

**HIGHLANDS SCHOOL DISTRICT  
SINGLE AUDIT REPORT PACKAGE  
YEAR ENDED JUNE 30, 2014**

**HIGHLANDS SCHOOL DISTRICT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**TABLE OF CONTENTS**

	Page Number
Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-12

**BASIC FINANCIAL STATEMENTS**

Statement of Net Assets	13
Statement of Activities	14
Balance Sheet – Governmental Funds	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	18
Statement of Net Assets – Proprietary Fund	19
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund	20
Statement of Cash Flows – Proprietary Fund	21
Statement of Fiduciary Net Assets – Fiduciary Funds	22
Statement of Revenues, Expenditures and Change in Fund Balances – Budget and Actual – General Fund	23-24
Notes to Financial Statements	25-41

**SINGLE AUDIT SECTION**

Auditor's Transmittal Letter	42
List of Report Distribution	43
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	44-45
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	46-48
Schedule of Expenditures of Federal Awards	49
Notes to the Schedule of Expenditures of Federal Awards	50
Schedule of Findings and Questioned Costs	51

ACCOUNTING OFFICES  
OF  
**TROESE & ASSOCIATES**  
PROFESSIONAL SERVICES FIRM

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**INDEPENDENT AUDITOR'S REPORT**

Board of 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, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

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

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

***Auditor's Responsibility***

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinions*

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Highlands School District, as of June 30, 2014, and the respective changes in financial position and where applicable, cash flows, thereof and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion, analysis and budgetary comparison information on pages 4-12 and 23-24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

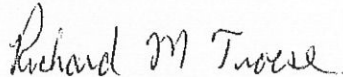
My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The management's discussion, analysis and budgetary comparison are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, I do not express an opinion or provide any assurance on them.



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

In accordance with *Government Auditing Standards*, I have also issued my report dated October 28, 2014, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Highlands School District's internal control over financial reporting and compliance.

Sincerely,

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

Richard M. Troese  
Clarion, Pennsylvania  
October 28, 2014

## 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, 2014. 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 twelfth year end audit report that reflects the requirements of GASB 34, primarily requiring districts to depreciate their fixed assets and include that data in their financial statements.
- The District's aggressive collection program resulted in \$1,671,617 collected in delinquent real estate and wage taxes. ( A record high)
- Interest revenue decreased from 477,124.13 in 2008 to 248,838.96 in 2009 and 96,822.06 in 2010 ,30,965.83 in 2011, 20,941.57 in 2012,17,510 in 2013 and 11,358 in year ending 2014 due to interest rates going down in the market place.
- The District's general fund reported a total ending fund balance of \$12,775,675 this year. This compares to the prior year ending fund balance of \$11,509,892 showing an increase of \$ 1,265,783 during the current year.
- The District must comply with Act I, Pennsylvania's new law that requires referendum voter approval for annual, public school tax increases higher than the state's annual index rate formula.
- The board authorized 9,678,387 of the fund balance be transferred to an assigned fund balance for long term liabilities, such as retirement obligations.
- The District experience countywide reassessment of property values. Although all appeals are not final, the District is confident that tax revenues should stay constant thru June 2015.

#### Overview of the Financial Statements

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

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

#### *Government-wide Financial Statements*

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

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

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

#### *Basis of Presentation – Fund Accounting*

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

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

#### *Governmental Fund Types*

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

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

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

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

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

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

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

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

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

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

### Basis of Accounting

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

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



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

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

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

#### Reporting Entity

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

#### CASH AND CASH EQUIVALENTS

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

#### INVESTMENTS

Investments are recorded at cost which approximates market value.

### Budgets and Budgetary Accounting

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

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

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

### Interfund Receivable

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

### Inventories

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

### Fixed Assets

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

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

### Amounts to be Provided for Retirement of Long-Term Debt

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

### Amounts to be provided for Compensated Absences

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

### Deferred Revenues

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

## Financial Analysis of the District

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

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

### Balance Sheet General Fund

Assets	18,584,801
Liabilities/inflow	<u>(5,809,129)</u>
Fund Bal./Net Asset	12,775,672

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

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

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

Our District's health benefits and retirement contributions are projected to increase significantly over the next 3 years.

The teachers' union (HEA) contract expires June 30, 2015.



### *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.

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. The fund balance of the General Fund increased by 4,384,990. Key factors contributing to this increase was greater tax collections both current and delinquent, refinancing of debt, and a significant number of positions being furloughed district wide. Cost control efforts contained losses to levels reflected in the financial statements.

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

Statement	
Revenues	
Local Sources	\$20,536,105
State Sources	\$18,221,723
Federal Sources	\$ 1,245,265
Other	\$ 0
Total Revenues	\$40,003,093
Expenditures	
Instruction	\$22,850,573
Support Services	\$12,236,951
Non-instructional Services	\$ 665,300
Capital Outlay	\$ 0
Debt Service	\$ 2,963,233
Refund of Prior Years Receipts/Transfer	\$ 0
Total Expenditures	\$ 38,716,057
Revenues over Expenditures and	\$ 1,287,036
Interfund transfer out	\$ ( 21,253)
Fund Balance -- Beginning of Fiscal Year	\$ 11,509,892
Fund Balance -- End of Year	\$ 12,775,675

### Debt

Please note our debt ratio is below the state average. The District's debt payments increased this year, but should remain level in the future.

### Bond Ratings

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

### General Fund Budgetary Highlights

Highlands School District's 2014-2015 budget totals \$40,645,599, a 6.1% increase over last year's budget. The final budget included no tax increase.

A new turf and track will be replaced.

Heights elementary school and the administration building were closed effective July 1, 2012. Both buildings still have tentative sales agreements for 1,150,000 together.

District residents, moreover, will receive about \$233 off their school taxes (about a 17% credit) from the gambling rebate.

Final adoption of the budget for the 2015-2016 year is June 2015.

### Results - One Year Later

The district's annual financial report (AFR), as audited, for the year ended 6/30/14 showed that the District stayed within their budget adopted above.

