

HIGHLANDS SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2017

**HIGHLANDS SCHOOL DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Highlands School District
Natrona Heights, Pennsylvania

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Highlands School District ("the District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my 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 Highlands School District, as of June 30, 2017, and the respective changes in financial position and where applicable, cash flows thereof, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

I have previously audited the District's 2016 financial statements, and I expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in my report dated March 9, 2017. In my 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.

Emphasis of a Matter

As discussed in Note A to the financial statements, the District has adopted the requirements of GASB Statement No. 72, "Fair Value Measurement and Application." This statement addresses accounting and financial reporting issues related to fair value measurements. My opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion analysis on pages 4-12 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

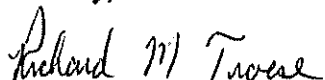
Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards on page 59 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated March 9, 2018, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the 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 Highlands School District's internal control over financial reporting and compliance.

Sincerely,



Richard M. Troese, C.P.A.
Clarion, Pennsylvania
March 9, 2018

HIGHLANDS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of Highlands School District's annual financial report, the District's management team provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. The District's financial performance is discussed and analyzed within the context of the accompanying financial statements.

Financial Highlights (dollars are in thousands)

- This is the fifteenth year end audit report that reflects the requirements of GASB 34, primarily requiring districts to depreciate their fixed assets and include that data in their financial statements.
- The District's aggressive collection program resulted in \$1,137,014 collected in delinquent real estate.
- Interest revenues decreased from \$477,124.13 in 2008 to \$35,238 in 2017 due to interest rates dropping significantly over the years in the market place.
- The District's general fund reported a total ending fund balance of \$10,796,072 this year. This compares to the prior year ending fund balance of \$12,359,148 showing a decrease of \$ 1,563,076 during the current year. The District knowingly used fund balance to update technology and balance the budget.
- The District must comply with Act I, Pennsylvania's new law that requires referendum voter approval for annual, public school tax increases higher than the state's annual index rate formula.
- The board authorized \$9,160,862 of the fund balance be transferred to an assigned fund balance for long term liabilities, such as retirement obligations.
- The District experience countywide reassessment of property values. Although all appeals are not final, the District is confident that tax revenues should stay constant thru June 2017.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the District's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The

District also includes additional information to explain the presentation of their financial reporting.

Government-wide Financial Statements

The District's annual report is summarized in two government-wide financial statements

The first of these government-wide statements is the Balance Sheet. This is the District-wide statement of position presenting information that includes all of the District's assets and liabilities, and fund balance. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall economic health of the District would extend to other non-financial factors such as diversification of the taxpayer base or the condition of District infrastructure in addition to the financial information provided in this report.

The second government-wide statement is combined statement of revenues, expenditures, and changes in fund balance which reports how the District's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the District's distinct activities or functions on revenues provided by the District's taxpayers.

Basis of Presentation – Fund Accounting

The accounts of the School District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Resources are allocated to and accounted for individual funds based upon the purposed for which they are spent. Account groups are used to establish accounting control and accountability for the School District's General Fixed Assets and General Long-Term Obligations.

The following fund types and account groups are used by the School District.

Governmental Fund Types

General Fund – The principal operating fund of the School District used to account for all financial resources except those required to be in another fund.

Special Revenue Fund - Account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes. The School District's Special Revenue Funds are the non-budgeted Athletic Fund and the Capital Reserve Fund.

Capital Projects Fund – Used to account for financial resources related to general fixed asset acquisitions, construction and improvements.

Proprietary Fund Types – These are the funds that account for the operations of the School District that are financed and operated in a manner similar to those often found in the private sector. The fund included in this category is:

Enterprise Fund – used to account for the operations of the Food Service Division.

Fiduciary Fund Types – These are the funds that account for the assets held by the School District as a trustee or agent for individuals, private organizations and/or other governmental units. The funds included in this category are:

Agency Funds – Used to account for assets held by the School District as trustee or agent for others. These funds are accounted for in a manner similar to governmental funds and include the Student Activities Fund, Athletic Fund, and the Payroll Fund.

Account Groups – These are groups of accounts that are designed to provide control over general fixed assets and the outstanding principle of long-term debt obligations of the School District.

General Fixed Assets Account Group – used to record the investment of the School District in real and personal property other than those accounted for in the proprietary fund.

Long-Term Debt Account Group – used to record the outstanding principle balances of the general obligation term loan note, authority leases and compensated absences.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measured focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreased (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is followed by the governmental fund types and the agency fund. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the related fund liability is incurred, if measurable.

Revenues from local sources consist primarily of property taxes. Property and other tax revenues are recognized under the susceptible to accrual concept in accordance with Government Accounting Standard Board (GASB) pronouncements. Revenues received from the Commonwealth of Pennsylvania are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measured and available.

Revenues from federal, state and other grants designated for payment of specific School District expenditures are recognized when the related expenditures are incurred. Any excess of revenues or expenditures at the fiscal year end is recorded as Fund Balance.

The proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity (i.e., net total assets) is shown as retained earnings. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total proprietary fund type. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when the related liability is incurred.

Reporting Entity

The Highlands School District Board of Education ("Board") is the basic level of government which has oversight responsibility and control over all activities related to the public school education in the Boroughs of Tarentum and Brackenridge, and the Townships of Fawn and Harrison. The Board received funding from local, state, and federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements, since Board members are elected by the public and have decision making authority, the ability to significantly influence operations and primary accountability for fiscal matters. The Board does not exercise sufficient control over any other governmental agency or authority that should be included as part of the District's reporting entity.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the proprietary fund types consider all bank checking accounts to be cash equivalents.

INVESTMENTS

Investments are recorded at cost which approximates market value.

Budgets and Budgetary Accounting

An operating budget is adopted each year for the General Fund on a modified accrual basis of accounting.

The Pennsylvania School Code dictates specific procedures relative to adoption of the School District's budget and reporting of its financial statements, specifically:

- The School District, before levying annual school taxes is required to prepare an operating budget for the succeeding fiscal year.
- The School District is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which it is located, and within fifteen days of final action, that the proposed budget has been prepared and is that public hearings will be held on the proposed operating budget must be included in the advertisements; such hearings are required to be scheduled at least ten days prior to when final action on adoption is taken by the Board.
- The District will follow the State's Act I guidelines for future budgets; which limits tax increases higher than the state index without voter approval. (See Financial Highlights).
- The Board of Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action. An affirmative vote of two-thirds of all members of the Board is required.
- Fund balances in Budgetary Funds may be appropriated based on resolutions passes by the Board of Education, which authorize the School District to make expenditures. Appropriations lapse at the end of the fiscal period. In order to preserve a portion of an appropriation for which expenditure has been committed by a purchase order, contract or other form of commitment, an encumbrance is recorded. Encumbrances outstanding at year end are reported as reservations of fund balances.
- Included in the General Fund budget are programs budgets as prescribed by the state and federal agencies funding the program. These budgets are approved on a program basis by the state or federal funding agency.

Interfund Receivable

Advances between funds are accounted for in the appropriate Interfund receivable and payable accounts. These advances are considered "available spendable resources."

Inventories

- Enterprise Fund food inventories include food commodities donated by the Federal Government, which are valued at an estimated market value. All other food or supply inventories are valued at last unit cost in accordance with the recommendations of the Food and Nutrition Service of the Department of Agriculture and are expensed as used.

Fixed Assets

Fixed assets in the enterprise fund are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated fixed assets are valued at their estimated fair market value on the date donated. Depreciation on these assets is recorded in the enterprise fund. Depreciation is calculated using the straight line method.

Fixed assets acquired or constructed for governmental fund purposed are recorded as expenditures in the fund incurring the obligation and are capitalized at appraisal values rather than historical cost in the General Fixed Assets Account Group. This practice differs from generally accepted accounting principles. No depreciation is recorded for these assets.

Amounts to be Provided for Retirement of Long-Term Debt

The balance in this account represents the amount to be provided from future taxes or other general revenues to retire long-term obligations.

Amounts to be provided for Compensated Absences

The balance in this account represents the amount to be provided from future taxes and other revenues to retire compensated absences obligations relating to the School District's retirement policy. This amount includes compensation due for sick, vacation, and sabbatical time and the related share of employer FICA taxes and retirement.

Deferred Revenues

Deferred revenues represent receivables which will be collected and included in revenues of future fiscal years. In the General Fund, deferred revenues consist of delinquent taxes receivable which are levied in the current and prior years but were not available to pay liabilities of the current period.

Financial Analysis of the District

As year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the District as a whole.

The following balance sheet provides a summary of the District's general fund.

Balance Sheet General Fund

| | |
|---------------------|--------------------|
| Assets | 19,482,265 |
| Liabilities/inflow | <u>(8,686,193)</u> |
| Fund Bal./Net Asset | 10,796,072 |

Highlands School District when compared to other districts in PA has a "below average market value" and relies heavily on state subsidies. When state subsidies, furthermore, have not increased proportionately over time, we are forced to raise taxes even greater on our low market values to generate enough revenue to cover lack in state funding.

Our local revenues are comparable to the state average because our delinquent taxes collected are so great that it significantly increased our position in local revenues.

Market performance continues to be a concern to the District. Investment revenues drastically increase and decrease according to the annual interest rate. However, interest rates have declined significantly since 2009. State subsidies have also not increased proportionately. Highlands School District is heavily dependent on state and federal subsidies.

Our District's health benefits and retirement contributions are projected to increase 3% next year and expected to keep this trend for 3 more years.

The teachers' union (HEA) contract expires June 30, 2020.

Summary

With anticipated annual increases in health care and retirement benefits the District is faced with tax increases unless the state helps subsidize these trends. With 90% of District's expenses being fixed or mandated by the education department the district cannot cut anymore variable expenses to operate their educational mandate and program.

The State, further, has not increased their share of funding to Highlands, therefore, causing the District to operate on minimal costs, increase taxes, actively seek grants, and aggressively collect delinquent taxes. The Commonwealth of PA has projected a significant loss this year.

Future challenges for the District under PA's Act I will also apply.

The General Fund

The General Fund is the District's primary operating fund and the largest source of day-to-day service delivery. Key factors maintaining a healthy fund balance was greater tax collections both current and delinquent, refinancing of debt, and a significant number of positions being furloughed district wide. Cost control efforts contained losses to levels reflected in the financial statements.

