42,935,000
Federally Taxable Revenue Bonds (Qualified Zone Academy Bonds), Series B of 2011	2026	40,308,000	40,308,000
Federally Taxable Revenue Bonds (Qualified School Construction Bonds), Series A of 2011	2026	31,000,000	31,000,000
Northampton County Area Community College, Revenue Bonds, Series of 2011	2031	70,585,000	55,050,000
Federally Taxable Revenue Bonds (Qualified Zone Academy Bonds), Series C of 2010	2028	22,942,000	22,942,000
Federally Taxable Revenue Bonds (Qualified School Construction Bonds), Series B of 2010	2028	57,473,000	57,473,000
Federally Taxable Revenue Bonds (Qualified School Construction Bonds), Series A of 2010	2027	325,526,000	325,132,000
Northern Westmoreland Career & Technology Center, Lease Purchase Financing, Series of 2010	2025	2,074,500	1,347,003
Chambersburg Area School District, Revenue Bonds, Series of 2009	2037	20,000,000	19,965,000
School District of the City of Harrisburg, Series A, B, & C of 2009	2033	183,240,000	3,500,000
South Park School District, Revenue Bonds, Series A of 2009	2030	9,850,000	9,720,000
Bedford County Technical Center, Lease Revenue Bonds, Series of 2008	2023	1,705,000	825,000
Harrisburg Area Community College, Revenue Bonds, Series A of 2008	2029	26,275,000	3,200,000
North Penn School District, Revenue Bonds, Series of 2008	2018	19,820,000	4,265,000
Community College of Philadelphia, Revenue Bonds, Series of 2008	2028	74,770,000	3,110,000
Montgomery County Community College, Revenue Bonds, Series of 2008	2028	38,790,000	1,790,000
North Allegheny School District, Revenue Bonds, Series of 2008	2021	18,145,000	18,105,000
Clarion County Career Center, Revenue Bonds, Series of 2008	2021	2,295,000	970,000
Delaware County Community College, Revenue Bonds, Series of 2008	2032	59,635,000	2,280,000
Westmoreland County Community College, Revenue Bonds, Series A & B of 2008	2027	10,905,000	770,000
School District of Philadelphia, Lease Revenue Bonds, Series A & B of 2006	2036	862,695,000	83,365,000
Corry Area School District, Revenue Bonds, Series of 2006	2025	21,758,678	5,709,019 *
Delaware County Community College, Revenue Bonds, Series of 2005	2020	11,800,000	3,980,000
Wattsburg Area School District, Revenue Bonds, Series of 2004	2031	14,069,133	13,898,275 *
Westmoreland County Community College, Revenue Bonds, Series of 2004	2019	5,110,000	520,000
Reading Area Community College, Revenue Bonds, Series of 2003	2029	12,490,000	185,000
School District of Philadelphia, Lease Revenue Bonds, Series of 2003	2033	588,140,000	43,505,000
Butler County Community College, Revenue Bonds, Series G of 2000	2031	4,121,861	5,468,729 *
			<u>\$ 2,828,301,134</u>

\* – Accreted bonds

A summary of changes in conduit debt outstanding for the year ended June 30, 2017 is presented below:

Conduit debt, July 1, 2016	\$ 3,035,421,341
Additions:	
Revenue bonds issued	808,007,300
Accretion of interest	1,309,680
Reductions:	
Principal retirements	(97,190,187)
Refunding of principal	(919,247,000)
Conduit debt, June 30, 2017	<u>\$ 2,828,301,134</u>

**Required Supplementary  
Information**

# STATE PUBLIC SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Pennsylvania)

## SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE COLLECTIVE NET PENSION LIABILITY

### COMMONWEALTH OF PENNSYLVANIA STATE EMPLOYEES' RETIREMENT SYSTEM PLAN

YEAR ENDED JUNE 30, 2017

	<u>2016 *</u>	<u>2015</u>	<u>2014</u>
Authority's proportion of the collective net pension liability	0.01222824%	0.01163241%	0.01184779%
Authority's proportionate share of the collective net pension liability	\$ 2,355,199	\$ 2,115,218	\$ 1,760,275
Authority's covered-employee payroll	\$ 703,669	\$ 689,113	\$ 685,477
Authority's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	334.7%	306.9%	256.8%
Plan fiduciary net position as a percentage of the total pension liability	57.8%	58.9%	64.8%

\* The amount presented for this fiscal year was determined as of the calendar year-end that occurred within the fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the Authority is presenting information for those years for which information is available.