### Contacting the District's Financial Management

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

HIGHLANDS SCHOOL DISTRICT  
NATRONA HEIGHTS, PENNSYLVANIA  
STATEMENT OF NET ASSETS  
JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and Cash Equivalents	\$ 1,397,765	\$ 407,418	\$ 1,805,183
Investments	12,008,962	0	12,008,962
Taxes Receivable, Net	4,347,020	0	4,347,020
Internal Balances	507,165	0	507,165
Due from Other Governments	426,874	0	426,874
Other Receivables	3,021	0	3,021
Inventories	0	23,015	23,015
Prepaid Expenses/Expenditures	0	0	0
<b>Total Current Assets</b>	<b>18,690,807</b>	<b>430,433</b>	<b>19,121,240</b>
<b>Noncurrent Assets:</b>			
Land	908,987	0	908,987
Site Improvements (Net of Accumulated Depreciation)	910,263	0	910,263
Building and Building Improvements (Net of Accumulated Depreciation)	27,222,497	0	27,222,497
Furniture and Equipment (Net of Accumulated Depreciation)	0	86,284	86,284
Bond Issuance Costs (Net of Accumulated Amortization)	0	0	0
Bond Discount (Net of Accumulated Amortization)	0	0	0
<b>Total Noncurrent Assets</b>	<b>29,041,747</b>	<b>86,284</b>	<b>29,128,031</b>
<b>TOTAL ASSETS</b>	<b>\$ 47,732,554</b>	<b>\$ 516,717</b>	<b>\$ 48,249,271</b>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Internal Balances	\$ 0	\$ 507,165	\$ 507,165
Due to Other Governments	0	0	0
Accounts Payable	603,818	0	603,818
Current Portion of Long-Term Debt	2,220,000	0	2,220,000
Accrued Salaries and Benefits	855,973	35,378	891,351
Payroll Deductions and Withholdings	0	3,343	3,343
Deferred Revenues	0	0	0
Other Current Liabilities	2,318	0	2,318
<b>Total Current Liabilities</b>	<b>3,682,109</b>	<b>545,886</b>	<b>4,227,995</b>
<b>Noncurrent Liabilities:</b>			
Advances from Other Funds	0	0	0
Bonds and Notes Payable	20,690,000	0	20,690,000
Long-Term Portion of Compensated Absences	8,402,666	0	8,402,666
Other Postemployment Benefits (OPEB)	1,032,281	0	1,032,281
<b>Total Noncurrent Liabilities</b>	<b>30,124,947</b>	<b>0</b>	<b>30,124,947</b>
<b>TOTAL LIABILITIES</b>	<b>33,807,056</b>	<b>545,886</b>	<b>34,352,942</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	1,500,565	86,284	1,586,849
Capital Projects	78,912	0	78,912
Other Restrictions	9,678,387	0	9,678,387
Unrestricted	2,667,634	(115,453)	2,552,181
<b>TOTAL NET ASSETS</b>	<b>13,925,498</b>	<b>(29,169)</b>	<b>13,896,329</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 47,732,554</b>	<b>\$ 516,717</b>	<b>\$ 48,249,271</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, 2014

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
<b>Governmental Activities:</b>							
Instruction	\$ 24,877,787	\$ 0	\$ 14,019,524	\$ 0	\$ (10,858,263)	\$ 0	\$ (10,858,263)
Instructional Student Support	3,478,957	0	3,783,606	0	304,649	0	304,649
Administrative and Financial Support Services	2,583,401	0	162,029	0	(2,421,372)	0	(2,421,372)
Operation and Maintenance of Plant Services	4,130,876	0	0	0	(4,130,876)	0	(4,130,876)
Pupil Transportation	2,302,630	0	1,011,774	0	(1,290,856)	0	(1,290,856)
Food Service	0	0	0	0	0	0	0
Student Activities	611,728	98,271	0	0	(513,457)	0	(513,457)
Community Services	53,572	0	0	0	(53,572)	0	(53,572)
Interest on Long-Term Debt	813,233	0	490,055	0	(323,178)	0	(323,178)
<b>Total Governmental Activities</b>	<b>38,852,204</b>	<b>98,271</b>	<b>19,466,988</b>	<b>0</b>	<b>(19,286,945)</b>	<b>0</b>	<b>(19,286,945)</b>
<b>Business-Type Activities:</b>							
Food Services	1,364,280	379,236	947,348	0	0	(37,696)	(37,696)
<b>Total Primary Government</b>	<b>\$ 40,216,484</b>	<b>\$ 477,507</b>	<b>\$ 20,414,336</b>	<b>\$ 0</b>	<b>\$ (19,286,945)</b>	<b>\$ (37,696)</b>	<b>\$ (19,324,641)</b>
<b>General Revenues:</b>							
Taxes:							
Property Taxes, Levied for General Purposes, Net					15,706,911	0	15,706,911
Public Utility Realty, Earned Income and Per Capita Taxes Levied for General Purposes, Net					2,497,616	0	2,497,616
Grants, Subsidies, Contributions Not Restricted					0	0	0
Investment Earnings					11,358	0	11,358
Other Transfers between Governmental, BT Activities					(21,253)	21,253	0
Miscellaneous Income, Receipts from other LEAs					635,568	0	635,568
Special Item					0	0	0
<b>Total General Revenues</b>					<b>18,830,200</b>	<b>21,253</b>	<b>18,851,453</b>
<b>Change in Net Assets</b>					<b>(456,745)</b>	<b>(16,443)</b>	<b>(473,188)</b>
<b>Net Assets - July 1, 2013 - Restated</b>					<b>15,035,764</b>	<b>(12,726)</b>	<b>15,023,038</b>
<b>Net Assets - June 30, 2014</b>					<b>\$ 14,579,019</b>	<b>\$ (29,169)</b>	<b>\$ 14,549,850</b>

\*This amount excludes the depreciation that is included in the direct expenses of the functions presented.

