

**HIGHLANDS SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT**  
**YEAR ENDED JUNE 30, 2019**

**HIGHLANDS SCHOOL DISTRICT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
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**RICHARD M. TROESE, C.P.A.**

1200 EASTWOOD DRIVE

P.O. BOX 680

CLARION, PA 16214

PHONE: (814) 226-6133

FAX: (814) 226-5371

**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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

***Auditor's Responsibility***

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 Highland School District, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Report on Summarized Comparative Information***

I have previously audited the District's 2018 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 19, 2019. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion analysis on pages 4 through 11, the budgetary comparison information on pages 55 and 56, the other postemployment benefits (OPEB) information on page 57, and the pension information on pages 58 and 59, 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 Highlands School District's basic financial statements. The schedule of expenditures of federal awards on page 63 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 prepared 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 25, 2020 on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to solely 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 effectiveness of the District's 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,

A handwritten signature in cursive script that reads "Richard M Troese".

Richard M. Troese, C.P.A.  
Clarion, Pennsylvania  
March 25, 2020

## **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, 2019

. 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 seventeenth 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 general fund reported a total ending fund balance of \$16,864,924 this year. This compares to the prior year ending fund balance of \$14,379,094 showing an increase of \$ 2,485,830 during the current year. This increase is the result of the GON of 2018.
- 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 \$1,644,034 of the fund balance be transferred to an assigned fund balance for long term liabilities, such as retirement obligations.

#### **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 passed 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	31,940,760
Liabilities/inflow	<u>(15,075,836)</u>
Fund Bal./Net Asset	16,864,924

Highlands School District when compared to other districts is 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 3.0% next year and expected to keep this trend for 3 more years.

The teachers’ union (HEA) contract expires June 30, 2021.

### ***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	\$22,150,453
State Sources	\$22,786,811
Federal Sources	\$ 1,098,631
Other	\$ 0
Total Revenues	\$46,035,895
Expenditures	
Instruction	\$28,933,371
Support Services	\$13,139,872
Non-instructional Services	\$ 709,208
Capital Outlay	\$ 0
Debt Service	\$ 767,613
Refund of Prior Years Receipts/Transfer	\$ 0
Total Expenditures	\$43,550,065
Revenues over Expenditures	\$ 2,485,830
Fund Balance – Beginning of Fiscal Year	\$ 14,379,094
Fund Balance – End of Year	\$ 16,864,924

### **General Fund Budgetary Highlights**

Highlands School District's 2019-2020 budget totals \$45,370,165, a 13% increase from the 2018-2019 budget. The increase is the result of PSERS expenditure inclusion in the 2019-2020 budget that were not included in the 2018-2019 budget due to the proceeds from the GON of 2018. The final budget included a tax increase of .25 mills.

District residents, moreover, will receive about \$246 off their school taxes from the Property Tax rebate.

Final adoption of the budget for the 2019-2020 year is June 2019.

### **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, 2019  
(With Summarized Comparative Data for June 30, 2018)**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals 2019</b>	<b>2018</b>
<b>ASSETS &amp; DEFERRED OUTFLOWS OF RESOURCES</b>				
<b>ASSETS:</b>				
Cash and Cash Equivalents	\$ 6,696,160	\$ 503,711	\$ 7,199,871	\$ 1,373,140
Investments	12,970,822	0	12,970,822	14,122,968
Taxes Receivable, Net	6,894,861	0	6,894,861	4,347,020
Internal Balances	1,998,856	1,057,526	3,056,382	1,343,055
Due from Other Governments	3,128,390	25,829	3,154,219	1,641,729
Other Receivables	0	0	0	0
Inventories	0	21,126	21,126	19,461
Prepaid Expenses/Expenditures	268,882	0	268,882	0
Land	908,987	0	908,987	908,987
Site Improvements (Net of Accumulated Depreciation)	0	0	0	0
Building and Building Improvements (Net of Accumulated Depreciation)	21,342,114	0	21,342,114	22,352,159
Furniture and Equipment (Net of Accumulated Depreciation)	44,723	120,731	165,454	172,298
<b>TOTAL ASSETS</b>	<b>54,253,795</b>	<b>1,728,923</b>	<b>55,982,718</b>	<b>46,280,817</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred Amounts Related to Pensions	10,750,675	0	10,750,675	13,665,128
<b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 65,004,470</b>	<b>\$ 1,728,923</b>	<b>\$ 66,733,393</b>	<b>\$ 59,945,945</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, &amp; NET POSITION (DEFICIT)</b>				
<b>LIABILITIES:</b>				
Internal Balances	\$ 1,057,526	\$ 1,998,856	\$ 3,056,382	\$ 1,381,092
Due to Other Governments	0	0	0	0
Accounts Payable	1,281,656	0	1,281,656	456,091
Current Portion of Long-Term Debt	10,000	0	10,000	5,000
Accrued Salaries and Benefits	2,015,946	0	2,015,946	815,185
Payroll Deductions and Withholdings	3,745,171	(32,902)	3,712,269	1,801,163
Other Current Liabilities	80,676	0	80,676	0
Portion Due or Payable After One Year:				
Bond Premium	1,089,256	0	1,089,256	1,354,445
Bonds and Notes Payable	20,710,000	0	20,710,000	20,720,000
Long-Term Portion of Compensated Absences	10,437,084	0	10,437,084	10,437,085
Net Pension Liability	68,935,000	0	68,935,000	68,452,000
Other Postemployment Benefits (OPEB)	6,193,515	0	6,193,515	6,067,625
<b>TOTAL LIABILITIES</b>	<b>115,555,830</b>	<b>1,965,954</b>	<b>117,521,784</b>	<b>111,489,686</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred Amounts Related to Pensions	1,416,000	0	1,416,000	937,000
<b>NET POSITION (DEFICIT)</b>				
Invested in Capital Assets, Net of Related Debt	(8,192,785)	120,731	(8,072,054)	(8,010,150)
Athletic Fund	17,211	0	17,211	17,478
Other Restrictions	13,640,524	0	13,640,524	10,789,914
Unrestricted (Deficit)	(57,432,310)	(357,762)	(57,790,072)	(57,079,071)
<b>TOTAL NET POSITION (DEFICIT)</b>	<b>(51,967,360)</b>	<b>(237,031)</b>	<b>(52,204,391)</b>	<b>(54,281,829)</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)</b>	<b>\$ 65,004,470</b>	<b>\$ 1,728,923</b>	<b>\$ 66,733,393</b>	<b>\$ 58,144,857</b>

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, 2019  
(With Summarized Comparative Data for the Year Ended June 30, 2018)**

