

**HIGHLANDS SCHOOL DISTRICT
SINGLE AUDIT REPORT PACKAGE
YEAR ENDED JUNE 30, 2015**

**HIGHLANDS SCHOOL DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

TABLE OF CONTENTS

	Page Number
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	4-12
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements	
<i>Governmental Funds</i>	
Balance Sheet	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	16
Statement of Revenues, Expenditures and Changes in Fund Balances	17
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	18
<i>Proprietary Funds</i>	
Statement of Net Position	19
Statement of Revenues, Expenses and Changes in Net Position	20
Statement of Cash Flows	21
<i>Fiduciary Funds</i>	
Statement of Fiduciary Net Position	22
Statement of Changes in Fiduciary Net Position	23
Notes to Basic Financial Statements	24
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of the District’s Proportionate Share of the Net Pension Liability	38
Schedule of Funding Progress for the Postemployment Benefits Plan	44
Budgetary Comparison Schedule	46-47
Notes to Required Supplementary Information	48

SUPPLEMENTARY INFORMATION

Auditor's Transmittal Letter	49
List of Report Distribution	50
Schedule of Expenditures of Federal Awards	51
Notes to the Schedule of Expenditures of Federal Awards	52
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	53-54
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	55-57
Schedule of Findings and Questioned Costs	58

ACCOUNTING OFFICES
OF
TROESE & ASSOCIATES
PROFESSIONAL SERVICES FIRM

HENRY A. TROESE, JR., E.A.
RICHARD M. TROESE, CPA

1200 EASTWOOD DRIVE
PO BOX 680
CLARION, PA 16214
(814) 226-6133 PHONE
(814) 226-5371 FAX

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, 2015, 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, 2015, 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.

Change in Accounting Principle

As described in Note O to the financial statements, during the year ending June 30, 2015, the District adopted new accounting guidance, GASB Statement No. 68, Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27. My opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion, analysis and budgetary comparison information on pages 4-12 and 46-47 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

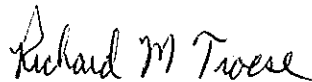
My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The management's discussion, analysis, and budgetary comparison and the schedule of expenditures of federal awards and certain state grants are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and certain state grants is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of expenditures of federal awards and certain state grants is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated March 8, 2016, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Highlands School District's internal control over financial reporting and compliance.

Sincerely,



Richard M. Troese
Clarion, Pennsylvania
March 8, 2016

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, 2015. 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 thirteenth 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 \$966,673 collected in delinquent real estate and wage taxes.
- 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. Rates expected to increase in 2016, but not significantly.
- The District's general fund reported a total ending fund balance of \$12,214,483 this year. This compares to the prior year ending fund balance of \$12,775,675 showing a decrease of \$ 561,192 during the current year. The District knowingly used some fund balance to replace much needed order equipment and will not be reoccurring expenses.
- The District must comply with Act I, Pennsylvania's new law that requires referendum voter approval for annual, public school tax increases higher than the state's annual index rate formula.
- The board authorized 9,160,862 of the fund balance be transferred to an assigned fund balance for long term liabilities, such as retirement obligations.
- The District experience countywide reassessment of property values. Although all appeals are not final, the District is confident that tax revenues should stay constant thru June 2016.

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 purpose for which they are spent. Account groups are used to establish accounting control and accountability for the School District's General Fixed Assets and General Long-Term Obligations.

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

Governmental Fund Types

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

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

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

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

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

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

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

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

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

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

Basis of Accounting

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

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

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

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

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

Reporting Entity

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

CASH AND CASH EQUIVALENTS

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

INVESTMENTS

Investments are recorded at cost which approximates market value.

Budgets and Budgetary Accounting

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

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

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

Interfund Receivable

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

Inventories

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

Fixed Assets

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

Fixed assets acquired or constructed for governmental fund purposes 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	18,328,676
Liabilities/inflow	<u>(6,114,193)</u>
Fund Bal./Net Asset	12,214,483

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

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

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

Our District's health benefits and retirement contributions are projected to increase 5% next year and expected to keep this trend for 3 more years.

The teachers' union (HEA) contract expires June 30, 2015. Negotiations are in progress.

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. As of February 2016, the Commonwealth of PA still has not approved their state budget since June of 2015

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

The General Fund

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

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

Statement	
Revenues	
Local Sources	\$19,724,452
State Sources	\$19,169,291
Federal Sources	\$ 881,185
Other	<u>\$ 0</u>
Total Revenues	\$40,470,678
Expenditures	
Instruction	\$24,574,834
Support Services	\$12,308,203
Non-instructional Services	\$ 617,874
Capital Outlay	\$ 0
Debt Service	\$ 2,963,348
Refund of Prior Years Receipts/Transfer	<u>\$ 419</u>
Total Expenditures	\$ 40,470,678
Revenues over Expenditures and	\$ (695,750)
Interfund transfer out and sale of assets	\$ 134,558
Fund Balance – Beginning of Fiscal Year	<u>\$ 12,775,675</u>
Fund Balance – End of Year	\$ 12,214,483

Debt

Please note our debt ratio is below the state average, and a refunding saving \$400,000 is expected in February 2016, 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 2015-2016 budget totals \$42,964,481, a 4% increase over last year's budget. The final budget included no tax increase.