The following statement of revenues/expenditures and fund balance summarizes our general fund revenues and expenses:

| Statement | |
|--|----------------|
| Revenues | |
| Local Sources | \$20,131,483 |
| State Sources | \$21,046,361 |
| Federal Sources | \$ 1,184,163 |
| Other | \$ 0 |
| Total Revenues | \$42,362,007 |
| Expenditures | |
| Instruction | \$26,898,478 |
| Support Services | \$13,395,748 |
| Non-instructional Services | \$ 736,247 |
| Capital Outlay | \$ 0 |
| Debt Service | \$ 2,894,183 |
| Refund of Prior Years Receipts/Transfer | \$ 427 |
| Total Expenditures | \$ 43,925,083 |
| Revenues over Expenditures and | \$ (1,563,076) |
| Interfund transfer out and sale of bldg | \$ 0 |
| Fund Balance -- Beginning of Fiscal Year | \$ 12,359,149 |
| Fund Balance -- End of Year | \$ 10,796,073 |

Debt

Please note our debt ratio is below the state average, a refunding savings of over \$400,000 occurred in February 2016. The total debt will be paid off relatively soon.

Bond Ratings

Standard and Poor's and Moody's continue to keep HSD at or near their highest rating.

General Fund Budgetary Highlights

Highlands School District's 2017-2018 budget totals \$44,987,287, a 1% increase over last year's budget. The final budget included no tax increase.

District residents, moreover, will receive about \$245 off their school taxes from the gambling rebate.

Final adoption of the budget for the 2018-2019 year is June 2018.

Results - One Year Later

The district's annual financial report (AFR), as audited, for the year ended 6/30/17 showed that the District stayed within their budget adopted above.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the District's finances, comply with finance-related laws and regulations, and demonstrate the District's commitment to public accountability. If you have any questions about this report or would like to request additional information, contact the District's Business Manager at Highlands School District, 1500 Pacific Avenue, Natrona Heights, PA 15065.

**HIGHLANDS SCHOOL DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA
STATEMENT OF NET POSITION (DEFICIT)
JUNE 30, 2017
(With Summarized Comparative Data for June 30, 2016)**

| | Governmental Activities | Business-Type Activities | <u>Totals</u> | |
|---|----------------------------|-----------------------------|----------------------|----------------------|
| | | | 2017 | 2016 |
| ASSETS & DEFERRED OUTFLOWS OF RESOURCES | | | | |
| ASSETS: | | | | |
| Cash and Cash Equivalents | \$ 1,255,879 | \$ 915,894 | \$ 2,171,773 | \$ 2,148,113 |
| Investments | 11,041,567 | 0 | 11,041,567 | 12,508,602 |
| Taxes Receivable, Net | 4,347,020 | 0 | 4,347,020 | 4,144,517 |
| Internal Balances | 1,294,257 | 0 | 1,294,257 | 993,556 |
| Due from Other Governments | 1,568,232 | 62,620 | 1,630,852 | 1,643,301 |
| Other Receivables | 0 | 0 | 0 | 5,035 |
| Inventories | 0 | 26,429 | 26,429 | 23,728 |
| Prepaid Expenses/Expenditures | 0 | 0 | 0 | 0 |
| Land | 908,987 | 0 | 908,987 | 908,987 |
| Site Improvements (Net of Accumulated Depreciation) | 332,847 | 0 | 332,847 | 525,319 |
| Building and Building Improvements (Net of Accumulated Depreciation) | 24,253,132 | 0 | 24,253,132 | 25,263,177 |
| Furniture and Equipment (Net of Accumulated Depreciation) | 41,320 | 146,569 | 187,889 | 203,042 |
| TOTAL ASSETS | <u>45,043,241</u> | <u>1,151,512</u> | <u>46,194,753</u> | <u>48,367,377</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred Amounts Related to Pensions | 13,665,128 | 0 | 13,665,128 | 7,501,974 |
| TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 58,708,369</u> | <u>\$ 1,151,512</u> | <u>\$ 59,859,881</u> | <u>\$ 55,869,351</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, & NET POSITION (DEFICIT) | | | | |
| LIABILITIES: | | | | |
| Internal Balances | \$ 0 | \$ 1,294,257 | \$ 1,294,257 | \$ 993,556 |
| Due to Other Governments | 0 | 0 | 0 | 0 |
| Accounts Payable | 674,224 | 0 | 674,224 | 667,179 |
| Current Portion of Long-Term Debt | 1,900,000 | 0 | 1,900,000 | 2,275,000 |
| Accrued Salaries and Benefits | 706,129 | 0 | 706,129 | 1,704,690 |
| Payroll Deductions and Withholdings | 2,958,820 | 26,148 | 2,984,968 | 1,880,606 |
| Other Current Liabilities | 0 | 0 | 0 | 9,927 |
| Portion Due or Payable After One Year: | | | | |
| Bond Premium | 1,162,785 | 0 | 1,162,785 | 1,395,342 |
| Bonds and Notes Payable | 14,295,000 | 0 | 14,295,000 | 16,195,000 |
| Long-Term Portion of Compensated Absences | 10,499,300 | 0 | 10,499,300 | 7,493,665 |
| Net Pension Liability | 68,091,000 | 0 | 68,091,000 | 60,382,000 |
| Other Postemployment Benefits (OPEB) | 6,080,298 | 0 | 6,080,298 | 1,407,639 |
| TOTAL LIABILITIES | <u>106,367,556</u> | <u>1,320,405</u> | <u>107,687,961</u> | <u>94,404,604</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred Amounts Related to Pensions | 1,264,000 | 0 | 1,264,000 | 371,000 |
| NET POSITION (DEFICIT) | | | | |
| Invested in Capital Assets, Net of Related Debt | (2,175,609) | 146,569 | (2,029,040) | 5,127,862 |
| Athletic Fund | 24,690 | 0 | 24,690 | 0 |
| Other Restrictions | 9,160,862 | 0 | 9,160,862 | 9,160,862 |
| Unrestricted (Deficit) | (55,933,130) | (315,462) | (56,248,592) | (53,194,977) |
| TOTAL NET POSITION (DEFICIT) | <u>(48,923,187)</u> | <u>(168,893)</u> | <u>(49,092,080)</u> | <u>(38,906,253)</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT) | <u>\$ 58,708,369</u> | <u>\$ 1,151,512</u> | <u>\$ 59,859,881</u> | <u>\$ 55,869,351</u> |

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

**HIGHLANDS SCHOOL DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
(With Summarized Comparative Data for the Year Ended June 30, 2016)**

| Functions/Programs | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Position | | | |
|--|----------------------|----------------------------|--|--|--|---------------------------------|------------------------|------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business- Type Activities | Totals | |
| | | | | | | | 2017 | 2016 |
| Governmental Activities: | | | | | | | | |
| Instruction | \$ 28,198,320 | \$ 0 | \$ 17,998,815 | \$ 0 | \$ (10,199,505) | \$ 0 | \$ (10,199,505) | \$ (10,546,001) |
| Instructional Student Support | 4,099,756 | 0 | 2,630,501 | 0 | (1,469,255) | 0 | (1,469,255) | (894,883) |
| Administrative and Financial Support Services | 2,957,203 | 0 | 0 | 0 | (2,957,203) | 0 | (2,957,203) | (3,059,250) |
| Operation and Maintenance of Plant Services | 4,337,947 | 0 | 0 | 0 | (4,337,947) | 0 | (4,337,947) | (4,890,692) |
| Pupil Transportation | 2,451,735 | 0 | 1,153,940 | 0 | (1,297,795) | 0 | (1,297,795) | (1,463,947) |
| Food Service | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Student Activities | 659,016 | 0 | 53,579 | 0 | (605,437) | 0 | (605,437) | (433,108) |
| Community Services | 77,231 | 0 | 0 | 0 | (77,231) | 0 | (77,231) | (72,881) |
| Interest on Long-Term Debt | 619,183 | 0 | 393,689 | 0 | (225,494) | 0 | (225,494) | (35,103) |
| Total Governmental Activities | 43,400,391 | 0 | 22,230,524 | 0 | (21,169,867) | 0 | (21,169,867) | (21,415,867) |
| Business-Type Activities: | | | | | | | | |
| Food Services | 1,442,627 | \$7,862 | 1,359,916 | 0 | 0 | 5,151 | 5,151 | 44,272 |
| Total Primary Government | \$ 44,843,018 | \$ 77,862 | \$ 23,590,440 | \$ 0 | \$ (21,169,867) | \$ 5,151 | \$ (21,164,716) | \$ (21,371,595) |
| General Revenues: | | | | | | | | |
| Taxes: | | | | | | | | |
| Property Taxes, Levied for General Purposes, Net | | | | | 15,542,892 | 0 | 15,542,892 | 15,290,136 |
| Public Utility Realty, Earned Income and Per Capita Taxes Levied for General Purposes, Net | | | | | 2,665,097 | 0 | 2,665,097 | 2,469,231 |
| Bond Premium | | | | | 0 | 0 | 0 | (1,235,342) |
| Investment Earnings | | | | | 35,238 | 0 | 35,238 | 11,322 |
| Other Transfers between Governmental, BT Activities | | | | | 0 | 0 | 0 | 0 |
| Miscellaneous Income, Receipts from other LEA's | | | | | 818,435 | 0 | 818,435 | 1,006,727 |
| Special Item-Sale of Assets | | | | | 0 | 0 | 0 | 979,657 |
| Total General Revenues | | | | | 19,061,662 | 0 | 19,061,662 | 18,521,731 |
| Change in Net Position | | | | | (2,108,205) | 5,151 | (2,103,054) | (2,849,864) |
| Net Position - July 1 | | | | | (47,344,041) | (174,044) | (47,518,085) | (36,056,389) |
| Net Position - June 30 | | | | | \$ (49,452,246) | \$ (168,893) | \$ (49,621,139) | \$ (38,906,253) |