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	
							2019	2018
<b>Governmental Activities:</b>								
Instruction	\$ 29,909,944	\$ 0	\$ 20,088,085	\$ 0	\$ (9,821,859)	\$ 0	\$ (9,821,859)	\$ (10,969,844)
Instructional Student Support	3,782,253	0	2,482,579	0	(1,299,674)	0	(1,299,674)	(1,263,329)
Administrative and Financial Support Services	3,157,492	0	0	0	(3,157,492)	0	(3,157,492)	(2,647,026)
Operation and Maintenance of Plant Services	4,072,604	0	0	0	(4,072,604)	0	(4,072,604)	(4,804,146)
Pupil Transportation	2,648,536	0	1,314,778	0	(1,333,758)	0	(1,333,758)	(1,227,645)
Food Service	0	0	0	0	0	0	0	0
Student Activities	653,386	0	0	0	(653,386)	0	(653,386)	(638,734)
Community Services	55,822	0	0	0	(55,822)	0	(55,822)	(71,946)
Interest on Long-Term Debt	732,812	0	0	0	(732,812)	0	(732,812)	(596,986)
<b>Total Governmental Activities</b>	<b>45,012,849</b>	<b>0</b>	<b>23,885,442</b>	<b>0</b>	<b>(21,127,407)</b>	<b>0</b>	<b>(21,127,407)</b>	<b>(22,219,656)</b>
<b>Business-Type Activities:</b>								
Food Services	1,202,125	70,444	1,072,713	0	0	(58,968)	(58,968)	(47,207)
<b>Total Primary Government</b>	<b>\$ 46,214,974</b>	<b>\$ 70,444</b>	<b>\$ 24,958,155</b>	<b>\$ 0</b>	<b>\$ (21,127,407)</b>	<b>\$ (58,968)</b>	<b>\$ (21,186,375)</b>	<b>\$ (22,266,863)</b>
<b>General Revenues:</b>								
Taxes:								
Property Taxes, Levied for General Purposes, Net					16,223,046	0	16,223,046	15,694,304
Public Utility Realty, Earned Income and Per Capita Taxes Levied for General Purposes, Net					2,843,357	0	2,843,357	2,664,042
Bond Premium					0	0	0	0
Investment Earnings					229,353	0	229,353	85,658
Other Transfers between Governmental, BT Activities					0	0	0	0
Miscellaneous Income, Receipts from other LEA's					775,266	0	775,266	982,111
Special Item-Sale of Assets					0	0	0	0
<b>Total General Revenues</b>					<b>20,071,022</b>	<b>0</b>	<b>20,071,022</b>	<b>19,426,115</b>
Change in Net Position (Deficit)					(1,056,385)	(58,968)	(1,115,353)	(2,840,748)
Prior Period Adjustments					0	38,037	38,037	
Net Position (Deficit) - July 1 (Restated)					(50,910,975)	(216,100)	(51,127,075)	(51,441,081)
Net Position (Deficit) - June 30					<b>\$ (51,967,360)</b>	<b>\$ (237,031)</b>	<b>\$ (52,204,391)</b>	<b>\$ (54,281,829)</b>

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

**HIGHLANDS SCHOOL DISTRICT**  
**NATRONA HEIGHTS, PENNSYLVANIA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2019**  
**(With Summarized Comparative Data for June 30, 2018)**

	<b>General Fund</b>	<b>Athletic/ Activity</b>	<b>Totals</b>	
			<b>2019</b>	<b>2018</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 6,681,484	\$ 14,676	\$ 6,696,160	\$ 503,877
Investments	12,968,287	2,535	12,970,822	14,122,968
Taxes Receivable (Net)	6,894,861	0	6,894,861	4,347,020
Due from Other Funds	1,998,856	0	1,998,856	1,343,055
Due from Other Governments	703,568	0	703,568	175,232
State Revenue Receivable	2,062,571	0	2,062,571	1,168,735
Federal Revenue Receivable	362,251	0	362,251	131,514
Prepaid Expenses/Expenditures	268,882	0	268,882	0
Other Current Assets	0	0	0	0
<b>TOTAL ASSETS</b>	<b>\$ 31,940,760</b>	<b>\$ 17,211</b>	<b>\$ 31,957,971</b>	<b>\$ 21,792,401</b>
<b>LIABILITIES</b>				
Due to Other Funds	\$ 1,057,526	\$ 0	\$ 1,057,526	\$ 0
Due to Other Governments	0	0	0	0
Accounts Payable	1,281,656	0	1,281,656	456,091
Accrued Salaries and Benefits	2,015,946	0	2,015,946	815,185
Payroll Deductions and Withholdings	3,745,171	0	3,745,171	1,777,533
Other Current Liabilities	80,676	0	80,676	0
<b>TOTAL LIABILITIES</b>	<b>8,180,975</b>	<b>0</b>	<b>8,180,975</b>	<b>3,048,809</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue-Real Estate Taxes	6,894,861	0	6,894,861	4,347,020
<b>FUND BALANCES</b>				
Restricted Fund Balance	0	0	0	0
Committed Fund Balance	0	0	0	4,635,250
Unreserved-Designated	13,640,524	17,211	13,657,735	6,172,142
Unreserved-Undesignated	3,224,400	0	3,224,400	3,589,180
<b>TOTAL FUND BALANCES</b>	<b>16,864,924</b>	<b>17,211</b>	<b>16,882,135</b>	<b>14,396,572</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES &amp; FUND BALANCES</b>	<b>\$ 31,940,760</b>	<b>\$ 17,211</b>	<b>\$ 31,957,971</b>	<b>\$ 21,792,401</b>

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 (DEFICIT)  
JUNE 30, 2019**

**TOTAL GOVERNMENTAL FUND BALANCES** **\$ 16,882,135**

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 \$58,438,937 and the accumulated depreciation is \$(36,143,113). 22,295,824

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 6,894,861

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 10,750,675  
Deferred inflows of resources related to pensions (1,416,000)

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	\$ (1,089,256)	
Net Pension Liability	\$ (68,935,000)	
Bonds/note payable	\$ (20,720,000)	
Compensated absences	\$ (10,437,084)	
Postemployment Benefits	\$ (6,193,515)	<u>(107,374,855)</u>

**TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES** **\$ (51,967,360)**

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, 2019**  
**(With Summarized Comparative Data for June 30, 2018)**

	<b>General Fund</b>	<b>Athletic/ Activity</b>	<b><u>Totals</u></b>	
			<b>2019</b>	<b>2018</b>
<b>REVENUES</b>				
Local Sources	\$ 22,150,450	\$ 63,721	\$ 22,214,171	\$ 20,311,013
State Sources	22,786,811	0	22,786,811	21,269,725
Federal Sources	1,098,631	0	1,098,631	1,047,893
<b>TOTAL REVENUES</b>	<b>46,035,892</b>	<b>63,721</b>	<b>46,099,613</b>	<b>42,628,631</b>
<b>EXPENDITURES</b>				
<b>Current:</b>				
Instruction	28,933,371	0	28,933,371	28,012,231
Support Services	13,139,872	0	13,139,872	13,754,266
Operation of Noninstructional Services	709,209	63,988	773,197	786,148
<b>Total Current</b>	<b>42,782,452</b>	<b>63,988</b>	<b>42,846,440</b>	<b>42,552,645</b>
<b>Capital Outlay:</b>				
Facilities Acquisition, Construction and Improvement Services	0	0	0	8,750
<b>Total Capital Outlay</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8,750</b>
<b>Debt Service</b>				
Principal and Interest	737,812	0	737,812	2,496,986
Refund of Prior Year Receipts	29,801	0	29,801	224
<b>Total Debt Service</b>	<b>767,613</b>	<b>0</b>	<b>767,613</b>	<b>2,497,210</b>
<b>TOTAL EXPENDITURES</b>	<b>43,550,065</b>	<b>63,988</b>	<b>43,614,053</b>	<b>45,058,605</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>2,485,827</b>	<b>(267)</b>	<b>2,485,560</b>	<b>(2,429,974)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds From Refunding Bonds	0	0	0	10,445,000
Debt Services of Refunded Bonds	0	0	0	(4,015,000)
Bond Discounts	0	0	0	(424,217)
Transfers Out	0	0	0	0
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,005,783</b>
<b>Net Change in Fund Balances</b>	<b>2,485,827</b>	<b>(267)</b>	<b>2,485,560</b>	<b>3,575,809</b>
<b>Fund Balance - July 1</b>	<b>14,379,094</b>	<b>17,478</b>	<b>14,396,572</b>	<b>10,820,763</b>
<b>Fund Balance - June 30</b>	<b>\$ 16,864,921</b>	<b>\$ 17,211</b>	<b>\$ 16,882,132</b>	<b>\$ 14,396,572</b>