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



HIGHLANDS SCHOOL DISTRICT  
NATRONA HEIGHTS, PENNSYLVANIA

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2014

	General Fund	Athletic/ Activity	Capital Reserve	Other Capital Projects Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 1,316,859	\$ 1,994	\$ 0	\$ 78,912	\$ 1,397,765
Investments	11,983,862	25,100	0	0	12,008,962
Taxes Receivable (Net)	4,347,020	0	0	0	4,347,020
Due from Other Funds	507,165	0	0	0	507,165
Due from Other Governments	172,492	0	0	0	172,492
State Revenue Receivable	39,878	0	0	0	39,878
Federal Revenue Receivable	214,504	0	0	0	214,504
Prepaid Expenses/Expenditures	0	0	0	0	0
Other Current Assets	3,021	0	0	0	3,021
<b>TOTAL ASSETS</b>	<b>\$ 18,584,801</b>	<b>\$ 27,094</b>	<b>\$ 0</b>	<b>\$ 78,912</b>	<b>\$ 18,690,807</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Due to Other Funds	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Due to Other Governments	9,927	0	0	0	9,927
Accounts Payable	593,891	0	0	0	593,891
Accrued Salaries and Benefits	855,973	0	0	0	855,973
Payroll Deductions and Withholdings	0	0	0	0	0
Other Current Liabilities	2,318	0	0	0	2,318
<b>TOTAL LIABILITIES</b>	<b>1,462,109</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,462,109</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>4,347,020</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,347,020</b>
<b>FUND BALANCES</b>					
Restricted Fund Balance	0	0	0	78,912	78,912
Committed Fund Balance	0	0	0	0	0
Unreserved-Designated	9,678,387	27,094	0	0	9,705,481
Unreserved-Undesignated	3,097,285	0	0	0	3,097,285
<b>TOTAL FUND BALANCES</b>	<b>12,775,672</b>	<b>27,094</b>	<b>0</b>	<b>78,912</b>	<b>12,881,678</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES &amp; FUND BALANCES</b>	<b>\$ 18,584,801</b>	<b>\$ 27,094</b>	<b>\$ 0</b>	<b>\$ 78,912</b>	<b>\$ 18,690,807</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 ASSETS  
JUNE 30, 2014

Total Fund Balances - Governmental Funds \$ 12,881,678

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

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 \$58,385,516 and the accumulated depreciation is \$(29,343,769). 29,041,747

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

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:

Bonds/note payable	\$(22,910,000)	
Compensated absences	\$ (8,402,666)	
Postemployment Benefits	\$ (1,032,281)	(32,344,947)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 13,925,498

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, 2014

	General Fund	Athletic/ Activity	Capital Reserve	Other Capital Projects Funds	Total Governmental Funds
<b>REVENUES</b>					
Local Sources	\$ 20,536,105	\$ 60,063	\$ 0	\$ 125	\$ 20,596,293
State Sources	18,221,723	0	0	0	18,221,723
Federal Sources	1,245,265	0	0	0	1,245,265
<b>TOTAL REVENUES</b>	<b>40,003,093</b>	<b>60,063</b>	<b>0</b>	<b>125</b>	<b>40,063,281</b>
<b>EXPENDITURES</b>					
Current:					
Instruction	22,850,574	0	0	0	22,850,574
Support Services	12,236,952	66,459	0	0	12,303,411
Operation of Noninstructional Services	665,301	0	0	0	665,301
<b>Total Current</b>	<b>35,752,827</b>	<b>66,459</b>	<b>0</b>	<b>0</b>	<b>35,819,286</b>
Capital Outlay:					
Facilities Acquisition, Construction and Improvement Services	0	0	0	377,813	377,813
<b>Total Capital Outlay</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>377,813</b>	<b>377,813</b>
Debt Service					
Principal and Interest	2,963,233	0	0	0	2,963,233
Refund of Prior Year Receipts	0	0	0	0	0
<b>Total Debt Service</b>	<b>2,963,233</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,963,233</b>
<b>TOTAL EXPENDITURES</b>	<b>38,716,060</b>	<b>66,459</b>	<b>0</b>	<b>377,813</b>	<b>39,160,332</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>1,287,033</b>	<b>(6,396)</b>	<b>0</b>	<b>(377,688)</b>	<b>902,949</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Bonds Issued (Face Value)	0	0	0	0	0
Transfers Out	(21,253)	0	0	0	(21,253)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(21,253)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(21,253)</b>
<b>Net Change in Fund Balances</b>	<b>1,265,780</b>	<b>(6,396)</b>	<b>0</b>	<b>(377,688)</b>	<b>881,696</b>
Fund Balance - July 1, 2013	11,509,892	33,490	0	456,600	11,999,982
Fund Balance - June 30, 2014	<u>\$ 12,775,672</u>	<u>\$ 27,094</u>	<u>\$ 0</u>	<u>\$ 78,912</u>	<u>\$ 12,881,678</u>

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, 2014

Total net change in fund balance - governmental funds	\$	881,696
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlays	377,813	
Depreciation expense	\$(1,187,404)	(809,591)

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

(1,646,569)

The issuance of general obligation bonds provides current financial resources to governmental funds but has no effect on net assets. 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:

Repayment of Bond Principal	\$2,150,000	2,150,000
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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 gov't funds these items are measured by the amount of financial resources used. This amount represents the difference.

(1,032,281)

Change in net assets of governmental activities

\$ (456,745)

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



HIGHLANDS SCHOOL DISTRICT  
NATRONA HEIGHTS, PENNSYLVANIA

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2014

	Food Service
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash and Cash Equivalents	\$ 407,418
Due from Component Units	0
Due from Other Funds	0
Inventories	23,015
<b>Total Current Assets</b>	<u>430,433</u>
<b>Noncurrent Assets:</b>	
Furniture and Equipment (Net of Accumulated Depreciation)	86,284
<b>Total Noncurrent Assets</b>	<u>86,284</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 516,717</u></u>
<b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Due to Other Funds	\$ 507,165
Accounts Payable	0
Payroll Deductions & Withholdings	3,343
Accrued Salaries and Benefits	35,378
<b>Total Current Liabilities</b>	<u>545,886</u>
<b>Noncurrent Liabilities:</b>	
Advances from Other Funds	0
<b>TOTAL LIABILITIES</b>	<u>545,886</u>
<b>NET ASSETS</b>	
Investment in Capital Assets, Net of Related Debt	86,284
Unrestricted	(115,453)
<b>TOTAL NET ASSETS</b>	<u>(29,169)</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 516,717</u></u>