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

**HIGHLANDS SCHOOL DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017
(With Summarized Comparative Data for June 30, 2016)**

| | General Fund | Athletic/ Activity | <u>Totals</u> | |
|---|----------------------|-----------------------|----------------------|----------------------|
| | | | 2017 | 2016 |
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 1,241,318 | \$ 14,561 | \$ 1,255,879 | \$ 1,579,973 |
| Investments | 11,031,438 | 10,129 | 11,041,567 | 12,508,602 |
| Taxes Receivable (Net) | 4,347,020 | 0 | 4,347,020 | 4,144,517 |
| Due from Other Funds | 1,294,257 | 0 | 1,294,257 | 993,556 |
| Due from Other Governments | 40,735 | 0 | 40,735 | 55,921 |
| State Revenue Receivable | 1,314,627 | 0 | 1,314,627 | 1,383,229 |
| Federal Revenue Receivable | 212,870 | 0 | 212,870 | 91,526 |
| Prepaid Expenses/Expenditures | 0 | 0 | 0 | 0 |
| Other Current Assets | 0 | 0 | 0 | 0 |
| TOTAL ASSETS | \$ 19,482,265 | \$ 24,690 | \$ 19,506,955 | \$ 20,757,324 |
| LIABILITIES | | | | |
| Due to Other Funds | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Due to Other Governments | 0 | 0 | 0 | 9,927 |
| Accounts Payable | 674,224 | 0 | 674,224 | 667,179 |
| Accrued Salaries and Benefits | 706,129 | 0 | 706,129 | 1,655,186 |
| Payroll Deductions and Withholdings | 2,958,820 | 0 | 2,958,820 | 1,880,606 |
| Other Current Liabilities | 0 | 0 | 0 | 0 |
| TOTAL LIABILITIES | 4,339,173 | 0 | 4,339,173 | 4,212,898 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable Revenue-Real Estate Taxes | 4,347,020 | 0 | 4,347,020 | 4,144,518 |
| FUND BALANCES | | | | |
| Restricted Fund Balance | 9,160,862 | 0 | 9,160,862 | 0 |
| Committed Fund Balance | 0 | 24,690 | 24,690 | 0 |
| Unreserved-Designated | 0 | 0 | 0 | 9,201,622 |
| Unreserved-Undesignated | 1,635,210 | 0 | 1,635,210 | 3,198,286 |
| TOTAL FUND BALANCES | 10,796,072 | 24,690 | 10,820,762 | 12,399,908 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES & FUND BALANCES | \$ 19,482,265 | \$ 24,690 | \$ 19,506,955 | \$ 20,757,324 |

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

HIGHLANDS SCHOOL DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

| | |
|---|----------------------|
| TOTAL GOVERNMENTAL FUND BALANCES | \$ 10,820,762 |
|---|----------------------|

Amounts reported for governmental activities in the Statement of Net Position are different because of the following:

| | |
|---|------------|
| Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$58,430,187 and the accumulated depreciation is \$(32,893,901). | 25,536,286 |
|---|------------|

| | |
|--|-----------|
| Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds | 4,347,020 |
|--|-----------|

| | |
|--|-------------|
| Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds: | |
| Deferred outflows of resources related to pensions | 13,665,128 |
| Deferred inflows of resources related to pensions | (1,264,000) |

Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

| | | |
|-------------------------|----------------|---------------|
| Bond Premium | \$ (1,162,785) | |
| Net Pension Liability | \$(68,091,000) | |
| Bonds/note payable | \$(16,195,000) | |
| Compensated absences | \$(10,499,300) | |
| Postemployment Benefits | \$ (6,080,298) | |
| | | (102,028,383) |

| | |
|---|------------------------|
| TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES | \$ (48,923,187) |
|---|------------------------|

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

HIGHLANDS SCHOOL DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR THEN ENDED JUNE 30, 2017
(With Summarized Comparative Data for June 30, 2016)

| | General Fund | Athletic/ Activity | <u>Totals</u> | |
|---|----------------------|-----------------------|----------------------|----------------------|
| | | | 2017 | 2016 |
| REVENUES | | | | |
| Local Sources | \$ 20,131,483 | \$ 67,193 | \$ 20,198,676 | \$ 20,146,279 |
| State Sources | 21,046,361 | 0 | 21,046,361 | 20,955,110 |
| Federal Sources | 1,184,163 | 0 | 1,184,163 | 922,601 |
| TOTAL REVENUES | 42,362,007 | 67,193 | 42,429,200 | 42,023,990 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Instruction | 26,898,478 | 0 | 26,898,478 | 26,090,852 |
| Support Services | 13,395,748 | 0 | 13,395,748 | 13,507,073 |
| Operation of Noninstructional Services | 736,247 | 83,263 | 819,510 | 708,398 |
| Total Current | 41,030,473 | 83,263 | 41,113,736 | 40,306,323 |
| Capital Outlay: | | | | |
| Facilities Acquisition, Construction and Improvement Services | 0 | 0 | 0 | 44,671 |
| Total Capital Outlay | 0 | 0 | 0 | 44,671 |
| Debt Service | | | | |
| Principal and Interest | 2,894,183 | 0 | 2,894,183 | 2,540,011 |
| Refund of Prior Year Receipts | 427 | 0 | 427 | 45,352 |
| Total Debt Service | 2,894,610 | 0 | 2,894,610 | 2,585,363 |
| TOTAL EXPENDITURES | 43,925,083 | 83,263 | 44,008,346 | 42,936,357 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (1,563,076) | (16,070) | (1,579,146) | (912,367) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Bonds Issued (Face Value) | 0 | 0 | 0 | 0 |
| Sale of Fixed Assets | 0 | 0 | 0 | 979,657 |
| Interfund Transfers - In | 0 | 0 | 0 | 34,437 |
| Transfers Out | 0 | 0 | 0 | (34,437) |
| TOTAL OTHER FINANCING SOURCES (USES) | 0 | 0 | 0 | 979,657 |
| Net Change in Fund Balances | (1,563,076) | (16,070) | (1,579,146) | 67,290 |
| Fund Balance - July 1 | 12,359,149 | 40,760 | 12,399,909 | 12,332,618 |
| Fund Balance - June 30 | \$ 10,796,073 | \$ 24,690 | \$ 10,820,763 | \$ 12,399,908 |

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

HIGHLANDS SCHOOL DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA
RECONCILIATION OF THE GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

NET CHANGE IN FUND BALANCES-TOTAL GOVERNMENTAL FUNDS \$ (1,579,146)

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

Capital outlays are reported in Governmental Funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the period:

| | | |
|----------------------|---------------|-------------|
| Capital outlays | \$ 0 | |
| Depreciation expense | \$(1,204,751) | (1,204,751) |

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds. Deferred tax revenues increased by this amount this year:

(1,137,014)

The issuance of general obligation bonds provides current financial resources to Governmental Funds but has no affect on net position. Also, Governmental Funds report the issuance costs, bond discounts and other similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities:

| | |
|-----------------------------|-----------|
| Bond Premium (Net) | (232,557) |
| Repayment of Bond Principal | 2,275,000 |
| OPEB | (229,737) |

In the Statement of Activities certain operating expenses, comp absences and other postemployment benefits are measured by the amounts earned during the year. In the Governmental Funds these items are measured by the amount of financial resources used. This amount represents the difference:

0

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (2,108,205)

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

HIGHLANDS SCHOOL DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

| | Budgeted Amounts | | Actual | Variance With |
|---|--------------------|--------------------|--------------------|------------------|
| | Original | Final | (GAAP Basis) | Final Budget |
| | | | | Positive |
| | | | | (Negative) |
| REVENUES | | | | |
| Local Revenues | \$ 19,108,149 | \$ 19,108,149 | \$ 20,131,483 | \$ 1,023,334 |
| State Revenues | 19,790,269 | 19,790,269 | 21,046,361 | 1,256,092 |
| Federal Revenues | 1,376,520 | 1,376,520 | 1,184,163 | (192,357) |
| TOTAL REVENUES | <u>40,274,938</u> | <u>40,274,938</u> | <u>42,362,007</u> | <u>2,087,069</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Regular Programs | 18,270,508 | 17,745,496 | 17,830,242 | (84,746) |
| Special Programs | 7,040,331 | 7,969,964 | 8,048,131 | (78,167) |
| Vocational Programs | 721,009 | 572,143 | 575,726 | (3,583) |
| Other Instructional Programs | 146,382 | 295,256 | 299,130 | (3,874) |
| Pre-Kindergarten | 141,771 | 163,940 | 168,384 | (4,444) |
| Support Services: | | | | |
| Pupil Personnel Services | 1,129,776 | 1,105,681 | 1,117,130 | (11,449) |
| Instructional Staff Services | 823,959 | 713,850 | 746,363 | (32,513) |
| Administrative Services | 2,611,527 | 2,458,550 | 2,534,543 | (75,993) |
| Pupil Health | 469,800 | 431,572 | 458,926 | (27,354) |
| Business Services | 562,497 | 408,857 | 422,660 | (13,803) |
| Operation and Maintenance of Plant Services | 4,363,310 | 4,257,679 | 4,337,947 | (80,268) |
| Student Transportation Services | 2,267,459 | 2,443,648 | 2,451,735 | (8,087) |
| Central and Other Support Services | 1,002,896 | 1,285,271 | 1,302,310 | (17,039) |
| Other Support Services | 23,000 | 0 | 0 | 0 |
| Operation of Noninstructional Services: | | | | |
| Student Activities | 626,339 | 621,095 | 659,016 | (37,921) |
| Community Services | 44,750 | 64,423 | 77,231 | (12,808) |
| Facilities, Acquisition, Construction and Improvement Services | 18,000 | 18,000 | 0 | 18,000 |
| Capital Outlay | 0 | 0 | 0 | 0 |
| Debt Service (Principal & Interest) | 2,909,189 | 2,894,186 | 2,894,183 | 3 |
| Refund of Prior Year Receipts | 0 | 0 | 427 | (427) |
| TOTAL EXPENDITURES | <u>43,172,503</u> | <u>43,449,611</u> | <u>43,924,084</u> | <u>(474,473)</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>(2,897,565)</u> | <u>(3,174,673)</u> | <u>(1,562,077)</u> | <u>1,612,596</u> |

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

HIGHLANDS SCHOOL DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES -
BUDGET AND ACTUAL, (Continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

| | Budgeted Amounts | | Actual | Variance With |
|---|------------------|-------------|----------------------|----------------------|
| | Original | Final | (GAAP Basis) | Final Budget |
| | | | | Positive |
| | | | | (Negative) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sale of Bonds | 0 | 0 | 0 | 0 |
| Transfers (Out) | (152,375) | 0 | 0 | 0 |
| Budgetary Reserve | (106,733) | 0 | 0 | 0 |
| Sale/Compensation for Fixed Assets | 0 | 0 | 0 | 0 |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(259,108)</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Net Change in Fund Balances | (3,156,673) | (3,156,673) | (1,563,076) | 1,593,597 |
| Fund Balance - July 1, 2016 | 3,156,673 | 3,156,673 | 12,359,149 | 9,202,476 |
| Prior Period Adjustment | 0 | 0 | 0 | 0 |
| Fund Balance - June 30, 2017 | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 10,796,073</u> | <u>\$ 10,796,073</u> |