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, 2019**

**NET CHANGE IN FUND BALANCES-TOTAL GOVERNMENTAL FUNDS** **\$ 2,485,560**

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	\$(1,012,717)	(1,012,717)

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: (2,143,149)

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:

Issuance of Bond Proceeds	0	
Bond Issuance Cost	0	
Bond Premium (Net)		(265,189)
Repayment of Bond Principal		5,000
OPEB		(125,890)

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** **\$ (1,056,385)**

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, 2019 and 2018**

	<b>Food Services Fund</b>	
	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 503,711	\$ 869,263
Due from Component Units	1,057,526	0
State Revenue Receivable	1,267	8,534
Federal Revenue Receivable	24,562	157,714
Other Receivables	0	0
Inventories	21,126	19,461
<b>Total Current Assets</b>	<b>1,608,192</b>	<b>1,054,972</b>
<b>Noncurrent Assets:</b>		
Furniture and Equipment (Net of Accumulated Depreciation)	120,731	133,650
<b>Total Noncurrent Assets</b>	<b>120,731</b>	<b>133,650</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,728,923</b>	<b>\$ 1,188,622</b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Due to Other Funds	\$ 1,998,856	\$ 1,381,092
Accounts Payable	0	0
Payroll Deductions & Withholdings	(14,007)	23,630
Accrued Salaries and Benefits	(18,895)	0
<b>Total Current Liabilities</b>	<b>1,965,954</b>	<b>1,404,722</b>
<b>Noncurrent Liabilities:</b>		
Advances from Other Funds	0	0
<b>TOTAL LIABILITIES</b>	<b>1,965,954</b>	<b>1,404,722</b>
<b>NET POSITION</b>		
Investment in Capital Assets, Net of Related Debt	120,731	133,650
Unrestricted (Deficit)	(357,762)	(349,750)
<b>TOTAL NET POSITION (DEFICIT)</b>	<b>(237,031)</b>	<b>(216,100)</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 1,728,923</b>	<b>\$ 1,188,622</b>

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, 2019 and 2018**

	<b>Food Service Fund</b>	
	<b>2019</b>	<b>2018</b>
<b>OPERATING REVENUES:</b>		
Food Service Revenue	\$ 70,444	\$ 85,690
Other Operating Revenues	0	0
<b>TOTAL OPERATING REVENUES</b>	<b>70,444</b>	<b>85,690</b>
<b>OPERATING EXPENSES:</b>		
Salaries	333,704	379,940
Employee Benefits	267,579	281,944
Purchased Professional & Technical Service	0	0
Purchased Property Services	0	21,340
Other Purchased Service	8,073	944
Supplies/Purchases	579,450	653,386
Dues and Fees	400	400
Depreciation	12,919	12,919
Other Operating Expenditures	0	0
<b>TOTAL OPERATING EXPENSES</b>	<b>1,202,125</b>	<b>1,350,873</b>
<b>OPERATING INCOME/(LOSS)</b>	<b>(1,131,681)</b>	<b>(1,265,183)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Contributions & Donations - Private Sources	0	0
Refunds of Prior Year Expenditures	0	0
State Sources	56,775	59,571
Federal Sources	1,015,938	1,158,405
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>1,072,713</b>	<b>1,217,976</b>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<b>(58,968)</b>	<b>(47,207)</b>
<b>TRANSFERS IN</b>	<b>0</b>	<b>0</b>
<b>CONTRIBUTIONS &amp; TRANSFERS</b>		
Capital Contributions	0	0
<b>CHANGE IN NET POSITION</b>	<b>(58,968)</b>	<b>(47,207)</b>
<b>PRIOR PERIOD ADJUSTMENT</b>	<b>38,037</b>	<b>0</b>
<b>TOTAL NET POSITION (DEFICIT) - JULY 1</b>	<b>(216,100)</b>	<b>(168,893)</b>
<b>TOTAL NET POSITION (DEFICIT) - JUNE 30</b>	<b>\$ (237,031)</b>	<b>\$ (216,100)</b>

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, 2019 and 2018**

	<b>Food Service Fund</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash Flows from Operating Activities</b>		
Cash Received from Users	\$ 70,444	\$ 85,690
Cash Received from Assessments Made to Other Funds	0	0
Cash Payments to Employees for Services	(601,283)	(664,402)
Cash Payments for Other Operating Expenses	0	0
Cash Payments to Suppliers for Goods and Services	(907,426)	(685,895)
<b>Net Cash (Used for) Operating Activities</b>	<b>(1,438,265)</b>	<b>(1,264,607)</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
Local Sources	0	0
State Sources	56,775	59,571
Federal Sources	1,015,938	1,158,405
Operating Transfers In (Out) Primary Government	0	0
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>1,072,713</b>	<b>1,217,976</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Fac Acq, Const, & Imp	0	0
(Inc) Dec in Contributed Capital	0	0
<b>Net Cash Provided by Capital and Related Financing Activities</b>	<b>0</b>	<b>0</b>
<b>Cash Flows from Investing Activities</b>		
Earnings on Investments	0	0
<b>Net Cash Provided by Investing Activities</b>	<b>0</b>	<b>0</b>
<b>Net Increase (Decrease) in Cash and Cash Flow</b>	<b>(365,552)</b>	<b>(46,631)</b>
<b>Cash and Cash Equivalents Beginning of Year</b>	<b>869,263</b>	<b>915,894</b>
<b>Cash and Cash Equivalents End of Year</b>	<b>\$ 503,711</b>	<b>\$ 869,263</b>
<b>Reconciliation of Operating Income to Net Cash Provided by (Used for)</b>		
<b>Operating Activities:</b>		
<b>Operating Income (Loss)</b>	<b>\$ (1,131,681)</b>	<b>\$ (1,265,183)</b>
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for)</b>		
<b>Operating Activities:</b>		
Depreciation	12,919	12,919
(Increase) Decrease in Accounts Receivable	(917,107)	(103,628)
(Increase) Decrease in Inventories	(1,665)	6,968
(Increase) Decrease in Other Current or Noncurrent Assets	0	0
Increase (Decrease) in Accounts Payable	655,801	86,835
Increase (Decrease) in Payroll Deductions/Withholding	(56,532)	(2,518)
<b>Total Adjustments</b>	<b>(306,584)</b>	<b>576</b>
<b>Net Cash (Used for) Operating Activities</b>	<b>\$ (1,438,265)</b>	<b>\$ (1,264,607)</b>
<b>Supplemental Disclosure</b>		
<b>Noncash, Noncapital Financing Activity:</b>		
USDA Donated Commodities	\$ 102,870	\$ 90,762

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, 2019**

	<b>Private Purpose Trust</b>	<b>Student Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 14,248	\$ 32,258	\$ 46,506
Investments	0	27,959	27,959
<b>TOTAL ASSETS</b>	<u>\$ 14,248</u>	<u>\$ 60,217</u>	<u>\$ 74,465</u>
<b>LIABILITIES</b>			
Short-Term Payables	\$ 0	\$ 60,217	\$ 60,217
Other Current Liabilities	0	0	0
<b>TOTAL LIABILITIES</b>	<u>0</u>	<u>60,217</u>	<u>60,217</u>
<b>NET POSITION</b>			
Restricted for Legal Purposes	<u>14,248</u>	<u>0</u>	<u>14,248</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 14,248</u>	<u>\$ 60,217</u>	<u>\$ 74,465</u>

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

**HIGHLANDS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2019**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Highlands School District (the “District”), located in Natrona Heights, Pennsylvania, operates three elementary schools, one middle school, and one high school that provides a full range of educational services appropriate to grade levels kindergarten through 12 to students living in the Borough of Tarentum, and the Townships of Brackenridge, Fawn, and Harrison. 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 “School Board” or “Board”).