A new turf and track was replaced, about \$600,000 in 2015.

Heights elementary school and the administration building were closed effective July 1, 2012. Both buildings sold for about \$1,150,000 together.

District residents, moreover, will receive about \$234 off their school taxes (about a 17% credit) from the gambling rebate.

Final adoption of the budget for the 2016-2017 year is June 2016.

Results - One Year Later

The district's annual financial report (AFR), as audited, for the year ended 6/30/15 showed that the District stayed within their budget adopted above.

Contacting the District's Financial Management

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

HIGHLANDS SCHOOL DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA
STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,166,742	\$ 360,569	\$ 1,527,311
Investments	11,998,003	0	11,998,003
Taxes Receivable, Net	4,347,020	0	4,347,020
Internal Balances	668,341	0	668,341
Due from Other Governments	266,705	0	266,705
Other Receivables	0	0	0
Inventories	0	20,130	20,130
Prepaid Expenses/Expenditures	0	0	0
Total Current Assets	18,446,811	380,699	18,827,510
Noncurrent Assets:			
Land	908,987	0	908,987
Site Improvements (Net of Accumulated Depreciation)	717,791	0	717,791
Building and Building Improvements (Net of Accumulated Depreciation)	26,273,222	0	26,273,222
Furniture and Equipment (Net of Accumulated Depreciation)	0	96,070	96,070
Total Noncurrent Assets	27,900,000	96,070	27,996,070
TOTAL ASSETS	\$ 46,346,811	\$ 476,769	\$ 46,823,580
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Amounts Related to Pensions	\$ 5,526,195	\$ 0	\$ 5,526,195
TOTAL DEFERRED OUTFLOWS OF RESOURCES	5,526,195	0	5,526,195
LIABILITIES			
Current Liabilities:			
Internal Balances	0	668,341	668,341
Due to Other Governments	0	0	0
Accounts Payable	567,140	0	567,140
Current Portion of Long-Term Debt	2,270,000	0	2,270,000
Accrued Salaries and Benefits	861,059	26,744	887,803
Payroll Deductions and Withholdings	338,974	0	338,974
Other Current Liabilities	0	0	0
Total Current Liabilities	4,037,173	695,085	4,732,258
Noncurrent Liabilities:			
Advances from Other Funds	0	0	0
Bonds and Notes Payable	18,420,000	0	18,420,000
Long-Term Portion of Compensated Absences	6,662,192	0	6,662,192
Net Pension Liability	53,355,000	0	53,355,000
Other Postemployment Benefits (OPEB)	1,271,108	0	1,271,108
Total Noncurrent Liabilities	79,708,300	0	79,708,300
TOTAL LIABILITIES	83,745,473	695,085	84,440,558
DEFERRED INFLOWS OF RESOURCES			
Deferred Amounts Related to Pensions	3,814,000	0	3,814,000
NET POSITION			
Invested in Capital Assets, Net of Related Debt	5,373,602	96,070	5,469,672
Capital Projects	78,912	0	78,912
Other Restrictions	9,160,862	0	9,160,862
Unrestricted	(50,299,843)	(314,386)	(50,614,229)
TOTAL NET POSITION	(35,686,467)	(218,316)	(35,904,783)
TOTAL LIABILITIES AND NET POSITION	\$ 46,346,811	\$ 476,769	\$ 46,823,580

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, 2015**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
Instruction	\$ 28,340,413	\$ 0	\$ 15,764,355	\$ 0	\$ (12,576,058)	\$ 0	\$ (12,576,058)
Instructional Student Support	1,834,847	0	2,735,276	0	900,429	0	900,429
Administrative and Financial Support Services	2,641,783	0	0	0	(2,641,783)	0	(2,641,783)
Operation and Maintenance of Plant Services	4,219,405	0	0	0	(4,219,405)	0	(4,219,405)
Pupil Transportation	2,356,201	0	1,047,832	0	(1,308,369)	0	(1,308,369)
Food Service	0	0	0	0	0	0	0
Student Activities	564,066	129,548	32,101	0	(402,417)	0	(402,417)
Community Services	53,808	0	0	0	(53,808)	0	(53,808)
Interest on Long-Term Debt	749,348	0	470,912	0	(278,436)	0	(278,436)
Total Governmental Activities	40,759,871	129,548	20,050,476	0	(20,579,847)	0	(20,579,847)
Business-Type Activities:							
Food Services	1,413,265	152,037	1,072,081	0	0	(189,147)	(189,147)
Total Primary Government	\$ 42,173,136	\$ 281,585	\$ 21,122,557	\$ 0	\$ (20,579,847)	\$ (189,147)	\$ (20,768,994)
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes, Net					15,306,826	0	15,306,826
Public Utility Realty, Earned Income and Per Capita Taxes Levied for General Purposes, Net					2,551,344	0	2,551,344
Grants, Subsidies, Contributions Not Restricted					0	0	0
Investment Earnings					6,594	0	6,594
Other Transfers between Governmental, BI Activities					0	0	0
Miscellaneous Income, Receipts from other LEA's					830,240	0	830,240
Special Item-Sale of Assets					134,961	0	134,961
Total General Revenues					18,829,965	0	18,829,965
Change in Net Position					(1,749,882)	(189,147)	(1,939,029)
Net Position at Beginning of Year							
As Originally Reported					13,514,025	0	13,514,025
Adjustment (See Note O)					(49,162,805)	0	(49,162,805)
Net Position - July 1, 2014- Restated					(35,648,780)	0	(35,648,780)
Net Position - June 30, 2015					(37,398,662)	(189,147)	(37,587,809)