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

**HIGHLANDS SCHOOL DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2017 and 2016**

| | Food Services Fund | |
|---|---------------------------|-------------------|
| | 2017 | 2016 |
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 915,894 | \$ 568,140 |
| Due from Component Units | 0 | 0 |
| State Revenue Receivable | 3,012 | 1,763 |
| Federal Revenue Receivable | 59,608 | 110,862 |
| Other Receivables | 0 | 5,035 |
| Inventories | 26,429 | 23,728 |
| Total Current Assets | 1,004,943 | 709,528 |
| Noncurrent Assets: | | |
| Furniture and Equipment (Net of Accumulated Depreciation) | 146,569 | 159,488 |
| Total Noncurrent Assets | 146,569 | 159,488 |
| TOTAL ASSETS | \$ 1,151,512 | \$ 869,016 |
| LIABILITIES | | |
| Current Liabilities: | | |
| Due to Other Funds | \$ 1,294,257 | \$ 993,556 |
| Accounts Payable | 0 | 0 |
| Payroll Deductions & Withholdings | 26,148 | 0 |
| Accrued Salaries and Benefits | 0 | 49,504 |
| Total Current Liabilities | 1,320,405 | 1,043,060 |
| Noncurrent Liabilities: | | |
| Advances from Other Funds | 0 | 0 |
| TOTAL LIABILITIES | 1,320,405 | 1,043,060 |
| NET POSITION | | |
| Investment in Capital Assets, Net of Related Debt | 146,569 | 159,488 |
| Unrestricted (Deficit) | (315,462) | (333,532) |
| TOTAL NET POSITION (DEFICIT) | (168,893) | (174,044) |
| TOTAL LIABILITIES AND NET POSITION | \$ 1,151,512 | \$ 869,016 |

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

**HIGHLANDS SCHOOL DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (DEFICIT)
PROPRIETARY FUND
FOR THE YEAR THEN ENDED JUNE 30, 2017 and 2016**

| | Food Service Fund | |
|---|--------------------------|---------------------|
| | 2017 | 2016 |
| OPERATING REVENUES: | | |
| Food Service Revenue | \$ 87,862 | \$ 141,369 |
| Other Operating Revenues | 0 | 0 |
| TOTAL OPERATING REVENUES | 87,862 | 141,369 |
| OPERATING EXPENSES: | | |
| Salaries | 401,614 | 469,745 |
| Employee Benefits | 263,448 | 212,416 |
| Purchased Professional & Technical Service | 0 | 0 |
| Purchased Property Services | 22,982 | 12,382 |
| Other Purchased Service | 903 | 436 |
| Supplies/Purchases | 740,761 | 760,692 |
| Dues and Fees | 0 | 507 |
| Depreciation | 12,919 | 12,919 |
| Other Operating Expenditures | 0 | 0 |
| TOTAL OPERATING EXPENSES | 1,442,627 | 1,469,097 |
| OPERATING INCOME/(LOSS) | (1,354,765) | (1,327,728) |
| NONOPERATING REVENUES (EXPENSES): | | |
| Contributions & Donations - Private Sources | 0 | 0 |
| Refunds of Prior Year Expenditures | 0 | 0 |
| State Sources | 67,095 | 63,702 |
| Federal Sources | 1,292,821 | 1,308,298 |
| TOTAL NONOPERATING REVENUES (EXPENSES) | 1,359,916 | 1,372,000 |
| INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS | 5,151 | 44,272 |
| TRANSFERS IN | 0 | 0 |
| CONTRIBUTIONS & TRANSFERS | | |
| Capital Contributions | 0 | 0 |
| CHANGE IN NET POSITION | 5,151 | 44,272 |
| TOTAL NET POSITION (DEFICIT) - JULY 1 | (174,044) | (218,316) |
| TOTAL NET POSITION (DEFICIT) - JUNE 30 | \$ (168,893) | \$ (174,044) |

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

**HIGHLANDS SCHOOL DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR THEN ENDED JUNE 30, 2017 and 2016**

| | Food Service Fund | |
|--|--------------------------|-----------------------|
| | 2017 | 2016 |
| Cash Flows from Operating Activities | | |
| Cash Received from Users | \$ 142,902 | \$ 23,709 |
| Cash Received from Assessments Made to Other Funds | 0 | 0 |
| Cash Payments to Employees for Services | (688,418) | (659,401) |
| Cash Payments for Other Operating Expenses | 0 | (13,325) |
| Cash Payments to Suppliers for Goods and Services | (466,646) | (439,075) |
| Net Cash (Used for) Operating Activities | (1,012,162) | (1,088,092) |
| Cash Flows from Noncapital Financing Activities | | |
| Local Sources | 0 | 0 |
| State Sources | 67,095 | 63,702 |
| Federal Sources | 1,292,821 | 1,308,297 |
| Operating Transfers In (Out) Primary Government | 0 | 0 |
| Net Cash Provided by Noncapital Financing Activities | 1,359,916 | 1,371,999 |
| Cash Flows from Capital and Related Financing Activities | | |
| Fac Acq, Const, & Imp | 0 | 76,662 |
| (Inc) Dec in Contributed Capital | 0 | 0 |
| Net Cash Provided by Capital and Related Financing Activities | 0 | 76,662 |
| Cash Flows from Investing Activities | | |
| Earnings on Investments | 0 | 0 |
| Net Cash Provided by Investing Activities | 0 | 0 |
| Net Increase (Decrease) in Cash and Cash Flow | 347,754 | 360,569 |
| Cash and Cash Equivalents Beginning of Year | 568,140 | 207,571 |
| Cash and Cash Equivalents End of Year | \$ 915,894 | \$ 568,140 |
| Reconciliation of Operating Income to Net Cash Provided by (Used for) | | |
| Operating Activities: | | |
| Operating Income (Loss) | \$ (1,354,765) | \$ (1,327,728) |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) | | |
| Operating Activities: | | |
| Depreciation | 12,919 | 12,919 |
| (Increase) Decrease in Accounts Receivable | 55,040 | (112,625) |
| (Increase) Decrease in Inventories | (2,701) | (3,598) |
| (Increase) Decrease in Other Current or Noncurrent Assets | 0 | (5,035) |
| Increase (Decrease) in Accounts Payable | 300,701 | 325,215 |
| Increase (Decrease) in Payroll Deductions/Withholding | (23,356) | 22,760 |
| Total Adjustments | 342,603 | 239,636 |
| Net Cash (Used for) Operating Activities | \$ (1,012,162) | \$ (1,088,092) |
| Supplemental Disclosure | | |
| Noncash, Noncapital Financing Activity: | | |
| USDA Donated Commodities | \$ 60,119 | \$ 83,713 |

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

**HIGHLANDS DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017**

| | <u>Private Purpose Trust</u> | <u>Student Activities</u> | <u>Total</u> |
|---|----------------------------------|-------------------------------|-------------------------|
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 14,348 | \$ 24,514 | \$ 38,862 |
| Investments | <u>0</u> | <u>27,708</u> | <u>27,708</u> |
| TOTAL ASSETS | <u><u>\$ 14,348</u></u> | <u><u>\$ 52,222</u></u> | <u><u>\$ 66,570</u></u> |
| LIABILITIES | | | |
| Short-Term Payables | \$ 0 | \$ 52,222 | \$ 52,222 |
| Other Current Liabilities | <u>0</u> | <u>0</u> | <u>0</u> |
| TOTAL LIABILITIES | <u>0</u> | <u>52,222</u> | <u>52,222</u> |
| NET POSITION | | | |
| Restricted for Legal Purposes | <u>14,348</u> | <u>0</u> | <u>14,348</u> |
| TOTAL LIABILITIES AND NET POSITION | <u><u>\$ 14,348</u></u> | <u><u>\$ 52,222</u></u> | <u><u>\$ 66,570</u></u> |

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

**HIGHLANDS SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District operates four elementary schools and one middle school, and one high school. The Heights Elementary School and Fairmount Elementary School are located in Harrison Township; Fawn Elementary School is located in Fawn Township, and Grandview Elementary School is located in Tarentum Borough. The Middle School and the High School are both located in Natrona Heights, Pennsylvania. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provision of the School Laws of Pennsylvania. The District operates under a locally elected nine-member Board form of government.

The accounting policies of the District conform to generally accepted accounting principles for local government units. The most significant accounting policies are summarized below.

The Governmental Accounting Standards Board (GASB) Statement 14, "The Financial Reporting Entity", as amended by GASB statement No. 61, established the criteria for determining the activities, organizations and functions of the government to be included in the financial statements of the reporting entity. The criteria used in determining whether such organizations should be included in the District's financial reporting entity are financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters, scope of public service and special financial relationships.

The District has determined that there are no related organizations which should be included in the general purpose financial statements.

Basis of Presentation

Entity-wide financial statements

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent.

The statement of net position and the statement of activities report about the District as a whole. As a general rule the effect of inter-fund activity has been eliminated from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately in the government-wide financial

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

statements from business-type activities, which rely, to a significant extent on fees and charges for support.

The entity-wide statement of activities presents a comparison between expenses and program revenues for each function of the business-type activities of the District and for each governmental activity. Expenses are those that are specifically associated with a service or program and are, therefore, clearly identifiable to a particular function.

Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants, and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the District.

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

The entity-wide financial statements report net position in one of three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing, or improving those assets. Net position is reported as restricted when constraints placed on its use is either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Those restrictions affect net position arising from special revenue and capital projects funds. Unrestricted net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted."

Fund Financial Statements

Fund financial statements are also provided in the report for all of the governmental funds, proprietary funds, and the fiduciary funds of the District. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

service charges. Operating expenses for the District's enterprise fund include food production costs, supplies, administrative costs, and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as non-operating revenues and expenses. General fund expenditures which partially benefit the proprietary fund are not entirely recognized with the proprietary fund. Similarly, the proprietary fund does not recognize a cost for the building space it occupies.

The District reports the following major governmental fund:

General Fund – The principal operating fund of the District used to account for all financial resources except those required to be in another fund.

Capital Reserve Fund – is used to account for the acquisition, construction, and renovation of major capital facilities and their related capital assets.

The District reports the following other major funds:

Proprietary Fund Types – These are the funds that account for the operations of the District that are financed and operated in a manner similar to those often found in the private sector. The fund included in this category is:

Enterprise Fund – Used to account for the operation of the Food Service Division.