The accounting policies of Highlands School District conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant accounting policies are summarized below.

**Reporting Entity**

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

**Basis of Presentation**

**Government-wide financial statements**

The statement of net position (deficit) and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of



## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

related cash flow. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared as further defined below. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

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

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

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

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

## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

### **Fund Financial Statements**

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental funds and enterprise funds are reported in separate columns with composite columns for non-major funds. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. 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 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 or 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 general fund is the principal operating fund of the School District. It is used to account for all financial resources except those accounted for in another fund.

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

Capital Projects Fund – This fund is used to account for all financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. This fund is separate from the capital reserve fund.

The District reports the following major proprietary funds:

Food Service Fund – This fund accounts for the revenues, food purchases, and other costs and expenses of providing meals to students during the school year.

The District reports the following nonmajor governmental funds:

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 and Activities Fund.

## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

### **Measurement Focus & Basis of Accounting**

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

Government-wide, proprietary and fiduciary fund financial statements measure and report all assets, liabilities, deferred inflows and outflows of resources, revenues, expenses, gains, and losses 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, regardless of the timing of related cash flows. 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 an expense against current operations and accumulated depreciation is reported on the statement of net assets.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., both measurable and available. The term “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the School District is considered to be 60 days after the end of the fiscal period. Expenditures are recognized in the accounting period in which the related fund liability is incurred, if measurable, except debt service other postemployment benefits, pensions, and compensated absent payments which are recognized when due.

Under the modified accrual basis, the following revenue sources are considered susceptible to accrual at year end: property taxes, tuition, grants and entitlements, student fees, and interest on investments. Current property taxes measurable at June 30, 2019, which are not intended to finance fiscal 2019 operations, have been recorded as deferred inflows of resources. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue at year end.

The accrual basis of accounting is utilized for reporting purposes by the government-wide financial statements, proprietary funds, and the fiduciary funds. Revenues are recognized when they are earned and expenses are recognized when incurred.

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 fund’s principal ongoing operations. The principal operating revenues of the School District’s food service fund are charges to

## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

students and staff for food. Operating expenses include the costs to provide food. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### **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.

The School District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The lowest level of valuation available is used for all investments.

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

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

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

### **Interfund Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/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, 2019. The inventory of \$6,333 consisted of government donated commodities, which

## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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, 2019 are reported as inventory.

### **Prepaid Expenses**

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

### **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 and the proprietary fund 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Management has elected to include certain homogeneous asset categories with individual assets that have a value of 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. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend 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.

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	20-50
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.

## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

### **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 activities or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. They are categorized as gain or loss on bond refunding in the event that debt is refinanced. Amortization continues over the life of the new or refinanced debt, whichever is shorter.

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 and any related issuance premiums are 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.

### **Compensated Absences**

School District policies permit employees to accumulate earned but unused vacation, personal and sick days. The liability for these compensated absences is recorded as long-term debt in the government-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 for fiscal year 2018-2019 was \$10,437,085.

### **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 \$6,894,861 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.

### **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

## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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 government-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 government-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 Balance Classification**

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

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

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

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

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

## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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

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

### **Implementation of New Accounting Pronouncements**

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

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

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

### **New Accounting Pronouncements**

GASB Statement No. 84, "Fiduciary Activities" will be effective for the District for the year ended June 30, 2020. The objective of GASB Statement No. 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets



## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

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

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

GASB Statement No. 90, "Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61", will be effective for the District for the year ended June 30, 2020. The primary objects of GASB Statement No. 90 are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a

## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

The effects of implementation of these standards have not yet been determined

### **Use of Estimates**

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

### **Comparative Data**

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

### **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.

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

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

Capital related differences include non-facility related fixed asset purchases that 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**

***Budgetary Information***

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

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

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

**NOTE D – CASH DEPOSITS AND INVESTMENTS**

Deposits were with the contracted depository banks 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.

**NOTE D – CASH DEPOSITS AND INVESTMENTS, Continued**

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

General Fund	Cash	Investments
Regular Checking	\$ 6,502,027	
Payroll Checking	178,632	
Petty Cash	825	
Money Market		\$ 49,511
First Commonwealth Money Market		5,117,299
PA School Liquid Asset Fund – PSERS		4,398,080
PA School Liquid Asset Fund - Designated		331,214
PA School Liquid Asset Fund		<u>3,072,183</u>
	<u>\$ 6,681,484</u>	<u>\$12,968,287</u>
 Athletic Fund		
Checking	\$ 14,676	
Certificate of Deposit	<u>0</u>	<u>\$ 2,535</u>
	<u>\$ 14,676</u>	<u>\$ 2,535</u>
 Food Service		
Regular Checking	\$ 503,711	
Petty Cash	<u>0</u>	
	<u>\$ 503,711</u>	
 Total Net Position	<u>\$ 7,199,871</u>	<u>\$12,970,822</u>
 Agency – Student Activities Fund		
Checking	\$ 32,258	
Certificate of Deposit		<u>\$ 27,959</u>
	<u>\$ 32,258</u>	<u>\$ 27,959</u>
 Private Purpose Trust		
Checking	<u>14,248</u>	
	<u>\$ 14,248</u>	

PA School District Liquid Asset Fund; \$7,801,477; variable interest rate. The PSDLAF was established in 1982 and operated under the provisions of the PA Intergovernmental 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.

## **NOTE D – CASH DEPOSITS AND INVESTMENTS, Continued**

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, 2018, 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, 2019:

<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	\$30,494	\$30,494	\$30,494	\$0

### **Interest Rate Risk**

The District manages its exposure to fair value losses arising from increasing interest rates by investing in securities with maturity dates under five years.

### **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, 2019, the carrying amount of the District's deposits was \$20,244,336 and the bank balance was \$20,994,452. Of the bank balance, \$1,823,833 was covered by federal depository insurance, while \$7,051,479 was covered through collateral held by financial institutions but not in the District's name.

The remaining cash deposits of \$7,801,477 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, 2019, 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 District are collected from the Borough of Tarentum and the Townships of Brackenridge, Fawn, and Harrison. The tax on real estate for public school purposes for fiscal year 2018 - 2019 was 24.63 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, 2019, the following amounts are due from other governmental units:

Due From	Due to General Fund
Federal Government	\$ 362,251
State Government	2,062,571
Other Government Funds	<u>703,568</u>
Total Due From	<u>\$ 3,128,390</u>

**NOTE G – DUE TO/FROM OTHER FUNDS**

Interfund receivable and payable balances as of June 30, 2019 are as follows:

<u>Due To</u>	<u>Due From</u>	<u>Amount</u>
General Fund	Food Service Fund	\$ 1,998,856
Food Service Fund	General Fund	<u>1,057,526</u>
		<u>\$ 3,056,382</u>

**NOTE H - CHANGES IN CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
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	10,645,585	0	0	10,645,585
Total Assets Being Depreciated	57,529,950	0	0	57,529,950
Less Accumulated Depreciation For:				
Buildings	19,599,370	2,093,445	0	21,692,815
Site Improvements	3,849,436	0	0	3,849,436
Furniture & Equipment	10,598,187	2,675	0	10,600,862
Total Accumulated Depreciation	34,046,993	2,096,120	0	36,143,113
Total Capital Assets, Being Depreciated, Net	23,482,957	(2,096,120)	0	21,386,837
Governmental Activities, Capital Assets, Net	<u>\$ 24,391,944</u>	<u>\$ (2,096,120)</u>	<u>\$ 0</u>	<u>\$ 22,295,824</u>
<b>Business-Type Activities</b>				
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	703,309	12,919	0	716,228
Total Accumulated Depreciation	703,309	12,919	0	716,228
Total Capital Assets, Being Depreciated, Net	133,651	(12,919)	0	120,732
Business-Type Activities Capital Assets, Net	<u>\$ 133,651</u>	<u>\$ (12,919)</u>	<u>\$ 0</u>	<u>\$ 120,732</u>

