

**HIGHLANDS SCHOOL DISTRICT
SINGLE AUDIT REPORT PACKAGE
YEAR ENDED JUNE 30, 2016**

**HIGHLANDS SCHOOL DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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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, 2016, 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

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, 2016, 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, 2016, 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

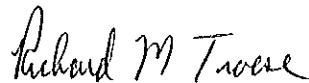
My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The management's discussion, analysis, and budgetary comparison and the schedule of expenditures of federal awards and certain state grants are presented for purposes of additional analysis, 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 9, 2017, 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 9, 2017

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, 2016. 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 fourteenth year end audit report that reflects the requirements of GASB 34, primarily requiring districts to depreciate their fixed assets and include that data in their financial statements.
- The District's aggressive collection program resulted in \$1,219,482 collected in delinquent real estate and wage taxes.
- Interest revenues decreased from \$477,124.13 in 2008 to \$11,322 in 2016 due to interest rates dropping significantly over the years in the market place.
- The District's general fund reported a total ending fund balance of \$12,359,148 this year. This compares to the prior year ending fund balance of \$12,214,483 showing an increase of \$ 144,665 during the current year. The District knowingly used some fund balance to replace much needed older equipment and capital repairs.
- 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 purposed for which they are spent. Account groups are used to establish accounting control and accountability for the School District's General Fixed Assets and General Long-Term Obligations.

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

Governmental Fund Types

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

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

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

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

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

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

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

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

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

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

Basis of Accounting

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

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

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

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

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

Reporting Entity

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

CASH AND CASH EQUIVALENTS

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

INVESTMENTS

Investments are recorded at cost which approximates market value.

Budgets and Budgetary Accounting

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

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

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

Interfund Receivable

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

Inventories

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

Fixed Assets

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

Fixed assets acquired or constructed for governmental fund 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	20,716,564
Liabilities/inflow	<u>(8,357,000)</u>
Fund Bal./Net Asset	12,359,564

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. However, a new contract was approved in November 2016.

Summary

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

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

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

The General Fund

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

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

	Statement
Revenues	
Local Sources	\$20,146,279
State Sources	\$20,955,110
Federal Sources	\$ 922,601
Other	<u>\$ 0</u>
Total Revenues	\$42,023,990
Expenditures	
Instruction	\$26,090,852
Support Services	\$13,507,073
Non-instructional Services	\$ 708,398
Capital Outlay	\$ 44,671
Debt Service	\$ 2,540,011
Refund of Prior Years Receipts/Transfer	<u>\$ 45,352</u>
Total Expenditures	\$ 42,936,357
Revenues over Expenditures and	\$ (912,367)
Interfund transfer out and sale of bldg	\$ 1,057,032
Fund Balance – Beginning of Fiscal Year	<u>\$ 12,214,483</u>
Fund Balance – End of Year	\$ 12,359,148

Debt

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

Bond Ratings

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

General Fund Budgetary Highlights

Highlands School District's 2016-2017 budget totals \$43,431,611, a 1% increase over last year's budget. The final budget included no tax increase.

Many capital repairs occurred in 2015-2016 and reimbursed by the sale of our two buildings.

Heights elementary school and the administration building were closed effective July 1, 2012. Both buildings sold for about \$1,150,000 together. Proceeds of the sale were finally received and recorded by June 30, 2016.

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

Final adoption of the budget for the 2017-2018 year is June 2017.