*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, 2015

	General Fund	Athletic/ Activity	Capital Reserve	Other Capital Projects Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 1,058,726	\$ 29,104	\$ 0	\$ 78,912	\$ 1,166,742
Investments	11,987,884	10,119	0	0	11,998,003
Taxes Receivable (Net)	4,347,020	0	0	0	4,347,020
Due from Other Funds	668,341	0	0	0	668,341
Due from Other Governments	0	0	0	0	0
State Revenue Receivable	46,802	0	0	0	46,802
Federal Revenue Receivable	219,903	0	0	0	219,903
Prepaid Expenses/Expenditures	0	0	0	0	0
Other Current Assets	0	0	0	0	0
TOTAL ASSETS	\$ 18,328,676	\$ 39,223	\$ 0	\$ 78,912	\$ 18,446,811
LIABILITIES					
Due to Other Funds	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Due to Other Governments	9,927	0	0	0	9,927
Accounts Payable	557,213	0	0	0	557,213
Accrued Salaries and Benefits	861,059	0	0	0	861,059
Payroll Deductions and Withholdings	338,974	0	0	0	338,974
Other Current Liabilities	0	0	0	0	0
TOTAL LIABILITIES	1,767,173	0	0	0	1,767,173
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue-Real Estate Taxes	4,347,020	0	0	0	4,347,020
FUND BALANCES					
Restricted Fund Balance	0	0	0	78,912	78,912
Committed Fund Balance	0	0	0	0	0
Unreserved-Designated	9,160,862	39,223	0	0	9,200,085
Unreserved-Undesignated	3,053,621	0	0	0	3,053,621
TOTAL FUND BALANCES	12,214,483	39,223	0	78,912	12,332,618
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES & FUND BALANCES	\$ 18,328,676	\$ 39,223	\$ 0	\$ 78,912	\$ 18,446,811

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

HIGHLANDS SCHOOL DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015

TOTAL GOVERNMENTAL FUND BALANCES **\$ 12,332,618**

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

Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$58,385,516 and the accumulated depreciation is \$(30,485,516). 27,900,000

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

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources related to pensions	5,526,195
Deferred inflows of resources related to pensions	(3,814,000)

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

Net Pension Liability	\$(53,355,000)	
Bonds/note payable	\$(20,690,000)	
Compensated absences	\$ (6,662,192)	
Postemployment Benefits	\$ (1,271,108)	(81,978,300)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ (35,686,467)**

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, 2015

	General Fund	Athletic/ Activity	Capital Reserve	Other Capital Projects Funds	Total Governmental Funds
REVENUES					
Local Sources	\$ 19,724,452	\$ 108,467	\$ 0	\$ 0	\$ 19,832,919
State Sources	19,169,291	0	0	0	19,169,291
Federal Sources	881,185	0	0	0	881,185
TOTAL REVENUES	39,774,928	108,467	0	0	39,883,395
EXPENDITURES					
Current:					
Instruction	24,574,834	0	0	0	24,574,834
Support Services	12,308,203	0	0	0	12,308,203
Operation of Noninstructional Services	617,874	96,338	0	0	714,212
Total Current	37,500,911	96,338	0	0	37,597,249
Capital Outlay:					
Facilities Acquisition, Construction and Improvement Services	0	0	0	0	0
Total Capital Outlay	0	0	0	0	0
Debt Service					
Principal and Interest	2,969,348	0	0	0	2,969,348
Refund of Prior Year Receipts	419	0	0	0	419
Total Debt Service	2,969,767	0	0	0	2,969,767
TOTAL EXPENDITURES	40,470,678	96,338	0	0	40,567,016
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(695,750)	12,129	0	0	(683,621)
OTHER FINANCING SOURCES (USES)					
Bonds Issued (Face Value)	0	0	0	0	0
Sale of Fixed Assets	134,961	0	0	0	134,961
Transfers Out	(400)	0	0	0	(400)
TOTAL OTHER FINANCING SOURCES (USES)	134,561	0	0	0	134,561
Net Change in Fund Balances	(561,189)	12,129	0	0	(549,060)
Fund Balance - July 1, 2014	12,775,672	27,094	0	78,912	12,881,678
Fund Balance - June 30, 2015	\$ 12,214,483	\$ 39,223	\$ 0	\$ 78,912	\$ 12,332,618