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



**NOTE H - CHANGES IN CAPITAL ASSETS (Continued)**

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

**Governmental Activities:**

Instruction	\$ 2,093,445
Instructional Student Support	0
Administrative & Financial Support Services	0
Operation & Maintenance of Plant Services	0
Student Activities	<u>2,675</u>
<b>Total Depreciation Expense-Governmental Activities</b>	<b><u>\$ 2,096,120</u></b>
 <b>Total Business-Type Activities</b>	 <b><u>\$ 12,919</u></b>

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

## **NOTE I - LONG-TERM DEBT OBLIGATIONS**

During the fiscal year ended June 30, 2019, 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	20,725,000	10,437,085	6,067,625	68,452,000	105,681,710	0
(De)Increase in OPEB	0	0	125,890	0	125,890	0
Principal Retirement	5,000	0	0	0	5,000	10,000
(De)Increase in Compensated Absences	0	0	0	0	0	0
(De)Increase in Pension Liability	0	0	0	483,000	483,000	0
End of Year	<u>20,720,000</u>	<u>10,437,085</u>	<u>6,193,515</u>	<u>68,935,000</u>	<u>106,285,600</u>	<u>10,000</u>

The future annual payments required to amortize all outstanding debt and obligations, except compensated absences, as of June 30, 2019, including total interest payments are as follows:

Year Ended June 30,	A Series 2016 Bonds Payable			Series 2018 Bonds Payable			Series 2012 Bonds Payable		
	Principal	Interest	Total	Principle	Interest	Total	Principle	Interest	Total
2020	0	181,250	181,250	5,000	487,846	492,846	5,000	154,028	159,028
2021	2,160,000	181,250	2,341,250	5,000	487,628	492,628	5,000	153,925	158,925
2022	2,145,000	91,250	2,236,250	5,000	487,409	492,409	115,000	152,506	267,506
2023	0	0	0	5,000	487,191	492,191	2,375,000	121,452	2,496,452
2024	0	0	0	5,000	486,972	491,972	2,440,000	60,045	2,500,045
Thereafter	0	0	0	10,420,000	2,311,422	12,731,422	1,030,000	14,162	1,044,162
<b>TOTAL</b>	<u>4,305,000</u>	<u>453,750</u>	<u>4,758,750</u>	<u>10,445,000</u>	<u>4,748,468</u>	<u>15,193,468</u>	<u>5,970,000</u>	<u>656,118</u>	<u>6,626,118</u>

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

## **NOTE I – LONG-TERM DEBT OBLIGATIONS, Continued**

### **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, 2019 was \$5,970,000. 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, 2019 was \$4,305,000. The bond proceeds were used to pay off the 2007 bond series.

### **General Obligation Bonds, Series of 2018**

In 2018, the District issued a general obligation bond in the amount of \$10,445,000 and the proceeds were used to pay down the 2016 bond series in the amount of \$4,015,000. The balance was used to set up a PSERS investment to be used for future payments to the state retirement fund. The bonds bear interest rates ranging from 4.371% to 4.907% with principal maturities from April 15, 2020 through April 15, 2032. The principal balance as of June 30, 2019 was \$10,445,000.

## **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 2018-2019 the District has accrued a liability for compensated absences in noncurrent liabilities. This amount for fiscal year 2018-2019 is \$10,437,085.

## **NOTE K – POST-RETIREMENT BENEFITS**

Teachers, Administrative, and Support positions who complete various criteria for service in time, receive Blue Cross/Blue Shield coverage with a percentage paid by the District. Coverage ceases when the retiree is eligible for Medicare or the maximum years of coverage is utilized, whichever comes first.

As of and for the year ended June 30, 2019, nineteen (19) retirees were receiving such benefits. The total premiums paid by the District, throughout the fiscal year, for those benefits totaled \$118,964.55.

## **NOTE L – CONTINGENCIES AND COMMITMENTS**

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.

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

## **NOTE M - PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM – PENSION PLAN**

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.

### **Plan description**

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

### **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

**NOTE M - PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM – PENSION PLAN, Continued**

members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

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

**Contributions**

The contribution policy is set by the Code and requires contributions by active members, participating employers, and the Commonwealth of Pennsylvania. Plan members may belong to four membership classes. Class T-C, Class T-D, Class T-E, and Class T-F are available to plan members.

**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.

**NOTE M - PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM – PENSION PLAN, Continued**

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

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

**Employer Contributions**

The District's contractually required contribution rate for fiscal year ended June 30, 2019 was 34.10% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the plan from the District were \$6,182,150.05 for the year ended June 30, 2019.

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

At June 30, 2019, the District reported a liability of \$68,935,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2017 to June 30, 2018. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District's proportion was 0.1436 percent, which was an increase of 0.0050 from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the District recognized pension expense of \$6,031,675. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**NOTE M - PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM – PENSION PLAN, Continued**

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference Between Expected and Actual Experience	555,000	1,067,000
Change in Assumptions	1,284,000	0
Net Difference between Projected and Actual Investment Earnings	338,000	0
Changes in Proportion	2,542,000	349,000
Difference between Employer Contributions and Proportionate Share of Total Contributions	0	0
Contributions Subsequent to the Measurement Date	6,031,675	0
	<b>10,750,675</b>	<b>1,416,000</b>

\$6,031,675 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2019	\$ 2,382,000
2020	1,252,000
2021	(68,000)
2022	(263,000)
	<u>\$ 3,303,000</u>

**Actuarial Assumptions**

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

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

**NOTE M - PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM – PENSION PLAN, Continued**

There were no changes in assumptions used in measurement of the total pension liability beginning June 30, 2018. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study that was performed for the five-year period ending June 30, 2015.

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

<b><u>Asset Class</u></b>	<b><u>Target Allocation</u></b>	<b><u>Long-Term Expected Real Rate of Return</u></b>
Global Public Equity	20.0%	5.2%
Fixed Income	36.0%	2.2%
Commodities	8.0%	3.2%
Absolute Return	10.0%	3.5%
Risk Parity	10.0%	3.9%
Infrastructure/MLPs	8.0%	5.2%
Real Estate	10.0%	4.2%
Alternative Investments	15.0%	6.7%
Cash	3.0%	0.4%
Financing (LIBOR)	(20.0%)	0.9%
	<u>100%</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, 2019.

**Discount Rate**

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



**NOTE M - PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM – PENSION PLAN, Continued**

of projected benefit payments to determine the total pension liability.

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

The following 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:

	<b>1% Decrease <u>6.25%</u></b>	<b>Current Discount Rate <u>7.25%</u></b>	<b>1% Increase <u>8.25%</u></b>
District's Proportionate Share of the Net Pension Liability	\$85,450,000	\$68,935,000	\$54,971,000

**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 PSERS's website at [www.psers.pa.gov](http://www.psers.pa.gov).

**Pension Reform**

Pursuant to Commonwealth Act 2017-5, members hired on or after July 1, 2019, will be required to choose one of three new retirement plan design options for retirement benefits. The current defined benefit plan will no longer be available to new members hired on or after July 1, 2019. The new plan design options include two hybrid plans consisting of defined benefit and defined contribution components. The third option is a standalone defined contribution plan.

PSERS school employers will be charged interest at the assumed rate of return, currently 7.25%, for delinquent payments to PSERS rather than 6.00%.