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 ASSETS  
PROPRIETARY FUND  
FOR THE YEAR THEN ENDED JUNE 30, 2014

	Food Service
<b>OPERATING REVENUES:</b>	
Food Service Revenue	\$ 379,236
Other Operating Revenues	<u>0</u>
<b>TOTAL OPERATING REVENUES</b>	<u>379,236</u>
<b>OPERATING EXPENSES:</b>	
Salaries	320,432
Employee Benefits	160,495
Purchased Professional & Technical Service	300
Purchased Property Services	12,855
Other Purchased Service	1,693
Supplies/Purchases	857,405
Dues and Fees	0
Depreciation	11,100
Other Operating Expenditures	<u>0</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>1,364,280</u>
<b>OPERATING INCOME/(LOSS)</b>	<u>(985,044)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Contributions & Donations - Private Sources	0
Refunds of Prior Year Expenditures	0
State Sources	55,182
Federal Sources	<u>892,166</u>
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>947,348</u>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>	(37,696)
<b>TRANSFERS IN</b>	21,253
<b>CONTRIBUTIONS &amp; TRANSFERS</b>	
Capital Contributions	0
<b>CHANGE IN NET ASSETS</b>	(16,443)
<b>TOTAL NET ASSETS - JULY 1, 2013</b>	<u>(12,726)</u>
<b>TOTAL NET ASSETS - JUNE 30, 2014</b>	<u><u>\$ (29,169)</u></u>

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, 2014

	Food Service
Cash Flows from Operating Activities	
Cash Received from Users	\$ 379,236
Cash Received from Assessments Made to Other Funds	0
Cash Payments to Employees for Services	(480,927)
Cash Payments for Other Operating Expenses	(14,848)
Cash Payments to Suppliers for Goods and Services	(901,765)
Net Cash (Used for) Operating Activities	(1,018,304)
Cash Flows from Noncapital Financing Activities	
Local Sources	0
State Sources	55,182
Federal Sources	892,166
Operating Transfers In (Out) Primary Government	21,253
Net Cash Provided by Noncapital Financing Activities	968,601
Cash Flows from Capital and Related Financing Activities	
Fac Acq, Const, & Imp	(4,313)
(Inc) Dec in Contributed Capital	0
Net Cash Provided by Capital and Related Financing Activities	(4,313)
Cash Flows from Investing Activities	
Earnings on Investments	0
Net Cash Provided by Investing Activities	0
Net Increase (Decrease) in Cash and Cash Flow	(54,016)
Cash and Cash Equivalents Beginning of Year	461,434
Cash and Cash Equivalents End of Year	\$ 407,418
Reconciliation of Operating Income to Net Cash Provided by (Used for)	
Operating Activities:	
Operating Income (Loss)	\$ (985,044)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for)	
Operating Activities:	
Depreciation	11,100
(Increase) Decrease in Accounts Receivable	0
(Increase) Decrease in Inventories	(525)
Increase (Decrease) in Accounts Payable	(43,835)
Increase (Decrease) in Accrued Salaries Benefits	0
Advances to Other Funds	0
Increase (Decrease) in Payroll Deductions/Withholding	0
Total Adjustments	(33,260)
Net Cash (Used for) Operating Activities	\$ (1,018,304)

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

HIGHLANDS DISTRICT  
NATRONA HEIGHTS, PENNSYLVANIA

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2014

	Private Purpose Trust	Student Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 16,403	\$ 15,480	\$ 31,883
Investments	<u>0</u>	<u>27,655</u>	<u>27,655</u>
<b>TOTAL ASSETS</b>	<u>\$ 16,403</u>	<u>\$ 43,135</u>	<u>\$ 59,538</u>
<b>LIABILITIES</b>			
Short-Term Payables	\$ 0	\$ 43,135	\$ 43,135
Other Current Liabilities	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL LIABILITIES</b>	<u>0</u>	<u>43,135</u>	<u>43,135</u>
<b>NET ASSETS</b>			
Restricted for Legal Purposes	<u>16,403</u>	<u>0</u>	<u>16,403</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 16,403</u>	<u>\$ 43,135</u>	<u>\$ 59,538</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  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary	Final Budget
			Basis	Positive
				(Negative)
<b>REVENUES</b>				
Local Revenues	\$ 18,925,911	\$ 18,925,911	\$ 20,536,105	\$ 1,610,194
State Revenues	17,811,441	17,811,441	18,221,723	410,282
Federal Revenues	1,210,990	1,210,990	1,245,265	34,275
<b>TOTAL REVENUES</b>	<b>37,948,342</b>	<b>37,948,342</b>	<b>40,003,093</b>	<b>2,054,751</b>
<b>EXPENDITURES</b>				
Current:				
Regular Programs	16,112,761	15,531,598	15,451,199	80,399
Special Programs	6,584,748	6,832,304	6,714,421	117,883
Vocational Programs	720,569	442,145	435,925	6,220
Other Instructional Programs	136,760	109,336	104,616	4,720
Support Services:				
Pre-Kindergarten	132,600	139,019	144,412	(5,393)
Pupil Personnel Services	934,980	975,032	936,092	38,940
Instructional Staff Services	653,935	1,007,065	967,278	39,787
Administrative Services	2,217,648	2,145,435	2,053,967	91,468
Pupil Health	446,578	462,474	439,354	23,120
Business Services	603,623	570,284	529,434	40,850
Operation and Maintenance of Plant Services	3,890,013	4,265,876	4,130,876	135,000
Student Transportation Services	2,154,946	2,338,487	2,302,650	35,837
Central and Other Support Services	882,178	827,626	855,827	(28,201)
Other Support Services	23,000	23,000	21,473	1,527
Operation of Noninstructional Services:				
Student Activities	552,966	650,105	611,728	38,377
Community Services	42,250	61,854	53,572	8,282
Facilities, Acquisition, Construction and Improvement Services	18,000	0	0	0
Capital Outlay	0	0	0	0
Debt Service (Principal & Interest)	2,978,533	2,962,303	2,963,233	(930)
Refund of Prior Year Receipts	0	0	0	0
<b>TOTAL EXPENDITURES</b>	<b>39,086,088</b>	<b>39,343,943</b>	<b>38,716,057</b>	<b>627,886</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(1,137,746)</b>	<b>(1,395,601)</b>	<b>1,287,036</b>	<b>2,682,637</b>

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, 2014

	Budgeted Amounts		Actual Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Sale of Bonds	0	0	0	0
Transfers Out	(172,375)	0	(21,253)	(21,253)
Budgetary Reserve	(106,733)	0	0	0
Sale/Compensation for Fixed Assets	0	0	0	0
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(279,108)</b>	<b>0</b>	<b>(21,253)</b>	<b>(21,253)</b>
Net Change in Fund Balances	(1,416,854)	(1,395,601)	1,265,783	2,661,384
Fund Balance - July 1, 2013	1,416,854	0	11,509,892	11,509,892
Prior Period Adjustment	0	0	0	0
Fund Balance - June 30, 2014	<u>\$ 0</u>	<u>\$ (1,395,601)</u>	<u>\$ 12,775,675</u>	<u>\$ 14,171,276</u>

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

**HIGHLANDS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014**

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

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

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

The Governmental Accounting Standards Board (GASB) Statement 14, "The Financial Reporting Entity", established the criteria for determining the activities, organizations and functions of the government to be included in the financial statements of the reporting entity. The criteria used in determining whether such organizations should be included in the School District's financial reporting entity are financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters, scope of public service and special financial relationships.