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, 2015

NET CHANGE IN FUND BALANCES-TOTAL GOVERNMENTAL FUNDS \$ (549,060)

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

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

Capital outlays	0	
Depreciation expense	\$(1,141,747)	(1,141,747)

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: (1,007,967)

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

Repayment of Bond Principal	2,220,000
-----------------------------	-----------

In the Statement of Activities certain operating expenses, comp absences and other postemployment benefits are measured by the amounts earned during the year. In the Governmental Funds these items are measured by the amount of financial resources used. This amount represents the difference: (1,271,108)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (1,749,882)

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

HIGHLANDS SCHOOL DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2015

	Food Service
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 360,569
Due from Component Units	0
Due from Other Funds	0
Inventories	20,130
Total Current Assets	380,699
 Noncurrent Assets:	
Furniture and Equipment (Net of Accumulated Depreciation)	96,070
Total Noncurrent Assets	96,070
TOTAL ASSETS	\$ 476,769
 LIABILITIES	
Current Liabilities:	
Due to Other Funds	\$ 668,341
Accounts Payable	0
Payroll Deductions & Withholdings	0
Accrued Salaries and Benefits	26,744
Total Current Liabilities	695,085
Noncurrent Liabilities:	
Advances from Other Funds	0
TOTAL LIABILITIES	695,085
 NET POSITION	
Investment in Capital Assets, Net of Related Debt	96,070
Unrestricted	(314,386)
TOTAL NET POSITION	(218,316)
TOTAL LIABILITIES AND NET POSITION	\$ 476,769

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

HIGHLANDS SCHOOL DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR THEN ENDED JUNE 30, 2015

	Food Service
OPERATING REVENUES:	
Food Service Revenue	\$ 152,037
Other Operating Revenues	0
TOTAL OPERATING REVENUES	152,037
OPERATING EXPENSES:	
Salaries	455,320
Employee Benefits	169,008
Purchased Professional & Technical Service	300
Purchased Property Services	22,206
Other Purchased Service	363
Supplies/Purchases	753,726
Dues and Fees	332
Depreciation	12,010
Other Operating Expenditures	0
TOTAL OPERATING EXPENSES	1,413,265
OPERATING INCOME/(LOSS)	(1,261,228)
NONOPERATING REVENUES (EXPENSES):	
Contributions & Donations - Private Sources	0
Refunds of Prior Year Expenditures	0
State Sources	57,403
Federal Sources	1,014,678
TOTAL NONOPERATING REVENUES (EXPENSES)	1,072,081
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(189,147)
TRANSFERS IN	0
CONTRIBUTIONS & TRANSFERS	
Capital Contributions	0
CHANGE IN NET POSITION	(189,147)
TOTAL NET POSITION - JULY 1, 2014	(29,169)
TOTAL NET POSITION - JUNE 30, 2015	\$ (218,316)

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, 2015**

	Food Service
Cash Flows from Operating Activities	
Cash Received from Users	\$ 152,037
Cash Received from Assessments Made to Other Funds	0
Cash Payments to Employees for Services	(636,305)
Cash Payments for Other Operating Expenses	(24,376)
Cash Payments to Suppliers for Goods and Services	(588,489)
Net Cash (Used for) Operating Activities	(1,097,133)
Cash Flows from Noncapital Financing Activities	
Local Sources	0
State Sources	57,403
Federal Sources	1,014,678
Operating Transfers In (Out) Primary Government	0
Net Cash Provided by Noncapital Financing Activities	1,072,081
Cash Flows from Capital and Related Financing Activities	
Fac Acq, Const, & Imp	(21,797)
(Inc) Dec in Contributed Capital	0
Net Cash Provided by Capital and Related Financing Activities	(21,797)
Cash Flows from Investing Activities	
Earnings on Investments	0
Net Cash Provided by Investing Activities	0
Net Increase (Decrease) in Cash and Cash Flow	(46,849)
Cash and Cash Equivalents Beginning of Year	407,418
Cash and Cash Equivalents End of Year	\$ 360,569
Reconciliation of Operating Income to Net Cash Provided by (Used for)	
Operating Activities:	
Operating Income (Loss)	\$ (1,261,228)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for)	
Operating Activities:	
Depreciation	12,010
(Increase) Decrease in Accounts Receivable	0
(Increase) Decrease in Inventories	2,886
Increase (Decrease) in Accounts Payable	161,176
Increase (Decrease) in Accrued Salaries Benefits	(11,977)
Advances to Other Funds	0
Increase (Decrease) in Payroll Deductions/Withholding	0
Total Adjustments	164,095
Net Cash (Used for) Operating Activities	\$ (1,097,133)

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

HIGHLANDS DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

	<u>Private Purpose Trust</u>	<u>Student Activities</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 15,348	\$ 14,421	\$ 29,769
Investments	0	27,676	27,676
TOTAL ASSETS	<u>\$ 15,348</u>	<u>\$ 42,097</u>	<u>\$ 57,445</u>
LIABILITIES			
Short-Term Payables	\$ 0	\$ 42,097	\$ 42,097
Other Current Liabilities	0	0	0
TOTAL LIABILITIES	<u>0</u>	<u>42,097</u>	<u>42,097</u>
NET POSITION			
Restricted for Legal Purposes	<u>15,348</u>	<u>0</u>	<u>15,348</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 15,348</u>	<u>\$ 42,097</u>	<u>\$ 57,445</u>