## **NOTE N – OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

### **SINGLE-EMPLOYER DEFINED BENEFIT OPEB PLAN**

#### **Plan Description**

The School District maintains a single-employer defined benefit OPEB plan to provide postemployment health care benefits. The Board of School Directors is authorized to establish and amend the financing requirements and benefits, subject to collective bargaining for certain classes of employees. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The plan does not issue stand-alone financial statements.

#### **Benefits Provided**

The plan provides medical and prescription drug coverage to employees who retire from active service and qualify for pension benefits, and their spouse and eligible dependents. Generally, retirees are eligible for benefits until age 65 upon paying 100% of the premium; spouse and dependents are eligible for benefits until age 65, and may continue coverage until the spouse is Medicare age after the retiree's death upon paying the full premium.

#### **Funding Policy**

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

#### **Total OPEB Liability**

The School District's total OPEB liability of \$6,193,515 was measured as of June 30, 2019, and was determined by an actuarial valuation as of July 1, 2018, and by rolling forward the liabilities from the July 1, 2018 actuarial valuation through the measurement date.

## **NOTE N – OTHER POSTEMPLOYMENT BENEFITS (OPEB), Continued**

### **Actuarial Assumptions and Other Inputs**

The total OPEB liability in the July 1, 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Discount Rate: 2.98%, based on S&P municipal bond 20-year high grad rate index.
- Long Term Expected Rate of Return: N/A, the plan is unfunded.
- Actuarial Cost Method: Entry age normal, level percent of pay.
- Healthcare Cost Trend: 6.0% in 2018, and 5.5% in 2019 through 2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Retirees' Share of Benefit-Related Costs: 100.0% of premium.
- Mortality Rates: RP-2014 mortality tables (male and female) adjusted for mortality improvement.

The actuarial assumptions used in the July 1, 2018, valuation were based on the results of an actuarial experience study for the period ended May 1, 2018.

### **Changes in the Total OPEB Liability**

	<b>Total OPEB Liability</b>
Balance at July 1, 2018	<u>\$ 6,067,625</u>
Changes for the year:	
Service Cost	\$ 365,836
Interest on Total OPEB Liability	217,221
Changes of benefit terms	0
Differences between expected and actual experience	213,118
Changes of assumptions or other inputs	(379,466)
Benefit payments	<u>(290,819)</u>
Net Changes	<u>\$ 125,890</u>
Balance at June 30, 2019	<u>\$ 6,193,515</u>

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

The following presents the Total OPEB Liability of the School District for the single-employer plan, as well as what the School District's total OPEB Liability for the single-employer plan would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current discount rate:

**NOTE N – OTHER POSTEMPLOYMENT BENEFITS (OPEB), Continued**

	1% Decrease (2.87%)	Discount Rate (3.87%)	1% Increase (4.87%)
Total OPEB Liability	\$ 6,470,550	\$ 6,193,515	\$ 5,612,686

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

The following presents the Total OPEB Liability to the School District's single-employer plan, as well as what the School District's Total OPEB Liability would be if it were calculated using healthcare cost trend rates that are 1% lower or 1% higher than the current healthcare cost trend rates:

	1% Decrease	Trend Rate	1% Increase
Total OPEB Liability	\$ 5,407,211	\$ 6,193,515	\$ 6,863,143

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and Actual experience	\$ 197,895	\$ 733,994
Benefit payments subsequent to the Measurement date	611,667	568,450
Changes of assumptions	257,363	0
Total	<u>\$ 1,066,925</u>	<u>\$ 1,302,444</u>

**Year Ended June 30**

2020	\$ (43,759)
2021	(43,759)
2022	(43,759)
2023	(43,759)
2024	(43,759)
Thereafter	(274,087)
Total	<u>\$(492,882)</u>

**Schedule of Changes in the Total OPEB Liability and Related Ratios**

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 and available is required until 10 years of information is compiled. See schedule on page 60 in the Required Supplementary Information.

## **NOTE N – OTHER POSTEMPLOYMENT BENEFITS (OPEB), Continued**

### **Actuarial Assumptions and Methods**

#### **Actuarial Assumptions**

Discount Rate: 3.87% as of June 30, 2019.

#### **Health Cost Trend:**

Medical and pharmacy costs and premium rates are assumed to increase as shown in the following table (selected years shown):

Fiscal Year Ending	Increase in Health Cost
June 30	over Prior Year
2020	6.75%
2021	6.50%
2022	6.25%
2023	6.00%
2024	5.75%
2025	5.50%
2026	5.25%
2027	5.00%
2028	4.75%
2029 and Later	4.50%

The Society of Actuaries (SOA) Long-Run Medical Cost Trend Model was used to develop the medical trend schedule used in projecting per capita claim costs and premiums for this report. The model's projections are based on an econometric analysis of historical US medical expenditures and the judgments of experts in the field. The long-run baseline projection and input variables have been developed under the guidance of an SOA Project Oversight Group and have been modified slightly to reflect Milliman's expectations for long term inflation. In addition the estimated impact of the excise tax due to healthcare reform is incorporated through an adjustment to the healthcare trend assumption.

#### **Monthly Per Capita Claims Cost**

Expected claim costs vary by age, gender and employee versus spouse. The claim costs shown below represent medical and pharmacy benefits and also include a provision for reinsurance premiums and administrative expenses. Also refer to the development of per capita claims cost at the end of this section.

**NOTE N – OTHER POSTEMPLOYMENT BENEFITS (OPEB), Continued**

**PPO Plan**

<u>Age Group</u>	Male <u>Retirees</u>	Female <u>Retirees</u>	Male <u>Spouses</u>	Female <u>Spouses</u>
60-64	\$1327	\$1293	\$1067	\$1056
55-59	1077	1068	844	944
50-54	952	1013	727	829

**Coverage Election Rates:**

Teachers: 100% of current active members who are eligible for the incentive at retirement are assumed to elect coverage, and to purchase coverage until age 65 if the incentive period expires before then. 25% of current active members who do not retire with an incentive are assumed to elect to purchase coverage. (Based on continuous review of experience and actual judgement.)

Administrators: 100% of current active members who are eligible for the incentive upon retirement at age 55 or later are assumed to elect coverage, and to purchase coverage until age 65 if the incentive period expires before then. 25% of current active members who do not retire with an incentive are assumed to elect to purchase coverage. (Based on continuous review of experience and actual judgement.)

Support: 100% of current active members who are eligible for the incentive at retirement are assumed to elect coverage, and to purchase coverage until age 65 if the incentive period expires before then. 10% of current active members who do not retire with an incentive are assumed to elect to purchase coverage. (Based on continuous review of experience and actual judgement.)

For all groups, actual elections are used for current retirees.

**Dependent Coverage:**

Teachers: 30% of current active members who elect coverage upon retirement are assumed to cover a spouse, with wives three years younger than husbands. 100% of surviving spouses are assumed to elect to purchase coverage. (Based on continuous review of experience and actual judgement.)

Administrators: 30% of current active members who elect to purchase coverage upon retirement are assumed to cover a spouse, with wives three years younger than husbands. 100% of surviving spouses are assumed to elect to purchase coverage. (Based on continuous review of experience and actual judgement.)

Support: 10% of current active members who elect to purchase coverage upon retirement are assumed to cover a spouse, with wives three years younger than husbands.

## **NOTE N – OTHER POSTEMPLOYMENT BENEFITS (OPEB), Continued**

100% of surviving spouses are assumed to elect to purchase coverage. (Based on continuous review of experience and actual judgement.)

For all groups, actual elections are used for current retirees.

### **Mortality:**

RP-2014 Mortality Tables adjusted to reflect Mortality Improvement Scale MP-2017 from 2006 base year and projected forward on a generational basis with Scale MP-2017 (based on recommendation of Society of Actuaries' Retirement Plans Experience Committee). As a generational table, it reflects mortality improvements both before and after the measurement date.