The District reports the following nonmajor governmental funds:

Capital Projects Fund – Used to account for financial resources related to general fixed asset acquisitions, construction and improvements.

Agency Fund – Used to account for assets held by the District as an agent for others. These funds are accounted for in a manner similar to governmental funds and include the Athletic Fund.

Measurement Focus & Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue when provider eligibility requirements have been met. Net assets (total assets less total liabilities) are used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net assets. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of net assets.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenues from federal, state and other grants designated for payment of specific District expenditures are recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as deferred revenues until earned. Expenditures, generally are recorded when the related fund liability is incurred, if measurable. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Reporting Entity

The Highlands School District Board of Education ("Board") is the basic level of government, which has oversight responsibility and control over all activities related to the public school education in the Boroughs of Tarentum and Natrona Heights, and the Townships of Harrison and Fawn. The Board received funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements, since Board members are elected by the public and have decision making authority, the ability to significantly influence operations and primary accountability for fiscal matters. The Board does not exercise sufficient control over any other governmental agency or authority that should be included as part of the District's reporting entity.

Cash and Cash Equivalents

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

Investments

Investments are recorded at fair value.

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

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

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

Receivables and Payables

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

Inventories

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis, and are expensed when used.

A physical inventory of the Cafeteria Fund food and supplies was taken as of June 30, 2017. The inventory of \$6,925 consisted of government donated commodities, which were valued at estimated fair market value, and purchased commodities and supplies, both valued at cost using the first-in, first-out (FIFO) method. Any unused commodities donated by the federal government at June 30, 2017 are reported as inventory.

Prepaid Expenses

Prepaid expenses reflect certain payments to vendors that benefit future reporting periods and are reported on the consumption basis.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$1,500 as composite groups for financial reporting purposes. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. 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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

All reported capital assets are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------------------|--------------|
| Buildings & Building Improvements | 20-50 |
| Site Improvements | 20 |
| Furniture & Equipment | 5-20 |
| Vehicles | 8-20 |
| Library Books | 7 |

Proprietary fund equipment purchases are capitalized in the proprietary fund at cost and depreciated on a straight-line basis over 12 years at the rate of 8.33% per year.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activity columns in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Amount to be Provided for Compensated Absences

The liability for these compensated absences is recorded as long-term debt in the entity-wide financial statements. The balance in this account represents the amount to be provided from future taxes and other revenues to retire compensated absences obligations relating to the District's retirement policy. This amount includes compensation due for sick, vacation and sabbatical time. This amount for fiscal year 2016-2017 was \$10,499,300.

Deferred Revenues

Deferred revenues represent receivables which will be collected and included in revenues of future fiscal years. In the General Fund, deferred revenues of \$4,347,020 consist of delinquent taxes receivable which are levied in the current and prior years but were not available to pay liabilities of the current period.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Deferred Inflows and Deferred Outflows of Resources

In addition to assets and liabilities, the statement of net position and fund level statements will sometimes report separate sections for deferred inflows and deferred outflows of resources. These separate financial statement elements represent acquisition or use of net position that applies to a future period(s) and so will not be recognized as an inflow or outflow of resources (revenue or expense/expenditure) until that time. The District currently has four types of items that qualify for reporting in this category. Pension contributions made subsequent to the measurement date and therefore, not reflected in the net pension liability under full accrual basis reporting, are reported as a deferred outflow of resources on the entity-wide and proprietary fund statements of net position. Certain changes to the net pension liability are required to be amortized over a period of years; the unamortized portions of these changes are reflected as deferred outflows and inflows of resources on the entity-wide and proprietary fund statements of net position.

Deferred amounts on the refunding of bonds are reflected as deferred outflows of resources on the entity-wide statement of net position. Delinquent taxes and notes receivable not collected within 60 days of year end and, therefore, not available under modified accrual reporting are reflected as deferred inflows of resources on the general fund balance sheet.

Fund Balances

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

Nonspendable – amounts that cannot be spent because they are in nonspendable form (e.g., inventory) or legally or contractually required to be maintained intact (e.g., principal of a permanent fund).

Restricted – amounts limited by external parties or legislation (e.g., grants or donations and constraints imposed through a debt covenant).

Committed – amounts limited by Board policy (e.g., future anticipated costs). These constraints can be removed or changed by equal levels of action. Action or constraint resources should occur prior to fiscal year end.

Assigned – amounts that are intended for a particular purpose such as future benefits funding or segregation of an amount intended to be used at some time in the future. Funds can be assigned by the School Board of Directors or by an official to which the School Board of Directors delegates the authority.

Unassigned – amounts available for consumption or not restricted in any manner.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds and, finally, unassigned funds, as needed, unless the Board or official with the appropriate authority has provided otherwise in its commitment or assignment actions.

Implementation of GASB Statement

During the year ended June 30, 2017, the District implemented GASB Statement No. 72, "Fair Value Measurement and Application." GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes and applying fair value to certain investments, as well as improving disclosures related to all fair value measurements. The effects of this statement have been included in the District's financial statement footnotes.

The District has chosen to an early implement of the Governmental Accounting Standards Board (GASB) 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of the statement is to improve accounting and financial reporting by state and local governments for postemployment benefits.

Use of Estimates in the Preparation of Financial Statements

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

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Total Columns on Combined Statements

The total columns on the combined statements are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation. Interfund eliminations have been made in the aggregation of this data.

NOTE B - EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND DISTRICT-WIDE STATEMENTS

Due to the differences in the measurement focus and basis of accounting used on the government fund statements and district-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items.

Explanation of Differences between Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities

Capital related differences include (1) non-facility related fixed asset purchases are recorded as an expenditure in the functional categories listed under current expenditures in the government fund statements and capitalization and recording of depreciation expense in the statement of activities.

NOTE C- STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets and Budgetary Accounting

An operating budget is adopted 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.

The Pennsylvania School code dictates specific procedures relative to adoption of the District's budget and reporting of its financial statements, specifically:

- The District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.
- The District is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which it is located, and within fifteen days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative office of the District. Notice that public hearings will be held on the proposed operating budget must be included in the advertisements; such hearings are required to be scheduled at least ten days prior to when final action on adoption is taken by the Board.
- The Board of Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action. An affirmative vote of two-thirds of all members of the Board is required.
- Fund balances in Budgetary Funds may be appropriated based on resolutions passed by the Board of Education, which authorize the District to make expenditures. Appropriations lapse at the end of the fiscal period. 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. Encumbrances outstanding at year end are reported in the fund financial statements as reservations of fund balances.

NOTE C- STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, Cont.

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

NOTE D - CASH DEPOSITS AND INVESTMENTS

Deposits were with the contracted depository bank in interest bearing accounts, which were secured at the balance sheet date by FDIC coverage and by pledged government securities held in the name of the depository bank.

Funds were secured at all times.

The cash and investments of Highlands District were classified as follows:

| General Fund | Cash | Investments |
|--------------------------------------|--------------------|---------------------|
| Regular Checking | \$1,238,286 | |
| Payroll Checking | 2,032 | |
| Petty Cash | 1,000 | |
| Money Market | | \$ 446,693 |
| First Commonwealth Money Market | | 5,023,457 |
| PA School Liquid Asset Fund | | 5,561,288 |
| | <u>\$1,241,318</u> | <u>\$11,031,438</u> |
| Athletic Fund | | |
| Checking | \$ 14,561 | |
| Certificate of Deposit | 0 | \$ 10,129 |
| | <u>\$ 14,561</u> | <u>\$ 10,129</u> |
| Food Service | | |
| Regular Checking | \$ 915,894 | |
| Petty Cash | 0 | |
| | <u>\$ 915,894</u> | |
| Total Net Position | <u>\$2,171,773</u> | <u>\$11,041,567</u> |
| Agency - Student Activities Fund | | |
| Checking | \$ 24,514 | |
| Certificate of Deposit | | \$ 27,708 |
| | <u>\$ 24,514</u> | <u>\$ 27,708</u> |
| Private Purpose Trust | | |
| Checking | \$ 14,348 | |
| | <u>\$ 14,348</u> | |

PA School District Liquid Asset Fund; \$5,561,288; variable interest rate. The PSDLAF was established in 1982 and operated under the provisions of the PA Intergovernmental

NOTE D – CASH DEPOSITS AND INVESTMENTS, Continued

Cooperation Act, and other appropriate state and federal regulations and statutes. Permissible investments of the PSDLAF are U. S. Treasury bills, short-term obligations of the United States Government or its agencies or instrumentalities, deposits in savings accounts or time deposits or share accounts of federally insured institutions to the extent that such accounts are so insured. All investments must have a maturity date of not more than one year from date of purchase. PSDLAF was established to enable School Districts to pool funds for investment in instruments authorized by Section 440.1 of the Pennsylvania Public School Code of 1949, as amended. This fund has the characteristics of open-end mutual funds and is not subject to credit risk classification.

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

- Category 1 Deposits which are insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 2 Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3 Deposits which are not collateralized or insured

Based on these three levels of risk, all of the District's cash deposits are classified as Category 1.

Investments

Statutes authorize the District to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation, or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, State Treasurer's investment pools, or mutual funds. During the year ended June 30, 2017, permitted investments were expanded to include highly-rated commercial paper, bankers' acceptances, and negotiable certificates of deposit.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The District has the following recurring fair value measurements as of June 30, 2017:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Level 1</u> | Matures in | Matures in |
|-------------------------|-------------------|----------------|-----------------|-------------------|
| | | | Less Than | One to |
| | | | <u>One Year</u> | <u>Five Years</u> |
| Certificates of Deposit | \$37,837 | \$37,837 | \$37,837 | \$0 |

Custodial Credit Risk

The District's investment strategy follows the Pennsylvania School Code in limiting its investment choices to those with certain credit ratings. All certificates of deposit are fully covered by FDIC insurance.

NOTE D – CASH DEPOSITS AND INVESTMENTS, Continued

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At June 30, 2017, the carrying amount of the District's deposits was \$13,904,501 and the bank balance was \$13,279,910. Of the bank balance, \$1,093,292 was covered by federal depository insurance, while \$7,249,921 was covered through collateral held by financial institutions but not in the District's name.