Results - One Year Later

The district's annual financial report (AFR), as audited, for the year ended 6/30/16 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, 2016**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,579,973	\$ 568,140	\$ 2,148,113
Investments	12,508,602	0	12,508,602
Taxes Receivable, Net	4,144,517	0	4,144,517
Internal Balances	993,556	0	993,556
Due from Other Governments	1,530,676	112,625	1,643,301
Other Receivables	0	5,035	5,035
Inventories	0	23,728	23,728
Prepaid Expenses/Expenditures	0	0	0
Total Current Assets	<u>20,757,324</u>	<u>709,528</u>	<u>21,466,852</u>
Noncurrent Assets:			
Land	908,987	0	908,987
Site Improvements (Net of Accumulated Depreciation)	525,319	0	525,319
Building and Building Improvements (Net of Accumulated Depreciation)	25,263,177	0	25,263,177
Furniture and Equipment (Net of Accumulated Depreciation)	43,554	159,488	203,042
Total Noncurrent Assets	<u>26,741,037</u>	<u>159,488</u>	<u>26,900,525</u>
TOTAL ASSETS	<u>\$ 47,498,361</u>	<u>\$ 869,016</u>	<u>\$ 48,367,377</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Amounts Related to Pensions	\$ 7,501,974	\$ 0	\$ 7,501,974
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>7,501,974</u>	<u>0</u>	<u>7,501,974</u>
LIABILITIES			
Current Liabilities:			
Internal Balances	0	993,556	993,556
Due to Other Governments	0	0	0
Accounts Payable	667,179	0	667,179
Current Portion of Long-Term Debt	2,275,000	0	2,275,000
Accrued Salaries and Benefits	1,655,186	49,504	1,704,690
Payroll Deductions and Withholdings	1,880,606	0	1,880,606
Other Current Liabilities	9,927	0	9,927
Total Current Liabilities	<u>6,487,898</u>	<u>1,043,060</u>	<u>7,530,958</u>
Noncurrent Liabilities:			
Bond Premium	1,395,342	0	1,395,342
Bonds and Notes Payable	16,195,000	0	16,195,000
Long-Term Portion of Compensated Absences	7,493,665	0	7,493,665
Net Pension Liability	60,382,000	0	60,382,000
Other Postemployment Benefits (OPEB)	1,407,639	0	1,407,639
Total Noncurrent Liabilities	<u>86,873,646</u>	<u>0</u>	<u>86,873,646</u>
TOTAL LIABILITIES	<u>93,361,544</u>	<u>1,043,060</u>	<u>94,404,604</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Amounts Related to Pensions	371,000	0	371,000
NET POSITION			
Invested in Capital Assets, Net of Related Debt	4,968,374	159,488	5,127,862
Capital Projects	0	0	0
Other Restrictions	9,160,862	0	9,160,862
Unrestricted	(52,861,445)	(333,532)	(53,194,977)
TOTAL NET POSITION	<u>(38,732,209)</u>	<u>(174,044)</u>	<u>(38,906,253)</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 47,498,361</u>	<u>\$ 869,016</u>	<u>\$ 48,367,377</u>

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

**HIGHLANDS SCHOOL DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Governmental Activities:							
Instruction	\$ 28,509,653	\$ 0	\$ 17,963,652	\$ 0	\$ (10,546,001)	\$ 0	\$ (10,546,001)
Instructional Student Support	3,319,867	0	2,424,982	0	(894,885)	0	(894,885)
Administrative and Financial Support Services	3,059,250	0	0	0	(3,059,250)	0	(3,059,250)
Operation and Maintenance of Plant Services	4,890,692	0	0	0	(4,890,692)	0	(4,890,692)
Pupil Transportation	2,475,065	0	1,011,118	0	(1,463,947)	0	(1,463,947)
Food Service	0	0	0	0	0	0	0
Student Activities	635,540	149,381	53,051	0	(433,108)	0	(433,108)
Community Services	72,881	0	0	0	(72,881)	0	(72,881)
Interest on Long-Term Debt	480,011	0	424,908	0	(55,103)	0	(55,103)
Total Governmental Activities	43,442,959	149,381	21,877,711	0	(21,415,867)	0	(21,415,867)
Business-Type Activities:							
Food Services	1,469,097	141,369	1,372,000	0	0	44,272	44,272
Total Primary Government	\$ 44,912,056	\$ 290,750	\$ 23,249,711	\$ 0	\$ (21,415,867)	\$ 44,272	\$ (21,371,595)
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes, Net					15,290,136	0	15,290,136
Public Utility Realty, Earned Income and Per Capita Taxes Levied for General Purposes, Net					2,469,231	0	2,469,231
Bond Premium					(1,235,342)	0	(1,235,342)
Investment Earnings					11,322	0	11,322
Other Transfers between Governmental, BT Activities					0	0	0
Miscellaneous Income, Receipts from other LEA's					1,006,727	0	1,006,727
Special Item-Sale of Assets					979,657	0	979,657
Total General Revenues					18,521,731	0	18,521,731
Change in Net Position					(2,894,136)	44,272	(2,849,864)
Net Position - July 1, 2015					(35,838,073)	(218,316)	(36,056,389)
Net Position - June 30, 2016					\$ (38,732,209)	\$ (174,044)	\$ (38,906,253)