### **Termination:**

Withdrawal rates are based on the rates utilized in the Actuarial Valuation for the Pennsylvania Public School Employees' Retirement System and vary by age, service and gender. Illustrative rates are shown below.

<u>Males</u>			
<u>Age</u>	<u>&lt;5 Years</u>	<u>5-9 Years</u>	<u>10+Years</u>
25	15.0%	6.0%	3.0%
35	13.0	3.0	2.0
45	14.0	5.0	1.0
55	12.0	4.0	3.0

<u>Females</u>			
25	13.0%	7.0%	5.0%
35	14.0	6.0	3.0
45	12.0	5.0	2.0
55	12.0	4.0	3.0

### **Retirement:**

Retirement rates are based on the rates utilized in the Actuarial Valuation for the Pennsylvania Public School Employees' Retirement System and vary by age, service and gender. No employee is assumed to work beyond age 65.

<u>Sample Early Retirement Rates</u>		
<u>Age</u>	<u>Male</u>	<u>Female</u>
55	19.0%	19.0%
60	14.0%	17.0%

**NOTE N – OTHER POSTEMPLOYMENT BENEFITS (OPEB), Continued**

**Sample Superannuation Retirement Rates**

<u>Age</u>	<u>Male</u>	<u>Female</u>
55	27.0%	10.0%
60	31.0%	36.0%
62	51.0%	61.0%

**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; injuries to employees; 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, 2019 no settlements exceeded insurance coverage.

**NOTE P – 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.



**REQUIRED SUPPLEMENTARY  
INFORMATION**

**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, 2019**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(GAAP Basis)</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b>REVENUES</b>				
Local Revenues	\$ 20,370,112	\$ 20,370,112	\$ 22,150,450	\$ 1,780,338
State Revenues	20,579,644	20,579,644	22,786,811	2,207,167
Federal Revenues	1,231,002	1,231,002	1,098,631	(132,371)
<b>TOTAL REVENUES</b>	<u>42,180,758</u>	<u>42,180,758</u>	<u>46,035,892</u>	<u>3,855,134</u>
<b>EXPENDITURES</b>				
<b>Current:</b>				
Regular Programs	16,986,980	16,986,980	20,191,310	(3,204,330)
Special Programs	6,871,927	6,871,927	7,773,781	(901,854)
Vocational Programs	730,799	730,799	559,462	171,337
Other Instructional Programs	67,063	67,063	136,277	(69,214)
Pre-Kindergarten	174,417	174,417	272,541	(98,124)
<b>Support Services:</b>				
Pupil Personnel Services	1,378,245	1,378,245	937,259	440,986
Instructional Staff Services	688,825	688,825	970,046	(281,221)
Administrative Services	2,331,850	2,331,850	2,534,578	(202,728)
Pupil Health	464,442	464,442	434,108	30,334
Business Services	696,131	696,131	622,914	73,217
Operation and Maintenance of Plant Services	4,089,476	4,089,476	4,072,604	16,872
Student Transportation Services	2,312,114	2,312,114	2,648,536	(336,422)
Central and Other Support Services	1,490,457	1,490,457	896,145	594,312
Other Support Services	23,000	23,000	23,683	(683)
<b>Operation of Noninstructional Services:</b>				
Student Activities	722,885	722,885	653,386	69,499
Community Services	44,750	44,750	55,822	(11,072)
Facilities, Acquisition, Construction and Improvement Services	18,000	18,000	0	18,000
Capital Outlay	0	0	0	0
Debt Service (Principal & Interest)	954,537	954,537	767,613	186,924
Refund of Prior Year Receipts	0	0	0	0
<b>TOTAL EXPENDITURES</b>	<u>40,045,898</u>	<u>40,045,898</u>	<u>43,550,065</u>	<u>(3,504,167)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>2,134,860</u>	<u>2,134,860</u>	<u>2,485,827</u>	<u>350,967</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, 2019**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance With</b>
	<b>Original</b>	<b>Final</b>	<b>(GAAP Basis)</b>	<b>Final Budget Positive (Negative)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of Bonds - Refunded	0	0	0	0
Transfers (Out)	(152,375)	(152,375)	0	152,375
Budgetary Reserve	(106,733)	(106,733)	0	106,733
Bond Costs			0	
Debt Services - Refunded Bonds	0	0	0	0
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(259,108)</b>	<b>(259,108)</b>	<b>0</b>	<b>259,108</b>
Net Change in Fund Balances	1,875,752	1,875,752	2,485,827	610,075
<b>Fund Balance - July 1, 2017</b>	<b>(1,875,752)</b>	<b>(1,875,752)</b>	<b>14,379,094</b>	<b>16,254,846</b>
<b>Fund Balance - June 30, 2018</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 16,864,921</b>	<b>\$ 16,864,921</b>

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

**HIGHLANDS SCHOOL DISTRICT  
KNOX, PENNSYLVANIA  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS  
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Service Cost	\$ 365,836	368,951	266,102	-	-	-	-	-	-	-
Interest on Total OPEB Liability	217,221	173,288	252,401	-	-	-	-	-	-	-
Changes of Benefit Terms	-	-	(177,397)	-	-	-	-	-	-	-
Differences Between Expected and Actual Experience	213,118	-	(954,194)	-	-	-	-	-	-	-
Changes of Assumptions or Other Inputs	(379,466)	(255,377)	795,168	-	-	-	-	-	-	-
Benefit Payments	(290,819)	(299,535)	(411,817)	-	-	-	-	-	-	-
Net Change in Total OPEB Liability	125,890	(12,673)	(229,737)	-	-	-	-	-	-	-
Total OPEB Liability - Beginning of Year	6,067,625	6,080,298	6,310,035	-	-	-	-	-	-	-
Total OPEB Liability - End of Year	\$ 6,193,515	6,067,625	6,080,298	-	-	-	-	-	-	-
Covered-Employee Payroll	\$ 15,544,831	15,447,724	#####							
Total OPEB Liability as a Percentage of Covered Payroll	39.84%	39.28%	40.34%							

Notes to Schedule:

- GASB 75 was implemented beginning with the fiscal year ended June 30, 2017.
- Assumption Changes:
  - June 30, 2019 - Changes were made to the mortality improvements scale, the medical trend rates, and the assumed percent married.
  - Discount rate used for fiscal year ending:
 

2017	2.9
2018	3.6
2019	3.87

Note: Information is not available prior to 2017.  
See independent auditors' report.

**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)**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Measurement Date</u> <u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
District's proportion of the net pension liability	0.1436%	0.1386%	0.1374%	0.1394%	0.1348%
District's proportion of the net pension liability - dollar value	\$ 68,935,000	\$ 68,452,000	\$ 68,091,000	\$ 60,382,000	\$ 53,355,000
District's covered employee payroll	19,338,793	18,459,656	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	356.46%	370.82%	393.61%	353.15%	310.09%
Plan fiduciary net position as a percentage of the total pension liability	54.00%	51.84%	50.14%	54.36%	57.24%

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

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

**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, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 6,031,675	\$ 5,921,040	\$ 4,776,564	\$ 4,271,169	\$ 3,481,195
Contributions in relation to the contractually required contribution	<u>6,031,675</u>	<u>5,921,040</u>	<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>	<u>\$ 0</u>	<u>\$ 0</u>
District's covered - employee payroll	\$ 19,338,793	\$ 18,654,820	\$ 16,358,096	\$ 17,299,186	\$ 17,098,207
Contributions as a percentage of covered - employee payroll	32.27%	31.74%	29.20%	24.69%	20.36%

In accordance with GASB Statement No. 68, this schedule has ben 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.