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

**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 in individual funds based upon the purposes for which they are spent.

*Government-wide financial statements* (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the School District. As a general rule the effect of inter-fund activity has been eliminated from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately in the government-wide financial

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

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

The statement of activities presents a comparison between direct expenses and program revenues for business-type activities and for each function of the District's governmental activities. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. In addition, program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the School District's enterprise fund are food service charges. Operating expenses for the School District's enterprise fund include food production costs, supplies, administrative costs, and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as non-operating revenues and expenses.

The District reports the following major governmental fund:

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

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

The District reports the following nonmajor governmental funds:

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

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



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

Special Revenue Fund – Used to 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 Fund is the Capital Reserve Fund.

### Measurement Focus & Basis of Accounting

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers tax revenue to be available if collected within 60 days of the end of the fiscal period.

Revenues from federal, state and other grants designated for payment of specific School District expenditures are recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as deferred revenues until earned. Expenditures, generally are recorded when the related fund liability is incurred, if measurable. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

### Reporting Entity

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

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

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 General Fund is the only fund for which a budget is legally required.

The Pennsylvania School Code dictates specific procedures relative to adoption of the 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 available for public inspection at the administrative office of the School District. Notice that public hearings will be held on the proposed operating budget must be included in the advertisements; such hearings are required to be scheduled at least ten days prior to when final action on adoption is taken by the Board.
- \* The Board of Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action. An affirmative vote of two-thirds of all members of the Board is required.
- \* Fund balances in Budgetary Funds may be appropriated based on resolutions passed by the Board of Education, which authorize the 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 an expenditure has been committed by a purchase order, contract or other form of commitment, an encumbrance is recorded. Encumbrances outstanding at year end are reported in the fund financial statements as reservations of fund balances.

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

- \* 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.

### Receivables and Payables

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

### 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, 2014. The inventory of \$1,417 consisted of government donated commodities, which were valued at estimated fair market value, and purchased commodities and supplies, both valued at cost using the first-in, first-out (FIFO) method. Any unused commodities donated by the federal government at June 30, 2014 are reported as inventory.

### Prepaid Expenses

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

### Capital Assets

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



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

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	40
Site Improvements	15-20
Furniture	20
Vehicles	8
Equipment	5-15
Computer Software	3
Textbooks & Library Books	7

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

### Long-Term Obligations

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

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

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



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

### 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.

### Amount 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. This amount for fiscal year 2013-2014 was \$8,402,666.

### Deferred Revenues

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

### 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.

### Proprietary Fund FASB Usage

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed for proprietary activity financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

### Total Columns on Combined Statements

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

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

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

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

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

**NOTE C - CASH DEPOSITS AND INVESTMENTS**

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

Funds were secured at all times.

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

General Fund	Cash	Investments
Regular Checking	\$1,310,889	
Payroll Checking	4,970	
Petty Cash	1,000	
Money Market		\$11,437,362
PSDLAF	0	546,500
	<u>\$1,316,859</u>	<u>\$11,983,862</u>
Special Revenue		
Capital Reserve Fund		
Checking	\$ 0	
Checking-2012 Bond Issue	0	\$ 0
	<u>\$ 0</u>	<u>\$ 0</u>
Private Purpose Trust		
Checking	\$ 16,403	
PSDALF	0	\$ 0
	<u>\$ 16,403</u>	<u>\$ 0</u>

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

	Cash	Investments
Athletic Fund		
Checking	\$ 1,994	
CD		\$ 25,100
	<u>\$ 1,994</u>	<u>\$ 25,100</u>
Capital Projects Fund		
PSDLAF	\$ 0	\$ 0
Checking-07 Bond Issue	0	0
Checking-12 Bond Issue	78,912	0
	<u>\$ 78,912</u>	<u>\$ 0</u>
Food Service		
Regular Checking	\$ 405,328	
Petty Cash	2,090	
	<u>\$ 407,418</u>	
Agency – Student Activities Fund		
Checking	\$ 15,480	
PNC CD's		\$ 27,655
	<u>\$ 15,480</u>	<u>\$ 27,655</u>

PA School District Liquid Asset Fund; \$546,500; 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.

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

### NOTE C – CASH DEPOSITS AND INVESTMENTS, Continued

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

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 or risk, all of the District's investments are classified as Category 1.

### NOTE D – REAL ESTATE TAXES

Real Estate taxes for the School District are collected from the Boroughs of Tarentum and Brackenridge and the Townships of Fawn and Harrison. The tax on real estate for public school purposes for fiscal year 2013 - 2014 was 26.41 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 E – INTERGOVERNMENTAL RECEIVABLES

Amounts due from other governments represent receivables for revenues earned by the School District or collections made by another governmental unit on behalf of the School District. At June 30, 2014, the following amounts are due from other governmental units:

<u>Due From</u>	<u>General Fund</u>
Federal Government	\$ 214,504
State Government	39,878
Other Government	<u>172,492</u>
	<u>\$ 426,874</u>



**NOTE F – DUE TO/FROM OTHER FUNDS**

Interfund receivable and payable balances as of June 30, 2014 are as follows:

<u>Due To</u>	<u>Due From</u>	<u>Amount</u>
Food Service	General	\$ 0
General	Food Service	507,165
General	Bond Fund	0