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

HIGHLANDS DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

	Scholarship Trust Fund
ADDITIONS	
Local contributions	\$ 0
Interest earnings	0
TOTAL ADDITIONS	\$ 0
DEDUCTIONS	
Fees paid and scholarships awarded	\$ 1,055
TOTAL DEDUCTIONS	1,055
CHANGE IN NET POSITION	(1,055)
NET POSITION AT BEGINNING OF YEAR	16,403
NET POSITION AT END OF YEAR	\$ 15,348

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

**HIGHLANDS SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

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

Government-wide financial statements

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.

The statement of net position 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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

normally are supported by taxes and intergovernmental revenues, are reported separately in the government-wide financial 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

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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 position.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

- 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, 2015. The inventory of \$3,392 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, 2015 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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

with long-term debt may be capitalized regardless of the thresholds established. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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 position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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 2014-2015 was \$6,662,192.

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	\$1,056,726	
Payroll Checking	1,000	
Petty Cash	1,000	
Money Market		\$11,441,213
PSDLAF	0	546,670
	<u>\$1,058,726</u>	<u>\$11,987,884</u>
Special Revenue		
Capital Reserve Fund		
Checking	\$ 0	
Checking-2012 Bond Issue	0	\$ 0
	<u>\$ 0</u>	<u>\$ 0</u>
Private Purpose Trust		
Checking	\$ 15,348	
PSDALF	0	\$ 0
	<u>\$ 15,348</u>	<u>\$ 0</u>

NOTE C – CASH DEPOSITS AND INVESTMENTS, Continued

	Cash	Investments
Athletic Fund		
Checking	<u>\$ 29,104</u>	
CD		<u>\$ 10,119</u>
	<u>\$ 29,104</u>	<u>\$ 10,119</u>
Capital Projects Fund		
PSDLAF	\$ 0	\$ 0
Checking-07 Bond Issue	0	0
Checking-12 Bond Issue	<u>78,912</u>	<u>0</u>
	<u>\$ 78,912</u>	<u>\$ 0</u>
Food Service		
Regular Checking	\$ 357,929	
Petty Cash	<u>2,640</u>	
	<u>\$ 360,569</u>	
Agency – Student Activities Fund		
Checking	\$ 14,421	
PNC CD's		<u>\$ 27,676</u>
	<u>\$ 14,421</u>	<u>\$ 27,676</u>

PA School District Liquid Asset Fund; \$546,670; 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 2014 - 2015 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, 2015, the following amounts are due from other governmental units:

<u>Due From</u>	<u>General Fund</u>
Federal Government	\$ 219,903
State Government	46,802
Other Government	0
	<u>\$ 266,705</u>

NOTE F – DUE TO/FROM OTHER FUNDS

Interfund receivable and payable balances as of June 30, 2015 are as follows:

<u>Due To</u>	<u>Due From</u>	<u>Amount</u>
Food Service	General	\$ 0
General	Food Service	668,341
General	Bond Fund	0

NOTE G - CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 908,987	\$ 0	\$ 0	\$ 908,987
Total Capital Assets Not Being Depreciated	908,987	0	0	908,987
Capital Assets, Being Depreciated				
Buildings	43,034,929	0	0	43,034,929
Site Improvements	3,849,436	0	0	3,849,436
Furniture & Equipment	10,592,164	0	0	10,592,164
Total Assets Being Depreciated	57,476,529	0	0	57,476,529
Less Accumulated Depreciation For:				
Buildings	15,812,432	949,275	0	16,761,707
Site Improvements	2,939,173	192,472	0	3,131,645
Furniture & Equipment	10,592,164	0	0	10,592,164
Total Accumulated Depreciation	29,343,769	1,141,747	0	30,485,516
Total Capital Assets, Being Depreciated, Net	28,132,760	(1,141,747)	0	26,991,013
Governmental Activities, Capital Assets, Net	<u>\$ 29,041,747</u>	<u>\$ (1,141,747)</u>	<u>\$ 0</u>	<u>\$ 27,900,000</u>
Business-Type Activities				
Capital Assets Being Depreciated				
Furniture & Equipment	\$ 734,514	\$ 26,110	\$ 0	\$ 760,624
Total Capital Assets, Being Depreciated	734,514	26,110	0	760,624
Less Accumulated Depreciation For:				
Furniture & Equipment	652,542	12,010	0	664,552
Total Accumulated Depreciation	652,542	12,010	0	664,552
Total Capital Assets, Being Depreciated, Net	81,972	14,100	0	96,072
Business-Type Activities Capital Assets, Net	<u>\$ 81,972</u>	<u>\$ 14,100</u>	<u>\$ 0</u>	<u>\$ 96,072</u>