The remaining cash deposits of \$5,561,288 of the District are in the Pennsylvania School District Liquid Asset Fund ("PSDLAF"), the Pennsylvania Local Government Investment Trust ("PLGIT"), and the Pennsylvania Invest Program ("Invest"). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF, PLGIT, and Invest act like money market mutual funds in that their objective is to maintain a stable net asset value of \$1 per share, are rated by a nationally recognized rating organization, and are subject to an independent annual audit. At June 30, 2017, PSDLAF, PLGIT, and Invest were rated AAAM.

Similar to cash deposits, investments held at a financial institution can be categorized according to three levels, of risk. These three levels are:

- Category 1 Investments that are insured, registered, or held by the entity or by its agent in the District's name.
- Category 2 Investments that are uninsured and unregistered held by the counter-party's trust department or agent in the District's name.
- Category 3 Uninsured and unregistered investments held by the counter-party, its trust or its agent, but not in the District's name.

Based on these three levels of risk, all of the District's investments are classified as Category 1.

NOTE E – REAL ESTATE TAXES

Real Estate taxes for the School District are collected from the Boroughs of Tarentum and Natrona Heights and the Townships of Fawn and Harrison. The tax on real estate for public school purposes for fiscal year 2016 - 2017 was 23.8 mills for Allegheny County, as levied by the Board. Assessed valuations of property are determined by Allegheny County and the elected tax collectors are responsible for collection. The schedule for real estate taxes levied for each fiscal year is as follows.

| | |
|--------------------------|----------------------|
| July 1 | -Levy Date |
| July 1 – August 31 | -2% Discount Period |
| September 1 – October 31 | -Face Payment Period |
| November 1 – December 31 | -10% Penalty Period |
| July 1 | -Lien Date |

NOTE F – INTERGOVERNMENTAL RECEIVABLES

Amounts due from other governments represent receivables for revenues earned by the District or collections made by another governmental unit on behalf of the District. At June 30, 2017, the following amounts are due from other governmental units:

| <u>Due From</u> | <u>General Fund</u> |
|--------------------|---------------------|
| Federal Government | \$ 212,870 |
| State Government | 1,314,627 |
| Other Government | <u>40,735</u> |
| | <u>\$1,568,232</u> |

NOTE G – DUE TO/FROM OTHER FUNDS

Interfund receivable and payable balances as of June 30, 2017 are as follows:

| <u>Due To</u> | <u>Due From</u> | <u>Amount</u> |
|-----------------|-----------------|--------------------|
| General | Food Service | \$1,294,257 |
| Food Service | General | 0 |
| Capital Reserve | General | <u>0</u> |
| | | <u>\$1,294,257</u> |

NOTE H - CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|-----------------------|-------------|----------------------|
| Governmental Activities | | | | |
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$ 908,987 | \$ 0 | \$ 0 | \$ 908,987 |
| Total Capital Assets Not Being Depreciated | 908,987 | 0 | 0 | 908,987 |
| Capital Assets, Being Depreciated | | | | |
| Buildings | 43,034,929 | 0 | 0 | 43,034,929 |
| Site Improvements | 3,849,436 | 0 | 0 | 3,849,436 |
| Furniture & Equipment | 10,636,835 | 0 | 0 | 10,636,835 |
| Total Assets Being Depreciated | 57,521,200 | 0 | 0 | 57,521,200 |
| Less Accumulated Depreciation For: | | | | |
| Buildings | 17,771,752 | 1,010,045 | 0 | 18,781,797 |
| Site Improvements | 3,324,117 | 192,472 | 0 | 3,516,589 |
| Furniture & Equipment | 10,593,281 | 2,234 | 0 | 10,595,515 |
| Total Accumulated Depreciation | 31,689,150 | 1,204,751 | 0 | 32,893,901 |
| Total Capital Assets, Being Depreciated, Net | 25,832,050 | (1,204,751) | 0 | 24,627,299 |
| Governmental Activities, Capital Assets, Net | <u>\$ 26,741,037</u> | <u>\$ (1,204,751)</u> | <u>\$ 0</u> | <u>\$ 25,536,286</u> |
| Business-Type Activities | | | | |
| Capital Assets Being Depreciated | | | | |
| Furniture & Equipment | \$ 836,960 | \$ 0 | \$ 0 | \$ 836,960 |
| Total Capital Assets, Being Depreciated | 836,960 | 0 | 0 | 836,960 |
| Less Accumulated Depreciation For: | | | | |
| Furniture & Equipment | 677,471 | 12,919 | 0 | 690,390 |
| Total Accumulated Depreciation | 677,471 | 12,919 | 0 | 690,390 |
| Total Capital Assets, Being Depreciated, Net | 159,489 | (12,919) | 0 | 146,570 |
| Business-Type Activities Capital Assets, Net | <u>\$ 159,489</u> | <u>\$ (12,919)</u> | <u>\$ 0</u> | <u>\$ 146,570</u> |

NOTE H - CHANGES IN CAPITAL ASSETS (Continued)

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

Governmental Activities:

| | |
|---|--------------|
| Instruction | \$ 1,010,045 |
| Instructional Student Support | 0 |
| Administrative & Financial Support Services | 0 |
| Operation & Maintenance of Plant Services | 192,472 |
| Student Activities | <u>2,234</u> |

| | |
|---|----------------------------|
| Total Depreciation Expense-Governmental Activities | <u>\$ 1,204,751</u> |
|---|----------------------------|

| | |
|---------------------------------------|-------------------------|
| Total Business-Type Activities | <u>\$ 12,919</u> |
|---------------------------------------|-------------------------|

NOTE I - LONG-TERM DEBT OBLIGATIONS

During the fiscal year ended June 30, 2017, general long-term debt changed as follows:

| | Bonds Payable | Compensated Absences | Other Post Employment Benefits (OPEB) | Net Pension Liability | Total General Long-Term Liabilities | Due Within One Year |
|--------------------------------------|---------------|----------------------|---------------------------------------|-----------------------|-------------------------------------|---------------------|
| Beginning of Year | 18,470,000 | 7,493,665 | 1,211,041 | 60,382,000 | 87,556,706 | 0 |
| Increase in OPEB | 0 | 0 | 4,869,257 | 0 | 4,869,257 | 0 |
| Principal Retirement | 2,275,000 | 0 | 0 | 0 | 2,275,000 | 1,900,000 |
| (De)Increase in Compensated Absences | 0 | 3,005,635 | 0 | 0 | 3,005,635 | 0 |
| (De)Increase in Pension Liability | 0 | 0 | 0 | 7,709,000 | 7,709,000 | 0 |
| End of Year | 16,195,000 | 10,499,300 | 6,080,298 | 68,091,000 | 100,865,598 | 1,900,000 |

The future annual payments required to amortize all outstanding debt and obligations, except compensated absences, as of June 30, 2017, including total interest payments are as follows:

| Year Ended June 30, | A Series 2016 Bonds Payable | | | Series 2007 Bonds Payable | | | Series 2012 Bonds Payable | | |
|------------------------|-----------------------------|------------------|-------------------|---------------------------|----------|----------|---------------------------|------------------|------------------|
| | Principal | Interest | Total | Principal | Interest | Total | Principal | Interest | Total |
| 2018 | 1,895,000 | 442,800 | 2,337,800 | 0 | 0 | 0 | 5,000 | 154,229 | 159,229 |
| 2019 | 1,960,000 | 382,000 | 2,342,000 | 0 | 0 | 0 | 5,000 | 154,128 | 159,128 |
| 2020 | 2,055,000 | 284,000 | 2,339,000 | 0 | 0 | 0 | 5,000 | 154,028 | 159,028 |
| 2021 | 2,160,000 | 181,250 | 2,341,250 | 0 | 0 | 0 | 5,000 | 154,429 | 159,429 |
| 2022 | 2,145,000 | 91,250 | 2,236,250 | 0 | 0 | 0 | 115,000 | 152,506 | 267,506 |
| Thereafter | 0 | 0 | 0 | 0 | 0 | 0 | 5,845,000 | 334,367 | 6,179,367 |
| TOTAL | 10,215,000 | 1,381,300 | 11,596,300 | 0 | 0 | 0 | 5,980,000 | 1,103,687 | 7,083,687 |

| Year Ended June 30, | B Series 2010 Bonds Payable | | | C Series 2010 Bonds Payable | | |
|------------------------|-----------------------------|----------|----------|-----------------------------|----------|----------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2018 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2019 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2020 | 0 | 0 | 0 | 0 | 0 | 0 |
| Thereafter | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL | 0 | 0 | 0 | 0 | 0 | 0 |

NOTE I – LONG-TERM DEBT OBLIGATIONS, Continued

Series 2007 Bonds Payable

In 2007, the District issued general obligation bonds in the amount of \$11,000,000. The bonds bear interest rates ranging from 4.1% to 4.625% with principal maturities from April 15, 2009 through April 15, 2022. The principal balance outstanding at June 30, 2017 was \$0. The 2007 bonds were paid off with the issue of the 2016 series of bonds.

General Obligation Bonds, Series of 2010

In 2010, the District issued a general obligation bond in the amount of \$13,675,000 and the proceeds were used to pay off the 2002, 2003 and 2005 bond series. The bonds bear interest rates ranging from .5% to 3% with principal maturities from May 15, 2011 through November 15, 2016. The principal balance was paid off in 2016-2017.

General Obligation Bonds, Series of 2012

In 2012, the District issued general obligation bonds in the amount of \$6,000,000. The bonds bear interest rates ranging from 2% to 2.75% with principal maturities from November 15, 2013 through November 15, 2024. The principal balance outstanding at June 30, 2017 was \$5,980,000. The bond proceeds are being used for building improvements.

General Obligation Bonds, Series of 2016

In 2016, the District issued general obligation bonds in the amount of \$10,680,000. The bonds bear interest rates ranging from .40% to 5.0% with principal maturities from April 15, 2016 through April 15, 2022. The principal balance outstanding at June 30, 2017 was \$10,215,000. The bond proceeds are being used to pay off the 2007 bond series.

NOTE J – COMPENSATED ABSENCES

District employees are entitled to paid vacation, personal and sick days off, depending on job status, length of service and other factors. Sick leave and personal days may accumulate. The District's policy is to expense the cost of compensated absences when paid to the employee. For fiscal year 2016-2017 the District has accrued a liability for compensated absences and the related employer's share of FICA and retirement in noncurrent liabilities. This amount for fiscal year 2016-2017 is \$10,499,300.