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

**HIGHLANDS SCHOOL DISTRICT  
SINGLE AUDIT SUPPLEMENT  
YEAR ENDED JUNE 30, 2019**

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

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 7/1/18	REVENUE RECOGNIZED	EXPENDITURE \$	ACCRUED (DEFERRED) REVENUE AT 6/30/19	AMOUNT PASSED THRU TO SUB- RECIPIENTS
<b>U.S. Department of Education</b>											
<u>Passed through PA Dept of Education</u>											
Title I Improving Basic	I	84.010	013-170191	7/1/18-6/30/19	\$ 853,438	\$ 549,266	\$ 0	\$ 761,517	\$ 761,517	* \$ 212,251	\$ 0
Title I Improving Basic	I	84.010	013-180191	7/1/17-6/30/18	900,419	128,631	128,631	0	0	0	0
Total CFDA #84.010						677,897	128,631	761,517	761,517	212,251	0
Title II Improving Teacher Quality	I	84.367	020-190191	7/1/18-6/30/19	113,131	113,131	0	113,131	113,131	0	0
Total CFDA #84.367						113,131	0	113,131	113,131	0	0
Title IV Student Support	I	84.424	144-190191	7/1/18-6/30/19	64,629	64,629	0	64,629	64,629	0	0
Title IV Student Support	I	84.424	144-180191	7/1/17-6/30/18	20,181	2,883	2,883	0	0	0	0
Total CFDA #84.424					84,810	67,512	2,883	64,629	64,629	0	0
Medical Access	I	93.778	N/A	7/1/18-6/30/19	9,354	9,354	0	9,354	9,354	0	0
Total CFDA #93.778						9,354	0	9,354	9,354	0	0
<u>Passed through the Allegheny Intermediate Unit</u>											
IDEA		84.027	N/A	7/1/18-6/30/19	594,206	594,206	0	594,206	594,206	0	0
Total CFDA #84.027						594,206	0	594,206	594,206	0	0
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>						1,462,100	131,514	1,542,837	1,542,837	212,251	0
<b>U.S. Department of Agriculture:</b>											
<u>Passed through PA Dept of Agriculture:</u>											
Value of USDA Donated Commodities	I	10.555	N/A	7/1/18-6/30/19	N/A	102,870	(5,437)	101,974	101,974	* (6,333)	0
<u>Passed through PA Dept of Education:</u>											
National School Lunch Program:											
Federal - Lunch	I	10.555	362-000000	7/1/18-6/30/19	N/A	772,675	0	791,346	791,346	* 18,671	0
Federal - Lunch	I	10.555	362-000000	7/1/17-6/30/18	N/A	120,219	120,219	0	0	0	0
Total CFDA #10.555						995,764	114,782	893,320	893,320	12,338	0
Federal-Breakfast-Reg/Ndy	I	10.553	365-000000	7/1/17-6/30/18	N/A	37,495	37,495	0	0	0	0
Federal-Breakfast-Reg/Ndy	I	10.553	365-000000	7/1/18-6/30/19	N/A	218,701	0	224,592	224,592	* 5,891	0
Total CFDA #10.553						256,196	37,495	224,592	224,592	5,891	0
Total Nutrition Cluster						1,251,960	152,277	1,117,912	1,117,912	18,229	0
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>						1,251,960	152,277	1,117,912	1,117,912	18,229	0
<b>TOTAL FEDERAL AWARDS</b>						\$ 2,714,060	\$ 283,791	\$ 2,660,749	\$ 2,660,749	\$ 230,480	\$ 0

Source Code:

I - Indirect Funding

Test of 20% Rule

Total Expenses per above

\$ 2,660,749

Title I Improving Basic & National School Lunch & Breakfast Program

\$ 1,879,429

Total Federal Expenditures

\$ 2,660,749

= 70.64%

\* Selected for Audit



**HIGHLANDS SCHOOL DISTRICT  
NATRONA HEIGHTS, PENNSYLVANIA  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2019**

**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, 2019, the district had food commodities totaling \$6,333 in inventory.

- a) Total commodities received from the Pennsylvania Department of Agriculture valued at fair market value.
- b) Beginning inventory at July 1, 2018.
- c) Total amount of commodities used.
- d) Ending inventory at June 30, 2019.

**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.

**RICHARD M. TROESE, C.P.A.**

1200 EASTWOOD DRIVE

P.O. BOX 680

CLARION, PA 16214

PHONE: (814) 226-6133

FAX: (814) 226-5371

**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, 2019, 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 24, 2020.

***Internal Control Over Financial Reporting***

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

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

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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that

have not been identified. Given these limitations, during my audit I did not identify any deficiencies in internal control 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 Highlands School 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Richard M. Troese".

Richard M. Troese, C.P.A.  
Clarion, Pennsylvania  
March 24, 2019

**RICHARD M. TROESE, C.P.A.**

1200 EASTWOOD DRIVE

P.O. BOX 680

CLARION, PA 16214

PHONE: (814) 226-6133

FAX: (814) 226-5371

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

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 Highlands School District's major federal programs for the year ended June 30, 2019. Highlands School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, 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 Keystone School 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 Keystone School 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 Highlands School District's compliance.

### ***Opinion on Each Major Federal Program***

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

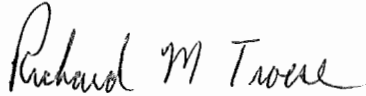
### ***Report on Internal Control Over Compliance***

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is 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 weaknesses 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 my 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 cursive script that reads "Richard M Troese".

Richard M. Troese, C.P.A.  
Clarion, Pennsylvania  
March 24, 2019

**HIGHLANDS SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2019**

**PART A. SUMMARY OF AUDITOR'S RESULTS**

1. The independent auditors' report expresses an unmodified opinion on the financial statements of Highlands School District
2. No material weaknesses or significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Highlands School District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to the audit of the major federal programs are reported in the Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance as Required by the Uniform Guidance.
5. The independent auditors' report on compliance for the major federal award program for Highlands School District expresses an unmodified report.
6. Audit findings relative to the major federal award programs for Highlands School District are reported in part C of this schedule.
7. The programs tested as major federal programs are: Title I Improving Basic – CFDA #84.010, Federal School Lunch Program – CFDA #10.555, and Federal School Breakfast Program – CFDA #10.553.
8. The threshold for distinguishing type A and B programs was \$750,000.
9. Highlands School District was determined to be a low-risk auditee.

**PART B. FINDINGS RELATED TO FINANCIAL STATEMENTS**

Status of Prior Year Findings

None.

Current Year Findings and Recommendations

Finding 2019-01

A fair number of year-end closing adjustments made as part of audit process.

Finding 2019-02

Bank accounts not being reconciled on a monthly basis.

Finding 2019-03

Balance Sheet accounts not balanced and adjusted on a monthly basis.

Recommendation: We recommend that the School District consider the most efficient and effective method to address the above issues. Governmental accounting standards and the financial reporting process continue to become more complex each year. At the same time, the School District is subject to significant financial constraints. The School District should undertake an evaluation as to what measures can be taken by management to reduce the number of year-end closing adjustments made as part of the audit process. This decision should be made in conjunction with the evaluation of potential internal control improvements (both over day-to-day processes, and the year-end financial reporting process) within the business office. The School District should use this information to weigh the cost/benefits of the different options, and attempt to arrive at a balance between key controls/processes as compared to costs.



**HIGHLANDS SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
YEAR ENDED JUNE 30, 2019**

**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, 2019**

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

Online - Office of the Budget/Bureau of Audits  
303 Walnut Street  
Bell Tower – Strawberry Square  
6<sup>th</sup> 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, 2020.