## **NOTE G - CHANGES IN CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 908,987	\$ 0	\$ 0	\$ 908,987
Total Capital Assets Not Being Depreciated	<u>908,987</u>	<u>0</u>	<u>0</u>	<u>908,987</u>
Capital Assets, Being Depreciated				
Buildings	42,657,116	377,813	0	43,034,929
Site Improvements	3,849,436	0	0	3,849,436
Furniture & Equipment	10,592,164	0	0	10,592,164
Total Assets Being Depreciated	<u>57,098,716</u>	<u>377,813</u>	<u>0</u>	<u>57,476,529</u>
Less Accumulated Depreciation For:				
Buildings	14,817,500	994,932	0	15,812,432
Site Improvements	2,746,701	192,472	0	2,939,173
Furniture & Equipment	10,592,164	0	0	10,592,164
Total Accumulated Depreciation	<u>28,156,365</u>	<u>1,187,404</u>	<u>0</u>	<u>29,343,769</u>
Total Capital Assets, Being Depreciated, Net	<u>28,942,351</u>	<u>(809,591)</u>	<u>0</u>	<u>28,132,760</u>
Governmental Activities, Capital Assets, Net	<u>\$ 29,851,338</u>	<u>\$ (809,591)</u>	<u>\$ 0</u>	<u>\$ 29,041,747</u>
<b>Business-Type Activities</b>				
Capital Assets Being Depreciated				
Furniture & Equipment	\$ 734,514	\$ 0	\$ 0	\$ 734,514
Total Capital Assets, Being Depreciated	<u>734,514</u>	<u>0</u>	<u>0</u>	<u>734,514</u>
Less Accumulated Depreciation For:				
Furniture & Equipment	641,442	11,100	0	652,542
Total Accumulated Depreciation	<u>641,442</u>	<u>11,100</u>	<u>0</u>	<u>652,542</u>
Total Capital Assets, Being Depreciated, Net	<u>93,072</u>	<u>(11,100)</u>	<u>0</u>	<u>81,972</u>
Business-Type Activities Capital Assets, Net	<u>\$ 93,072</u>	<u>\$ (11,100)</u>	<u>\$ 0</u>	<u>\$ 81,972</u>

## NOTE H - LONG-TERM DEBT OBLIGATIONS

During the fiscal year ended June 30, 2014, general long-term debt changed as follows:

	Bonds Payable	Compensated Absences	Other Post Employment Benefits (OPEB)	Total General Long-Term Debt
Beginning of Year	25,060,000	6,371,118	853,521	32,284,639
Additional Debt Incurred During Year	0	2,031,548	178,760	2,210,308
Principal Retirement	2,150,000	0	0	2,150,000
(De)Increase in Compensated Absences	0	0	0	0
End of Year	22,910,000	8,402,666	1,032,281	32,344,947

The future annual payments required to amortize all outstanding debt and obligations, except compensated absences, as of June 30, 2014, including total interest payments are as follows:

Year Ended June 30,	A Series 2010 Bonds Payable			Series 2007 Bonds Payable			Series 2012 Bonds Payable		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2015	225,000	3,375	228,375	125,000	483,707	608,707	5,000	154,529	159,529
2016	0	0	0	355,000	473,778	828,778	5,000	154,429	159,429
2017	0	0	0	295,000	460,143	755,143	5,000	154,329	159,329
2018	0	0	0	1,885,000	412,875	2,297,875	5,000	154,229	159,229
2019	0	0	0	1,970,000	328,782	2,298,782	5,000	154,128	159,128
Thereafter	0	0	0	6,335,000	1,046,282	7,381,282	5,970,000	640,901	6,610,901
TOTAL	225,000	3,375	228,375	10,965,000	3,205,567	14,170,567	5,995,000	1,412,545	7,407,545

Year Ended June 30,	B Series 2010 Bonds Payable			C Series 2010 Bonds Payable		
	Principal	Interest	Total	Principal	Interest	Total
2015	900,000	31,900	931,900	965,000	73,275	1,038,275
2016	920,000	9,200	929,200	990,000	48,900	1,038,900
2017	0	0	0	1,950,000	19,500	1,969,500
2018	0	0	0	0	0	0
2019	0	0	0	0	0	0
Thereafter	0	0	0	0	0	0
TOTAL	1,820,000	41,100	1,861,100	3,905,000	141,675	4,046,675

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

##### **Series 2007 Bonds Payable**

In 2007, the School District issued general obligation bonds in the amount of \$11,000,000. The bonds bear interest rates ranging from 4.1% to 4.625% with principal maturities from April 15, 2009 through April 15, 2022. The principal balance outstanding at June 30, 2014 was \$10,965,000.

##### **General Obligation Bonds, Series of 2010**

In 2010, the School District issued a general obligation bond in the amount of \$13,675,000 and the proceeds were used to pay off the 2002, 2003 and 2005 bond series. The bonds bear interest rates ranging from .5% to 3% with principal maturities from May 15, 2011 through November 15, 2016. The principal balance outstanding at June 30, 2014 was \$5,950,000.

##### **General Obligation Bonds, Series of 2012**

In 2012, the School 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, 2014 was \$5,995,000. The bond proceeds are being used for building improvements.

#### **NOTE I – 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 2013-2014 the District has accrued a liability for compensated absences and the related employers share of FICA and retirement in noncurrent liabilities. This amount for fiscal year 2013-2014 is \$8,402,666.

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

Employees who retire after thirty years of credited service in the Public School Retirement System, of which fifteen years were earned as an employee of the School District, receive Blue Cross/Blue Shield coverage. Coverage will be continued until age 65 or until eligible for Medicare, whichever occurs first. Spousal coverage will cease when the spouse has reached his/her 65<sup>th</sup> birthday, or after five years, whichever occurs first.

As of and for the year ended June 30, 2014, thirty-six (36) retirees were receiving such benefits. The total premiums paid by the District, throughout the fiscal year, for those benefits totaled \$321,520.



## NOTE K – CONTINGENT LIABILITIES

### Grant Programs

The School 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 School District is potentially liable for any expenditures that may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance that would result in the disallowance of program expenditures.