*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, 2016**

	<u>General Fund</u>	<u>Athletic/ Activity</u>	<u>Capital Reserve</u>	<u>Other Capital Projects Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and Cash Equivalents	\$ 1,549,337	\$ 30,636	\$ 0	\$ 0	\$ 1,579,973
Investments	12,498,478	10,124	0	0	12,508,602
Taxes Receivable (Net)	4,144,517	0	0	0	4,144,517
Due from Other Funds	993,556	0	0	0	993,556
Due from Other Governments	55,921	0	0	0	55,921
State Revenue Receivable	1,383,229	0	0	0	1,383,229
Federal Revenue Receivable	91,526	0	0	0	91,526
Prepaid Expenses/Expenditures	0	0	0	0	0
Other Current Assets	0	0	0	0	0
TOTAL ASSETS	<u>\$ 20,716,564</u>	<u>\$ 40,760</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 20,757,324</u>
LIABILITIES					
Due to Other Funds	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Due to Other Governments	9,927	0	0	0	9,927
Accounts Payable	667,179	0	0	0	667,179
Accrued Salaries and Benefits	1,655,186	0	0	0	1,655,186
Payroll Deductions and Withholdings	1,880,606	0	0	0	1,880,606
Other Current Liabilities	0	0	0	0	0
TOTAL LIABILITIES	<u>4,212,898</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,212,898</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue-Real Estate Taxes	4,144,518	0	0	0	4,144,518
FUND BALANCES					
Restricted Fund Balance	0	0	0	0	0
Committed Fund Balance	0	0	0	0	0
Unreserved-Designated	9,160,862	40,760	0	0	9,201,622
Unreserved-Undesignated	3,198,286	0	0	0	3,198,286
TOTAL FUND BALANCES	<u>12,359,148</u>	<u>40,760</u>	<u>0</u>	<u>0</u>	<u>12,399,908</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES & FUND BALANCES	<u>\$ 20,716,564</u>	<u>\$ 40,760</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 20,757,324</u>

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, 2016**

TOTAL GOVERNMENTAL FUND BALANCES **\$ 12,399,908**

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

Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$58,430,187 and the accumulated depreciation is \$(31,689,150). 26,741,037

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 4,144,517

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	7,501,974
Deferred inflows of resources related to pensions	(371,000)

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

Bond Premium	\$ (1,395,342)	
Net Pension Liability	\$(60,382,000)	
Bonds/note payable	\$(18,469,999)	
Compensated absences	\$ (7,493,665)	
Postemployment Benefits	\$ (1,407,639)	(89,148,645)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ (38,732,209)**

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, 2016**

	<u>General Fund</u>	<u>Athletic/ Activity</u>	<u>Capital Reserve</u>	<u>Other Capital Projects Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Local Sources	\$ 20,054,893	\$ 91,190	\$ 0	\$ 196	\$ 20,146,279
State Sources	20,955,110	0	0	0	20,955,110
Federal Sources	922,601	0	0	0	922,601
TOTAL REVENUES	<u>41,932,604</u>	<u>91,190</u>	<u>0</u>	<u>196</u>	<u>42,023,990</u>
EXPENDITURES					
Current:					
Instruction	26,090,852	0	0	0	26,090,852
Support Services	13,417,420	89,653	0	0	13,507,073
Operation of Noninstructional Services	708,398	0	0	0	708,398
Total Current	<u>40,216,670</u>	<u>89,653</u>	<u>0</u>	<u>0</u>	<u>40,306,323</u>
Capital Outlay:					
Facilities Acquisition, Construction and Improvement Services	0	0	0	44,671	44,671
Total Capital Outlay	<u>0</u>	<u>0</u>	<u>0</u>	<u>44,671</u>	<u>44,671</u>
Debt Service					
Principal and Interest	2,540,011	0	0	0	2,540,011
Refund of Prior Year Receipts	45,352	0	0	0	45,352
Total Debt Service	<u>2,585,363</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,585,363</u>
TOTAL EXPENDITURES	<u>42,802,033</u>	<u>89,653</u>	<u>0</u>	<u>44,671</u>	<u>42,936,357</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(869,429)</u>	<u>1,537</u>	<u>0</u>	<u>(44,475)</u>	<u>(912,367)</u>
OTHER FINANCING SOURCES (USES)					
Bonds Issued (Face Value)	0	0	0	0	0
Sale of Fixed Assets	979,657	0	0	0	979,657
Interfund Transfers - In	34,437	0	0	0	34,437
Transfers Out	0	0	0	(34,437)	(34,437)
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,014,094</u>	<u>0</u>	<u>0</u>	<u>(34,437)</u>	<u>979,657</u>
Net Change in Fund Balances	144,665	1,537	0	(78,912)	67,290
Fund Balance - July 1, 2015	12,214,483	39,223	0	78,912	12,332,618
Fund Balance - June 30, 2016	<u>\$ 12,359,148</u>	<u>\$ 40,760</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 12,399,908</u>