NOTE H - LONG-TERM DEBT OBLIGATIONS

During the fiscal year ended June 30, 2015, general long-term debt changed as follows:

	Bonds Payable	Compensated Absences	Other Post Employment Benefits (OPEB)	Total General Long-Term Debt
Beginning of Year	22,910,000	8,402,666	1,032,281	32,344,947
Additional Debt Incurred During Year	0	0	178,760	178,760
Principal Retirement	2,220,000	0	0	2,220,000
(De)Increase in Compensated Absences	0	1,740,474	0	1,740,474
End of Year	20,690,000	6,662,192	1,211,041	28,563,233

The future annual payments required to amortize all outstanding debt and obligations, except compensated absences, as of June 30, 2015, 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	Principal	Interest	Principal	Interest
2016	0	0	355,000	473,778	5,000	154,429
2017	0	0	295,000	460,143	5,000	154,329
2018	0	0	1,885,000	412,875	5,000	154,229
2019	0	0	1,970,000	328,782	5,000	154,128
2020	0	0	2,055,000	240,478	5,000	154,028
Thereafter	0	0	4,280,000	196,379	5,965,000	486,873
TOTAL	0	0	10,840,000	2,112,435	5,990,000	1,258,016

Year Ended June 30,	B Series 2010 Bonds Payable		C Series 2010 Bonds Payable	
	Principal	Interest	Principal	Interest
2016	920,000	9,200	990,000	48,900
2017	0	0	1,950,000	19,500
2018	0	0	0	0
2019	0	0	0	0
Thereafter	0	0	0	0
TOTAL	920,000	9,200	2,940,000	68,400

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, 2015 was \$10,840,000.

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, 2015 was \$5,990,000.

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, 2015 was \$3,860,000. 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 2014-2015 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 2014-2015 is \$6,662,192.

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 65th birthday, or after five years, whichever occurs first.

As of and for the year ended June 30, 2015, thirty-one (31) retirees were receiving such benefits. The total premiums paid by the District, throughout the fiscal year, for those benefits totaled \$248,718.

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 - PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

1. Summary of Significant Accounting Policies

Pensions

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

General Information about the Pension Plan

Plan description

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

Benefits provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age

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

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

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

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

Contributions

Member contributions:

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

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

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

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation.

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

Membership Class T-E and Class T-F are affected by a “shared risk” provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions:

The school districts’ contractually required contribution rate for fiscal year ended June 30, 2015 was 20.50% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$3,481,195 for the year ended June 30, 2015.

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

At June 30, 2015, the District reported a liability of \$53,355,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System’s total pension liability as of June 30, 2013 to June 30, 2014. The District’s proportion of the net pension liability was calculated utilizing the employer’s one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the District’s proportion was 0.1348 percent, which was an increase of 0.0062 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$3,481.195. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in proportions	\$2,045,000	\$ 0
Net difference between projected and actual investment earnings	0	3,814,000
Difference between employer Contributions and proportionate Share of total contributions	0	0
Contributions subsequent to the Measurement date	<u>3,481,195</u>	<u>0</u>
	<u>\$5,526,195</u>	<u>\$3,814,000</u>

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

\$3,481,195 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (461,000)
2017	(461,000)
2018	(461,000)
2019	74,000

Actuarial assumptions

The total pension liability as of June 30, 2014 was determined by rolling forward the System's total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.50% includes inflation at 3.00%
- Salary increases – Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

The actuarial assumptions used in the June 30, 2013 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public markets global equity	19%	5.0%
Private markets (equity)	21%	6.5%
Private real estate	13%	4.7%
Global fixed income	8%	2.0%
U.S. long treasuries	3%	1.4%
TIPS	12%	1.2%
High yield bonds	6%	1.7%
Cash	3%	0.9%
Absolute return	10%	4.8%
Risk parity	5%	3.9%
MLPs/Infrastructure	3%	5.3%
Commodities	6%	3.3%
Financing (LIBOR)	<u>(9%)</u>	1.1%
	<u>100%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2014.

Discount rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated

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

using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

	<u>1% Decrease</u> <u>6.50%</u>	<u>Current Discount Rate</u> <u>7.50%</u>	<u>1% Increase</u> <u>8.50%</u>
District's proportionate share of The net pension liability	\$66,553,000	\$53,355,000	\$42,087,000

Pension plan fiduciary net position

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

NOTE 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 2015 ANNUAL OPEB COST

Net OPEB Obligation (Asset) at beginning of year June 30, 2014	\$1,032,281
Total Annual OPEB Cost	612,606
Contributions in Relation to the ARC	<u>(373,779)</u>
Annual OPEB Cost for fiscal year ending June 30, 2015	\$1,271,108

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, 2015 no settlements exceeded insurance coverage.