NOTE K – POST-RETIREMENT BENEFITS

Employees who retire after thirty years of credited service in the Public School Retirement System, of which fifteen years were earned as an employee of the District, receive Blue Cross/Blue Shield coverage. Coverage will be continued until age 65 or until eligible for Medicare, whichever occurs first. Spousal coverage will cease when the spouse has reached his/her 65th birthday, or after five years, whichever occurs first. As of and for the year ended June 30, 2017, twenty-four (24) retirees were receiving such benefits. The total premiums paid by the District, throughout the fiscal year, for those benefits totaled \$165,617.

NOTE L – CONTINGENT LIABILITIES

Contingencies

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

NOTE M - PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

1. Summary of Significant Accounting Policies

Pensions

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.

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.state.pa.us.

Benefits provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year 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

NOTE M - PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (Continued)

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.

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.

NOTE M - PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (Continued)

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 District's contractually required annual contribution is based on an actuarially determined amount that, when combined with the employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2017, the rate of the employer contribution was 30.03 percent of covered payroll, allocated 29.20 percent to pensions and 0.83 percent to health insurance assistance. The District's contribution to PSERS for the year ended June 30, 2017 was \$4,912,336.59.

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

At June 30, 2017, the District reported a liability of \$68,091,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015 to June 30, 2016. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the District's proportion was 0.1374 percent, which was a decrease of 0.0020 from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$4,776,564. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|--|---|
| Changes in proportions | \$2,230,000 | \$ 697,000 |
| Changes in assumptions | 2,458,000 | 0 |
| Net difference between projected and actual investment earnings | 3,795,000 | 0 |
| Difference between employer contributions and proportionate share of total contributions | 405,564 | 0 |
| Difference between expected and actual experience | 0 | 567,000 |
| Contributions subsequent to the measurement date | <u>4,776,564</u> | <u>0</u> |
| | <u>\$13,665,128</u> | <u>\$ 1,264,000</u> |

NOTE M - PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (Continued)

\$4,776,564 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. 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: | |
|---------------------|---------------------|
| 2017 | \$ 1,804,000 |
| 2018 | 1,804,000 |
| 2019 | 2,357,000 |
| 2020 | <u>1,255,000</u> |
| | <u>\$ 7,220,000</u> |

Changes in Actuarial Assumptions

The total pension liability as of June 30, 2016 was determined by rolling forward the System's total pension liability as of the June 30, 2015 to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

Changes in assumptions used in measurement of the Total Pension Liability beginning June 30, 2016

- The Investment Rate of Return was adjusted from 7.50% to 7.25%
- The inflation assumption was decreased from 3.0% to 2.75%.
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an 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 modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the Board at its June 10, 2016 Board meeting, and were effective beginning with the June 30, 2016 actuarial valuation.

NOTE M - PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (Continued)

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 weighing 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>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-------------------------|--------------------------|---|
| Global Public equity | 22.5% | 5.3% |
| Real Estate | 12.0% | 4.0% |
| Fixed income | 28.5% | 2.1% |
| Alternative Investments | 15.0% | 6.6% |
| Cash | 3.0% | 0.2% |
| Absolute return | 10.0% | 3.3% |
| Risk parity | 10.0% | 3.9% |
| Infrastructure/ MLPs | 5.0% | 4.8% |
| Commodities | 8.0% | 2.5% |
| Financing (LIBOR) | (14.0%) | 0.5% |
| | <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, 2016.

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

NOTE M - PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (Continued)

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:

| | <u>1% Decrease 6.25%</u> | <u>Current Discount Rate 7.25%</u> | <u>1% Increase 8.25%</u> |
|--|-------------------------------------|---|---|
| District's proportionate share of The net pension liability | \$83,294,000 | \$68,091,000 | \$55,316,000 |

Pension plan fiduciary net position

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

NOTE N - POSTEMPLOYMENT HEALTH CARE BENEFITS

Plan Description

The District has adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*, for certain postemployment health care benefits and life insurance benefits provided by the District.

This statement provides for improved accounting and financial reporting by state and local governments.

The District's Postemployment Health Care Benefit (OPEB) Plan is administered by the School Board of Directors. The District is an agent in a multiple employer plan with a consortium of School Districts and Intermediate Units in this area. The consortium issues the financial statement and a copy can be obtained by the District.

Funding Policy

The contribution requirements of plan members are established and may be amended by the Board. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board. For fiscal year 2017, the District contributed \$165,617 to the plan for current premiums.

CHANGE IN THE TOTAL OPEB LIABILITY

| | Total OPEB Liability |
|--|---------------------------------|
| Balance at 6/30/16 | <u>\$6,310,035</u> |
| Changes for the year: | |
| Service Cost | \$ 266,102 |
| Interest | 252,401 |
| Changes of benefit terms | (117,397) |
| Differences between expected and actual experience | (954,194) |
| Changes of assumptions or other inputs | 795,168 |
| Benefit payments | <u>(471,817)</u> |
| Net Changes | <u>\$ (229,737)</u> |
| Balance at 6/30/17 | <u>\$ 6,080,298</u> |

Changes of Assumptions and Other Inputs

- Changed the discount rate from 4.00% to 2.85%
- Changed the aging factors to utilize the morbidity factors developed by Dale H. Yamamoto in "Health Care Costs-From Birth to Death: (June 2013).
- Changed the mortality table to RPH-2014 Total Dataset using Improvement Projection Scale MP-2016
- Changed the cost method from projected unit credit to entry age normal as a level percentage of pay.

OPEB EXPENSE FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | <u>Amount</u> |
|--|--------------------------|
| Service Cost | \$ 368,951 |
| Interest | 173,288 |
| Changes of benefit terms | (117,397) |
| Differences between expected and actual experience | (73,400) |
| Changes of assumptions or other inputs | 61,167 |
| Benefit payments | <u>(299,535)</u> |
| OPEB expense | <u>\$ 113,074</u> |

ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial Assumptions

Mortality: RPH-2014 total dataset mortality table projected using scale MP-2016

Discount Rate: 2.85% - based on the bond buyers 20-bond index.

ACTUARIAL ASSUMPTIONS AND METHODS, Continued

Health Care Trend: Health care trend rates are assumed to increase as shown in the following table:

| Fiscal Year Ending June 30 | Increase in Health Cost over Prior Year |
|-------------------------------|--|
| 2019 | 7.00% |
| 2020 | 6.75 |
| 2021 | 6.50 |
| 2022 | 6.25 |
| 2023 | 6.00 |
| 2024 | 5.50 |
| 2025 | 5.00 |
| 2026 & later | 4.50 |

Statement No. 75 of the GASB requires that certain supplemental information be disclosed about an employer's obligation and cost to provide postretirement benefits other than pensions. The disclosures presented below are in compliance with Statement No. 75.

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

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and Actual experience | \$ 0 | \$ 880,794 |
| Changes of assumptions | 734,001 | 0 |
| Total | <u>\$ 734,001</u> | <u>\$ 880,794</u> |

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

| Year Ended June 30 | |
|--------------------|-------------|
| 2018 | \$ (12,233) |
| 2019 | (12,233) |
| 2020 | (12,233) |
| 2021 | (12,233) |
| 2022 | (12,233) |
| 2023 and beyond | (85,628) |

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following is the Total OPEB Liability to the District, as well as the Total OPEB Liability using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

| | 1% Decrease (1.85%) | Discount Rate (2.85%) | 1% Increase (3.85%) |
|----------------------|------------------------|--------------------------|------------------------|
| Total OPEB Liability | \$ 6,252,676 | \$ 6,080,298 | \$5,738,325 |

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

The following is the Total OPEB Liability to the District, as well as the Total OPEB Liability using healthcare cost trend rates that are 1-percentage-point lower (6.00% decreasing to 3.50%) or 1-percentage-point higher (8.00% decreasing to 5.50%) than the current healthcare cost trend rates:

| | 1% Decrease (6.00 to 3.50%) | Discount Rate (7.00% to 4.50%) | 1% Increase (8.00% to 5.50%) |
|----------------------|--------------------------------|-----------------------------------|---------------------------------|
| Total OPEB Liability | \$ 5,462,538 | \$ 6,080,298 | \$ 6,801,934 |

Statement No. 75 of the GASB requires that a 10-year schedule of the changes in the Total OPEB Liability be disclosed. Note that only the years where this information is known is required until 10 years of information is compiled.

**SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY
AND RELATED RATIOS**

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| Service Cost | \$ 266,102 | \$ 0 |
| Interest | 252,401 | 0 |
| Changes of benefit terms | (117,397) | 0 |
| Differences between expected and actual experience | (954,194) | 0 |
| Changes of assumptions or other inputs | 795,168 | 0 |
| Benefit payments | (471,817) | 0 |
| Net change in total OPEB liability | (229,737) | 0 |
| Total OPEB liability-beginning of year | 6,310,035 | 0 |
| Total OPEB liability-end of year | <u>\$ 6,080,298</u> | <u>\$ 6,310,035</u> |
| Covered-employee payroll | \$15,070,950 | n/a |
| Total OPEB liability as a percentage of covered- Employee payroll | 40.34% | n/a |

Notes to schedule:

- GASB 75 was implemented beginning with the fiscal year ended June 30, 2017.
- Assumption Changes:
 - Discount rate used for fiscal year ending:

| | |
|------|-------|
| 2017 | 2.85% |
| 2016 | 4.00% |
 - For the 6/30/17 valuation, changes were made to the aging factors, mortality table, and the cost method.

NOTE O – RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has purchased various insurance policies to safeguard its assets from risk of loss. Insurance coverage appears to be consistent with previous years. During the year ended June 30, 2017 no settlements exceeded insurance coverage.

NOTE P – CHANGE IN ACCOUNTING PRINCIPLE

During the prior year the District implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27. This statement changes the accounting for pensions by recording the District's portion of net pension liability and deferred inflows and outflows related to pensions. As a result of implementing this statement, a prior period adjustment was required for the beginning net pension liability and deferred outflows for the District's contributions made during fiscal year 2014.

NOTE Q – SUBSEQUENT EVENTS

Management has determined that there are no additional events subsequent to the issue date of the Independent Auditor's report date, which is the date the financial statements were available to be issued, that require additional disclosure in the financial statements.