## NOTE L – PENSION PLAN

School Districts in the Commonwealth participate in a State administered pension program established under legislative authority. The name of the plan is the Public School Employees' defined Retirement System. PSERS is a cost sharing multiple employer benefit plan. Under this program, contributions are made by each of three parties: the School District, the Commonwealth and the employee with contribution rates established by authority of the Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended). All of the School District's full-time employees salaried over 80 days, and hourly employees working more than 500 hours per year participate in the program. Currently, each party to the program contributes a fixed percentage of employees' gross earnings.

Employees may elect Class T-D or to remain Class T-C. The employee's contribution rate is determined by membership class. Class T-C members who were enrolled in PSERS prior to July 22, 1983, have an employee contribution rate of 5.25%. Class T-C members who were enrolled in PSERS on or after July 22, 1983, but before July 1, 2001, have an employee contribution rate of 6.25%. Class T-D members who were enrolled in PSERS prior to July 22, 1983, have an employee contribution rate of 6.50%. Class T-D members who were enrolled in PSERS on or after July 22, 1983, but before July 1, 2001, have an employee contribution rate of 7.50%. New employees enrolled on or after July 1, 2001, are automatically Class T-D members and have a contribution rate of 7.50%.

Employee contributions are withheld by the School District and paid to the state pension program. For fiscal year ended June 30, 2014, the School District's contribution to the pension program totaled \$2,371,688. Contributions required of employees are based upon an actuarial valuation. For fiscal year ended June 30, 2014, the rate of Employer contribution was 16.93% of covered payroll. The 16.93% rate is composed of a pension contribution rate of 16.93% for pension benefits.

The pension program is wholly administered by the statewide autonomous Public School Employees' Retirement System (PSERS) with offices in Harrisburg, Pennsylvania. The School District has no responsibility or authority for the operation and administration of the pension program nor has it any related liability except for current contribution requirements.

**NOTE M – GASB 45 OTHER POSTEMPLOYMENT BENEFITS**

The plan is the Highlands School District Other Postemployment Benefit (OPEB) Plan and is administered by the School Board of Directors. Highlands School District is a single employer plan. The plan does not issue a stand-alone financial statement report in accordance with GASB 43.

**FISCAL YEAR 2014 ANNUAL OPEB COST**

Net OPEB Obligation (Asset) at beginning of year June 30, 2013	\$ 853,521
Total Annual OPEB Cost	728,512
Contributions in Relation to the ARC	<u>(549,752)</u>
Annual OPEB Cost for fiscal year ending June 30, 2014	\$1,032,281

**Notes**

- 1) Amortization method is closed 20-year level dollar amortization.
- 2) Annual OPEB Cost (AOC) is amount expensed under GASB 45.

**GASB 45 SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2008	\$0	\$8,383,309	\$8,383,309	0.0%	\$17,131,299	48.94%
June 30, 2010	0	7,058,484	7,058,484	0.0%	19,212,854	36.74%
June 30, 2012	0	6,819,283	6,819,283	0.0%	17,276,274	39.47%

**GASB 45 SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$1,013,962	77.43%	\$ 555,898
June 30, 2012	1,002,743	87.80%	678,240
June 30, 2013	731,637	76.04%	853,521
June 30, 2014	728,512	75.46%	1,032,281

## ACTUARIAL ASSUMPTIONS AND METHODS

### Actuarial Assumptions

Discount Rate: 4.5% per annum, compounded annually.

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

Fiscal Year Ending June 30	Increase in Health Cost over Prior Year
2010	9.00%
2011	8.00
2012	7.00
2013	6.00
2014	5.00
2015	5.00
2016 & later	5.00

### ACTUARIAL COST METHOD

The Projected Unit Credit Method was used for determining service costs and the actuarial accrued liability known as the Accumulated Postretirement Benefit Obligation. The Accumulated Postretirement Benefit Obligation is the Actuarial Present Value of Benefits attributed to an employee's service as of the measurement date based on the employee's projected service to his or her expected retirement age. The Service Cost is the Actuarial Present Value of Benefits attributed to the employee's upcoming year of service.

### NOTE N – RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has purchased various insurance policies to safeguard its assets from risk of loss. Insurance coverage appears to be consistent with previous years. During the year ended June 30, 2014 no settlements exceeded insurance coverage.

ACCOUNTING OFFICES  
OF  
**TROESE & ASSOCIATES**  
PROFESSIONAL SERVICES FIRM

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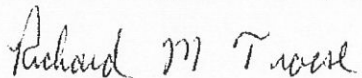
**AUDITOR'S TRANSMITTAL LETTER**

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

I have performed the Single Audit of the Highlands School District for the fiscal year ended June 30, 2014, and have enclosed the Single Audit reporting package.

The Single Audit was done to fulfill the requirements of the OMB Circular A-128. It entailed:

1. An audit of the financial statements and my opinion thereon;
2. An examination of the schedule of federal financial assistance and my opinion thereon;
3. A review of the internal control structure based solely on the understanding obtained as part of the audit of the financial statements;
4. A review of the internal control structure made as a part of the audit of the federal financial assistance programs;
5. A review of compliance based on an audit of the financial statements in accordance with *Government Auditing Standards*;
6. A review of compliance with laws and regulations related to federal financial assistance programs and my opinion thereon.



Richard M. Troese, C.P.A.  
Clarion, Pennsylvania  
October 28, 2014



**HIGHLANDS SCHOOL DISTRICT  
LIST OF REPORT DISTRIBUTION  
YEAR ENDED JUNE 30, 2014**

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 PO Box 288 Natrona Heights, Pennsylvania 15065

These reports are due at the various agencies by March 31, 2015.

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

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

I have audited the financial statements of Highlands School District, as of and for the year ended June 30, 2014, and have issued my report thereon dated October 28, 2014. 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.

***Internal Control Over Financial Reporting***

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

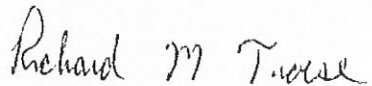
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination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

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

#### *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*.

This report is intended solely for the information of the audit committee, management, others within the organization, the School Board, U.S. Department of Education, and other federal and state audit agencies, and is not intended to be, and should not be, used by anyone other than those specified parties.



Richard M. Troese, C.P.A.  
Clarion, Pennsylvania  
October 28, 2014

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OF  
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**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE  
SCHEDULE OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

**INDEPENDENT AUDITOR'S REPORT**

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

***Report on Compliance for Each Major Federal Program***

I have audited the compliance of Highlands School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 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, 2014. The 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

My responsibility is to express an opinion on compliance for each of Highlands 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Highlands 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 compliance.