NOTE O – CHANGE IN ACCOUNTING PRINCIPLE

During the current year the District implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27. This statement changes the accounting for pensions by recording the District's portion of net pension liability and deferred inflows and outflows related to pensions. As a result of implementing this statement, a prior period adjustment is required for the beginning net pension liability and deferred outflows for the District's contributions made during fiscal year 2014. The effect is a reduction in the net position of governmental activities of \$49,162,805, as detailed below:

	<u>Governmental Activities</u>
Beginning net position as previously reported at June 30, 2014	\$ 13,514,025
Prior period adjustment – Implementation of GASB 68:	
Net pension liability	(52,644,000)
Deferred outflows – District's contributions made during Fiscal year 2014	<u>3,481,195</u>
Total prior period adjustment	<u>(49,162,805)</u>
Net position as restated, July 1, 2014	<u><u>\$(35,648,780)</u></u>

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, 2015

	<u>Budgeted Amounts</u>		<u>Actual Budgetary Basis</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Revenues	\$ 18,815,107	\$ 18,815,107	\$ 19,724,452	\$ 909,345
State Revenues	18,669,011	18,669,011	19,163,999	494,988
Federal Revenues	1,076,093	1,076,093	881,185	(194,908)
TOTAL REVENUES	<u>38,560,211</u>	<u>38,560,211</u>	<u>39,769,636</u>	<u>1,209,425</u>
EXPENDITURES				
Current:				
Regular Programs	17,383,887	17,383,887	16,672,932	710,955
Special Programs	6,911,496	6,911,496	7,155,947	(244,451)
Vocational Programs	716,539	716,539	478,551	237,988
Other Instructional Programs	141,908	141,908	131,336	10,572
Pre-Kindergarten	132,600	132,600	136,067	(3,467)
Support Services:				
Pupil Personnel Services	1,031,040	1,031,040	993,673	37,367
Instructional Staff Services	901,468	901,468	841,174	60,294
Administrative Services	2,306,014	2,306,014	2,083,326	222,688
Pupil Health	464,163	464,163	461,085	3,078
Business Services	646,904	646,904	558,457	88,447
Operation and Maintenance of Plant Services	4,035,147	4,035,147	4,219,405	(184,258)
Student Transportation Services	2,274,188	2,274,188	2,356,201	(82,013)
Central and Other Support Services	802,937	802,937	773,591	29,346
Other Support Services	23,000	23,000	21,292	1,708
Operation of Noninstructional Services:				
Student Activities	559,772	559,772	564,066	(4,294)
Community Services	44,750	44,750	53,808	(9,058)
Facilities, Acquisition, Construction and Improvement Services	18,000	18,000	0	18,000
Capital Outlay	0	0	0	0
Debt Service (Principal & Interest)	2,984,348	2,984,348	2,969,348	15,000
Refund of Prior Year Receipts	0	0	419	(419)
TOTAL EXPENDITURES	<u>41,378,161</u>	<u>41,378,161</u>	<u>40,470,678</u>	<u>907,483</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(2,817,950)</u>	<u>(2,817,950)</u>	<u>(701,042)</u>	<u>2,116,908</u>

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

HIGHLANDS SCHOOL DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES -
BUDGET AND ACTUAL, (Continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	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	(152,375)	(152,375)	(400)	151,975
Budgetary Reserve	(106,733)	(106,733)	0	106,733
Sale/Compensation for Fixed Assets	0	0	134,960	134,960
TOTAL OTHER FINANCING SOURCES (USES)	<u>(259,108)</u>	<u>(259,108)</u>	<u>134,560</u>	<u>393,668</u>
Net Change in Fund Balances	(3,077,058)	(3,077,058)	(566,482)	2,510,576
Fund Balance - July 1, 2014	3,077,058	3,077,058	12,775,675	9,698,617
Prior Period Adjustment	0	0	0	0
Fund Balance - June 30, 2015	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 12,209,193</u>	<u>\$ 12,209,193</u>

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

HIGHLANDS SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2015

1. Budgetary Data

The District follows the following procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to May 31, the School District Board submits a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the General Fund.
- b. Public hearings are conducted at the Highlands School District building to obtain taxpayer comments.
- c. Prior to June 30, the budget is legally enacted through passage of an ordinance.
- d. Legal budgetary control is maintained by the District Board at the departmental level. Transfers between departments, whether between funds or within a fund, or revisions that alter the total revenues and expenditures of any fund must be approved by the School District Board as provided by school code.
- e. Budgetary data are included in the District's management information system and are employed as a management control device during the year.
- f. A budget for the General Fund is adopted substantially on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

2. Pension Data

The amounts reported in the schedule of the District's proportionate share of the net pension liability are determined as of June 30, 2014 by the Commonwealth of Pennsylvania Public School Employees' Retirement System (the cost-sharing plan). There were no changes in benefit terms and no changes in assumptions.

ACCOUNTING OFFICES
OF
TROESE & ASSOCIATES
PROFESSIONAL SERVICES FIRM

HENRY A. TROESE, JR., E.A.
RICHARD M. TROESE, CPA

1200 EASTWOOD DRIVE
PO BOX 680
CLARION, PA 16214
(814) 226-6133 PHONE
(814) 226-5371 FAX

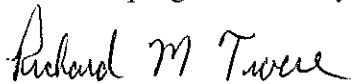
AUDITOR'S TRANSMITTAL LETTER

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, 2015, 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
March 8, 2016

**HIGHLANDS SCHOOL DISTRICT
LIST OF REPORT DISTRIBUTION
YEAR ENDED JUNE 30, 2015**

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

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

15 Reports - Highlands School District
PO Box 288
Natrona Heights, Pennsylvania 15065

These reports are due at the various agencies by March 31, 2016.