NOTE R – CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

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

**REQUIRED SUPPLEMENTARY
INFORMATION**

HIGHLANDS SCHOOL DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Pennsylvania Public School Employees' Retirement System (PSERS)

| | Measurement Date | | |
|---|------------------|---------------|---------------|
| | June 30, 2016 | June 30, 2015 | June 30, 2014 |
| District's proportion of the net pension liability | 0.1374% | 0.1394% | 0.1348% |
| District's proportion of the net pension liability - dollar value | \$ 68,091,000 | \$ 60,382,000 | \$ 53,355,000 |
| District's covered employee payroll | 17,299,186 | 17,098,207 | 17,206,054 |
| District's proportionate share of the net pension liability as a percentage of its covered employee payroll | 393.61% | 353.15% | 310.09% |
| Plan fiduciary net position as a percentage of the total pension liability | 50.14% | 54.36% | 57.24% |

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

HIGHLANDS SCHOOL DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT PENSION PLAN CONTRIBUTIONS
Pennsylvania Public School Employees' Retirement System (PSERS)

| | <u>June 30, 2017</u> | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|--|----------------------|----------------------|----------------------|
| Contractually required contribution | \$ 4,776,564 | \$ 4,271,169 | \$ 3,481,195 |
| Contributions in relation to the contractually required contribution | <u>4,776,564</u> | <u>4,271,169</u> | <u>3,481,195</u> |
| Contribution deficiency (excess) | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| District's covered - employee payroll | \$ 16,358,096 | \$ 17,299,186 | \$ 17,098,207 |
| Contributions as a percentage of covered - employee payroll | 29.20% | 24.69% | 20.36% |

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

**HIGHLANDS SCHOOL DISTRICT
SINGLE AUDIT SUPPLEMENT
YEAR ENDED JUNE 30, 2017**

RICHARD M. TROESE, C.P.A.

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

To the Board of Directors
Highlands School District
Natrona Heights, Pennsylvania

I 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 Highlands School District ("the District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated March 9, 2018.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

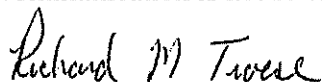
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. Given these limitations, during my audit I did not identify any deficiencies in internal control over financial reporting that I 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 District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my 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 my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Richard M. Troese, C.P.A.
Clarion, Pennsylvania
March 9, 2018

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Highlands School District
Natrona Heights, Pennsylvania

Report on Compliance for Each Major Federal Program

I have audited Highlands School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In my opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

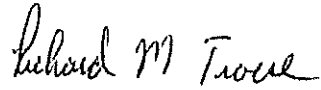
Report on Internal Control Over Compliance

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

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

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

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

A handwritten signature in black ink, reading "Richard M. Troese". The signature is written in a cursive style with a large initial 'R' and a long, sweeping underline.

Richard M. Troese, C.P.A.
Clarion, Pennsylvania
March 9, 2018

**HIGHLANDS SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

| FEDERAL GRANTOR PROGRAM TITLE | SOURCE CODE | FEDERAL CFDA NO. | PASS THROUGH GRANTOR'S # | GRANT PERIOD BEGINNING/ ENDING DATE | PROGRAM OR AWARD AMOUNT | TOTAL RECEIVED FOR THE YEAR | ACCRUED (DEFERRED) REVENUE AT 7/1/16 | REVENUE RECOGNIZED | EXPENDITURE \$ | ACCRUED (DEFERRED) REVENUE AT 6/30/17 | AMOUNT PASSED THRU TO SUB- RECIPIENTS |
|---|----------------|---------------------|--------------------------------|---|-------------------------------|-----------------------------------|---|-----------------------|---------------------|--|--|
| <u>U.S. Department of Education</u> | | | | | | | | | | | |
| <u>Passed through PA Dept of Education</u> | | | | | | | | | | | |
| Title I Improving Basic | I | 84.010 | 013-170191 | 7/1/16-6/30/17 | \$ 984,473 | \$ 771,803 | \$ 0 | \$ 984,473 | \$ 984,473 | \$ 212,870 | \$ 0 |
| Title I Improving Basic | I | 84.010 | 013-150191 | 7/1/15-6/30/16 | 722,254 | 46,340 | 46,340 | 0 | 0 | 0 | 0 |
| Title I Improving Basic | I | 84.010 | 013-150191 | 7/1/14-6/30/15 | 878,855 | 45,186 | 45,186 | 0 | 0 | 0 | 0 |
| Total CFDA #84.010 | | | | | | 863,129 | 91,526 | 984,473 | 984,473 | 212,870 | 0 |
| Title II Improving Teacher Quality | I | 84.367 | 020-140191 | 7/1/15-6/30/16 | 196,083 | (371) | 0 | (371) | (371) | 0 | 0 |
| Title II Improving Teacher Quality | I | 84.367 | 020-170191 | 7/1/16-6/30/17 | 193,677 | 193,677 | 0 | 193,677 | 193,677 | 0 | 0 |
| Total CFDA #84.367 | | | | | | 193,306 | 0 | 193,306 | 193,306 | 0 | 0 |
| Medical Access | I | 93.778 | N/A | 7/1/16-6/30/17 | 6,013 | 6,013 | 0 | 6,013 | 6,013 | 0 | 0 |
| Total CFDA #93.778 | | | | | | 6,013 | 0 | 6,013 | 6,013 | 0 | 0 |
| <u>Passed through the Allegheny Intermediate Unit</u> | | | | | | | | | | | |
| IDEA | | 84.027 | N/A | 7/1/16-6/30/17 | 500,048 | 505,969 | 5,921 | 500,048 | 500,048 | 0 | 0 |
| Total CFDA #84.027 | | | | | | 505,969 | 5,921 | 500,048 | 500,048 | 0 | 0 |
| TOTAL U.S. DEPARTMENT OF EDUCATION | | | | | | 1,568,417 | 97,447 | 1,663,840 | 1,663,840 | 212,870 | 0 |
| <u>U.S. Department of Agriculture</u> | | | | | | | | | | | |
| <u>Passed through PA Dept of Agriculture</u> | | | | | | | | | | | |
| Value of USDA Donated Commodities | I | 10.555 | N/A | 7/1/16-6/30/17 | N/A | 64,462 | (2,582) | 60,119 | 60,119 | (6,325) | 0 |
| <u>Passed through PA Dept of Education</u> | | | | | | | | | | | |
| <u>National School Lunch Program:</u> | | | | | | | | | | | |
| Federal - Lunch | I | 10.555 | 362-000000 | 7/1/16-6/30/17 | N/A | 914,032 | 23,504 | 934,283 | 934,283 | 43,755 | 0 |
| Total CFDA #10.555 | | | | | | 978,494 | 20,922 | 994,402 | 994,402 | 36,530 | 0 |
| Federal-Breakfast-Reg/Noty | I | 10.553 | 365-000000 | 7/1/16-6/30/17 | N/A | 353,708 | 11,021 | 358,538 | 358,538 | 15,853 | 0 |
| Federal-Breakfast-Serv. Need | I | 10.553 | 367-000000 | 7/1/16-6/30/17 | N/A | 0 | 0 | 0 | 0 | 0 | 0 |
| Total CFDA #10.553 | | | | | | 353,708 | 11,021 | 358,538 | 358,538 | 15,853 | 0 |
| State - Lunch | | N/A | 510-000000 | 7/1/16-6/30/17 | N/A | 45,794 | 1,124 | 46,784 | 46,784 | 2,114 | 0 |
| State - Breakfast | | N/A | 511-000000 | 7/1/16-6/30/17 | N/A | 20,052 | 540 | 20,310 | 20,310 | 898 | 0 |
| Total State | | | | | | 65,846 | 1,764 | 67,094 | 67,094 | 3,012 | 0 |
| Total Nutrition Cluster | | | | | | 1,398,048 | 33,707 | 1,420,034 | 1,420,034 | 55,695 | 0 |
| TOTAL U.S. DEPARTMENT OF AGRICULTURE | | | | | | 1,398,048 | 33,707 | 1,420,034 | 1,420,034 | 55,695 | 0 |
| TOTAL FEDERAL AWARDS | | | | | | \$ 2,966,463 | \$ 131,154 | \$ 3,103,874 | \$ 3,103,874 | \$ 268,565 | \$ 0 |
| <u>Source Code:</u> | | | | | | | | | | | |
| I - Indirect Funding | | | | | | | | | | | |
| <u>Test of 20% Rule</u> | | | | | | | | | | | |
| Total Expenses per above | | | | | | | | | \$ 3,103,874 | | |
| Less: State's share of National School Lunch Program Expenditures | | | | | | | | | (67,094) | | |
| Title I Improving Basic & National School Lunch Program | | | | | | | | | \$ 2,337,413 | | |
| Total Federal Expenditures | | | | | | | | | \$ 3,036,780 | = | 76.97% |

* Selected for Audit

**HIGHLANDS SCHOOL DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 – SCOPE OF SCHEDULE

The Schedule of Expenditures of Federal Awards reflects federal expenditures for all individual grants which were active during the fiscal year.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting except as noted for accounting of donated commodities in Note 3. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

NOTE 3 – VALUE OF USDA DONATED COMMODITIES LEGEND

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed under CFDA #10.555. As of June 30, 2017, the district had food commodities totaling \$6,925 in inventory.

- a) Total commodities received from the Pennsylvania Department of Agriculture valued at fair market value.
- b) Beginning inventory at July 1, 2016.
- c) Total amount of commodities used.
- d) Ending inventory at June 30, 2017.

NOTE 4 – INDIRECT COST RATE

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

**HIGHLANDS SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

PART A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Unmodified

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs (unmodified, qualified, adverse, or disclaimer):

Unmodified

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

_____ Yes X No

Identification of major program:

CFDA Number
10.553 and 10.555
84.010

Name of Federal Program or Cluster
Food Nutrition Cluster
Title I Improving Basic

Dollar threshold used to distinguish between
Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

_____ Yes X No

**HIGHLANDS SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
YEAR ENDED JUNE 30, 2017**

PART B. FINDINGS RELATED TO FINANCIAL STATEMENTS

Status of Prior Year Findings

None.

Current Year Findings and Recommendations

None.

PART C. FINDINGS RELATED TO FEDERAL AWARDS

Status of Prior Year Findings

None.

Current Year Findings and Recommendations

None.

**HIGHLANDS SCHOOL DISTRICT
LIST OF REPORT DISTRIBUTION
YEAR ENDED JUNE 30, 2017**

Online - Bureau of Census
Data Preparation Division
1201 East 10th Street
Jeffersonville, Indiana 47132
Attention: Single Audit Clearing House

Online - Office of the Budget/Bureau of Audits
303 Walnut Street
Bell Tower – Strawberry Square
6th Floor
Harrisburg, Pennsylvania 17101

15 Reports - Highlands School District
1500 Pacific Ave.
PO Box 288
Natrona Heights, PA 15065

These reports are due by March 31, 2018.