See accompanying notes to required supplementary information - pension information.

# STATE PUBLIC SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Pennsylvania)

## SCHEDULE OF AUTHORITY'S CONTRIBUTIONS

### COMMONWEALTH OF PENNSYLVANIA STATE EMPLOYEES' RETIREMENT SYSTEM PLAN

YEAR ENDED JUNE 30, 2017

	<u>2016 *</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 193,165	\$ 155,720	\$ 127,020
Contributions in relation to the contractually required contribution	218,844	174,149	139,541
Contribution deficiency (excess)	<u>\$ (25,679)</u>	<u>\$ (18,429)</u>	<u>\$ (12,521)</u>
Authority's covered-employee payroll	\$ 726,061	\$ 699,542	\$ 693,021
Contributions as a percentage of covered-employee payroll	30.1%	24.9%	20.1%

\* The amount presented for this fiscal year was determined as of the calendar year-end that occurred within the fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the Authority is presenting information for those years for which information is available.

See accompanying notes to required supplementary information - pension information.

**STATE PUBLIC SCHOOL BUILDING AUTHORITY**  
(A Component Unit of the Commonwealth of Pennsylvania)

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –  
PENSION INFORMATION

YEAR ENDED JUNE 30, 2017

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**1. Changes of Assumptions**

The actuarial valuation uses assumptions regarding future rates of investment return (discount rate) and rates of retirement, withdrawal, death, and disability among State Employees' Retirement Board (SERS) members and their beneficiaries. The current set of assumptions used in the December 31, 2016 actuarial valuation was adopted by the SERS Board based upon actual experience of SERS during the years 2011 through 2015. As a result of the review undertaken during March/April of 2017, the SERS Board approved (i) a reduction in the annual discount rate assumption from 7.50% to 7.25% and (ii) a reduction in the annual inflation assumption from 2.75% to 2.60% and both changes became effective with the December 31, 2016 actuarial evaluation. SERS will continue to closely monitor these assumptions and will recommend changing them if conditions warrant such change.

**2. Factors and Trends Used in the Actuarial Valuation for Pension Benefits**

The actuarially determined contributions are calculated as the Authority's percentage of the total of (1) the employer normal cost percentage and (2) the net amortization of the unfunded liability, but not less than any applicable minimum contribution as prescribed by the Pennsylvania State Employees' Retirement Code and not more than the total contribution amount that results from applying the collars established by Act 2010-120 to limit the extent of annual increase in the employer contribution rate. The following actuarial methods and assumptions were used to determine contribution rates reported in the pension required supplementary schedules:

Valuation date	December 31, 2016
Actuarial cost method	Entry age
Amortization method	Straight-line amortization of difference between projected and actual earnings on pension plan investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits
Investment rate of return	7.25% net of expense, including inflation

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**STATE PUBLIC SCHOOL BUILDING AUTHORITY**  
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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –  
PENSION INFORMATION

YEAR ENDED JUNE 30, 2017

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Projected salary increases	Average of 5.60% with range of 3.70% - 8.90%, including inflation
Asset valuation method	Fair (market) value
Inflation	2.60%
Mortality rate	Projected RP-2000 Mortality Tables adjusted for actual plan experience and future improvement

The following was updated in the December 31, 2016 actuarial valuation: investment rate of return decreased from 7.50% for December 31, 2015 to 7.25% for December 31, 2016; projected salary increases changed from average of 5.70%, with range of 3.85% - 9.05% for December 31, 2015 to average of 5.60%, with range of 3.70% - 8.90% for December 31, 2016; and inflation decreased from 2.75% for December 31, 2015 to 2.60% for December 31, 2016.