### *Opinion on Each Major Federal Program*

In my opinion, Highlands School District, complied, in all material respects, with the 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, 2014.

### *Report on Internal Control Over Compliance*

The management of Highlands School District is responsible for establishing and maintaining effective internal control over compliance with the type 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 a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

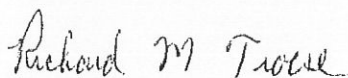
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement 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 weakness or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133*

I have audited the financial statements of Highlands as of and for the year ended June 30, 2014, and have issued my report thereon dated October 28, 2014, which contained an unmodified opinion on those financial statements. My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Richard M. Troese, C.P.A.  
Clarion, Pennsylvania  
October 28, 2014

HIGHLANDS SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014

GRANTOR TITLE PROGRAM	SOURCE CODE	FEDERAL CFDA NO.	PASS THROUGH GRANTOR #	GRANT PERIOD BEGINNING/ ENDING DATE	GRANT AMOUNT	TOTAL RECEIVED FOR THE YEAR	ACCRUED (DEFERRED) REVENUE AT 7/01/13	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE AT 6/30/14
<u>US Department of Education</u>										
Passed through the Pennsylvania Department of Education										
Title I Improve Basic	I	84.010	013-140191	7/1/13-6/30/14	\$ 680,472	\$ 589,742	\$ 0	\$ 680,472	\$ 680,472	\$ 90,730
Title I Improving Basic	I	84.010	013-130191	7/1/12-6/30/13	744,505	48,482	48,482	0	0	0
Title II Improving T.Q.	I	84.367	020-140191	7/1/13-6/30/14	197,002	144,468	0	197,002	197,002	52,534
Title II Improving T.Q.	I	84.367	020-130191	7/1/12-6/30/13	203,549	17,896	17,896	0	0	0
ARRA T-I School Impr Grant	I	84.388	139-133191	7/1/13-6/30/14	356,205	284,964	0	356,205	356,205	71,241
ARRA T-I School Impr Grant	I	84.388	139-122191	7/1/12-6/30/13	455,305	142,283	142,283	0	0	0
Medical Access	I	93.778	N/A	7/1/13-6/30/14	11,586	11,586	0	11,586	11,586	0
					\$ 2,648,624	\$ 1,239,421	\$ 208,661	\$ 1,245,265	\$ 1,245,265	\$ 214,505
Passed through the Allegheny Intermediate Unit										
IDEA	I	84.027	N/A	7/1/12-6/30/13	\$ 623,251	\$ 212,606	\$ 212,606	\$ 0	\$ 0	\$ 0
IDEA	I	84.027	N/A	7/1/13-6/30/14	538,014	365,522	0	538,014	538,014	172,492
					\$ 1,161,265	\$ 578,128	\$ 212,606	\$ 538,014	\$ 538,014	\$ 172,492
<u>US Department of Agriculture</u>										
Passed through the Pennsylvania Department of Education										
National School Lunch Program	I	10.555	362-000000	7/1/13-6/30/14	N/A	\$ 678,477	\$ 0	\$ 678,477	\$ 678,477	\$ 0
Federal-Breakfast-Reg/NoY	I	10.553	365-000000	7/1/13-6/30/14	N/A	184,477	0	184,477	184,477	0
Federal-Breakfast-Sev. Need	I	10.553	367-000000	7/1/13-6/30/14	N/A	29,212	0	29,212	29,212	0
State-Lunch	I	N/A	510-000000	7/1/13-6/30/14	N/A	42,079	0	42,079	42,079	0
State-Breakfast	I	N/A	511-000000	7/1/13-6/30/14	N/A	13,103	0	13,103	13,103	0
Passed through the Pennsylvania Department of Agriculture										
Value of USDA Donated Commodities	I	10.555	N/A	7/1/13-6/30/14	N/A	a) 33,284	b) (2,083)	33,950	c) 33,950	d) (1,417)
					N/A	980,632	(2,083)	981,298	981,298	(1,417)
Total Federal Financial Assistance					\$ 3,809,889	\$ 2,798,181	\$ 419,184	\$ 2,764,577	\$ 2,764,577	\$ 385,580

Test of 50% Rule

Total Expenses per above	\$	2,764,577
Less: State's share of National School & Lunch Program Expenditures		(55,182)
		<u>2,709,395</u>

National School Lunch, ARRA-T-I School Impr & Title I Impr Basic  
Total Federal Expenditure

1,749,104  
\$ 2,709,395 = 64.56%

**HIGHLANDS SCHOOL DISTRICT  
NATRONA HEIGHTS, PENNSYLVANIA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirement of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE 2 – 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. As of June 30, 2014, the district had food commodities totaling \$1,417 in inventory.

- a) Total commodities received from the Pennsylvania Department of Agriculture valued at fair market value.
- b) Beginning inventory at July 1, 2013.
- c) Total amount of commodities used.
- d) Ending inventory at June 30, 2014.



**HIGHLANDS SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2014**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the basic financial statements of the Highlands School District.
  2. No reportable conditions relating to the audit of the financial statements are reported in the Report on Compliance and on Internal Control over Financial Reporting, 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 the Highlands School District were disclosed during the audit.
  4. No reportable conditions relating to the audit of the major federal award programs is reported in the Report on Compliance and on Internal Control over Financial Reporting, based on an Audit of Financial Statements performed in accordance with Government Auditing Standards.
  5. The auditors report on compliance for the major federal award programs for the Highlands School District expresses an unqualified opinion.
  6. No findings relative to the major federal award programs for the Highlands School District were disclosed during the audit.
  7. The programs tested as major programs include:  
ARRA-Title I-School Improvement, CFDA #84.388 Project #139-133191  
National School Lunch CFDA #10.553 #362 and donated commodities  
Title I-Improving Basic, CFDA #84.010 Project #13-140191
  8. The threshold for distinguishing Types A and B programs was \$300,000.
  9. The Highlands School District was determined not to be a low-risk auditee.
- B. FINDINGS –FINANCIAL STATEMENTS AUDIT: None**
- C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM AUDIT: None**
- D. STATUS OF PRIOR YEARS COMPLIANCE FINDING: There were no prior year findings.**