**HIGHLANDS SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

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 7/01/14	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE AT 6/30/15
<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	\$ 88,211	\$ 90,730	\$ (2,519)	\$ (2,519)	\$ 0
Title I Improving Basic	I	84.010	013-150191	7/1/14-6/30/15	678,655	497,913	0	678,655	678,655 *	180,742
Title II Improving T.O.	I	84.367	020-140191	7/1/13-6/30/14	197,002	52,469	52,534	(65)	(65)	0
Title II Improving T.O.	I	84.367	020-150191	7/1/14-6/30/15	195,879	156,718	0	195,879	195,879	39,161
ARRA T-I School Impr Grant	I	84.388	139-133191	7/1/13-6/30/14	356,205	71,241	71,241	0	0	0
Medical Access	I	93.778	N/A	7/1/14-6/30/15	9,235	9,235	0	9,235	9,235	0
<hr/>										
Passed through the Allegheny Intermediate Unit					\$ 2,117,448	\$ 875,787	\$ 214,505	\$ 881,185	\$ 881,185	\$ 219,903
IDEA	I	84.027	N/A	7/1/14-6/30/15	508,120	508,120	0	508,120	508,120	0
IDEA	I	84.027	N/A	7/1/13-6/30/14	538,014	172,492	172,492	0	0	0
<hr/>										
Passed through the Allegheny Intermediate Unit					\$ 1,046,134	\$ 680,612	\$ 172,492	\$ 508,120	\$ 508,120	\$ 0
<u>US Department of Agriculture</u>										
Passed through the Pennsylvania Department of Education										
National School Lunch Program										
Program: Federal-Lunch	I	10.555	362-000000	7/1/14-6/30/15	N/A	\$ 828,701	0	\$ 828,701	\$ 828,701	\$ 0
Federal-Breakfast-Reg/Ndy	I	10.553	365-000000	7/1/14-6/30/15	N/A	185,976	0	185,976	185,976	0
Federal-Breakfast-Serv. Need	I	10.553	367-000000	7/1/14-6/30/15	N/A	0	0	0	0	0
State-Lunch	I	N/A	510-000000	7/1/14-6/30/15	N/A	44,109	0	44,109	44,109	0
State-Breakfast	I	N/A	511-000000	7/1/14-6/30/15	N/A	13,294	0	13,294	13,294	0
<hr/>										
Passed through the Pennsylvania Department of Agriculture					N/A	a) 57,076	b) (1,417)	c) 55,101	d) 55,101	(3,392)
Value of USDA Donated Commodities	I	10.555	N/A	7/1/14-6/30/15	N/A	1,129,156	(1,417)	1,127,181	1,127,181	(3,392)
<hr/>										
Total Federal Financial Assistance					\$ 3,163,582	\$ 2,685,555	\$ 385,580	\$ 2,516,486	\$ 2,516,486	\$ 216,511

Test of 25% Rule
Total Expenses per above \$ 2,516,486
Less: State's share of National School & Lunch Program Expenditures (57,403)
\$ 2,459,083 = 27.60%

**HIGHLANDS SCHOOL DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

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, 2015, the district had food commodities totaling \$3,392 in inventory.

- a) Total commodities received from the Pennsylvania Department of Agriculture valued at fair market value.
- b) Beginning inventory at July 1, 2014.
- c) Total amount of commodities used.
- d) Ending inventory at June 30, 2015.

ACCOUNTING OFFICES
OF
TROESE & ASSOCIATES
PROFESSIONAL SERVICES FIRM

HENRY A. TROESE, JR., E.A.
RICHARD M. TROESE, CPA
(814) 226-6133 PHONE

1200 EASTWOOD DRIVE
PO BOX 680
CLARION, PA 16214
(814) 226-5371 FAX

**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, 2015, and have issued my report thereon dated March 8, 2016. 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.

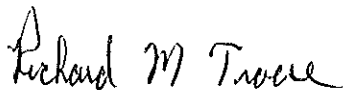
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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
March 8, 2016

ACCOUNTING OFFICES
OF
TROESE & ASSOCIATES
PROFESSIONAL SERVICES FIRM

HENRY A. TROESE, JR., E.A.
RICHARD M. TROESE, CPA

1200 EASTWOOD DRIVE
PO BOX 680
CLARION, PA 16214
(814) 226-6133 PHONE
(814) 226-5371 FAX

**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, 2015. 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, 2015.

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.

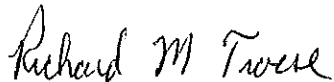
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement 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, 2015, and have issued my report thereon dated March 8, 2016, 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
March 8, 2016

**HIGHLANDS SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015**

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:

Title I-Improving Basic, CFDA #84.010 Project #13-150191
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Highlands School District was determined 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.