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

HIGHLANDS SCHOOL DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA
RECONCILIATION OF THE GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

NET CHANGE IN FUND BALANCES-TOTAL GOVERNMENTAL FUNDS \$ 67,290

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	\$44,671	
Depreciation expense	\$(1,203,634)	(1,158,963)

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: (1,219,482)

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

Bond Premium (Net)	(1,235,342)
Repayment of Bond Principal	2,060,000
OPEB	(1,407,639)

In the Statement of Activities certain operating expenses, comp absences and other postemployment benefits are measured by the amounts earned during the year. In the Governmental Funds these items are measured by the amount of financial resources used. This amount represents the difference: 0

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (2,894,136)

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, 2016

	Food Service
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 568,140
Due from Component Units	0
State Revenue Receivable	1,763
Federal Revenue Receivable	110,862
Other Receivables	5,035
Inventories	23,728
Total Current Assets	709,528
 Noncurrent Assets:	
Furniture and Equipment (Net of Accumulated Depreciation)	159,488
Total Noncurrent Assets	159,488
TOTAL ASSETS	\$ 869,016
 LIABILITIES	
Current Liabilities:	
Due to Other Funds	\$ 993,556
Accounts Payable	0
Payroll Deductions & Withholdings	0
Accrued Salaries and Benefits	49,504
Total Current Liabilities	1,043,060
Noncurrent Liabilities:	
Advances from Other Funds	0
TOTAL LIABILITIES	1,043,060
 NET POSITION	
Investment in Capital Assets, Net of Related Debt	159,488
Unrestricted	(333,532)
TOTAL NET POSITION	(174,044)
TOTAL LIABILITIES AND NET POSITION	\$ 869,016

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

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

	Food Service
OPERATING REVENUES:	
Food Service Revenue	\$ 141,369
Other Operating Revenues	0
TOTAL OPERATING REVENUES	141,369
OPERATING EXPENSES:	
Salaries	469,745
Employee Benefits	212,416
Purchased Professional & Technical Service	0
Purchased Property Services	12,382
Other Purchased Service	436
Supplies/Purchases	760,692
Dues and Fees	507
Depreciation	12,919
Other Operating Expenditures	0
TOTAL OPERATING EXPENSES	1,469,097
OPERATING INCOME/(LOSS)	(1,327,728)
NONOPERATING REVENUES (EXPENSES):	
Contributions & Donations - Private Sources	0
Refunds of Prior Year Expenditures	0
State Sources	63,702
Federal Sources	1,308,298
TOTAL NONOPERATING REVENUES (EXPENSES)	1,372,000
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	44,272
TRANSFERS IN	0
CONTRIBUTIONS & TRANSFERS	
Capital Contributions	0
CHANGE IN NET POSITION	44,272
TOTAL NET POSITION - JULY 1, 2015	(218,316)
TOTAL NET POSITION - JUNE 30, 2016	\$ (174,044)

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

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

	Food Service
Cash Flows from Operating Activities	
Cash Received from Users	\$ 23,709
Cash Received from Assessments Made to Other Funds	0
Cash Payments to Employees for Services	(659,401)
Cash Payments for Other Operating Expenses	(13,325)
Cash Payments to Suppliers for Goods and Services	(439,075)
Net Cash (Used for) Operating Activities	(1,088,092)
 Cash Flows from Noncapital Financing Activities	
Local Sources	0
State Sources	63,702
Federal Sources	1,308,297
Operating Transfers In (Out) Primary Government	0
Net Cash Provided by Noncapital Financing Activities	1,371,999
 Cash Flows from Capital and Related Financing Activities	
Fac Acq, Const, & Imp	76,662
(Inc) Dec in Contributed Capital	0
Net Cash Provided by Capital and Related Financing Activities	76,662
 Cash Flows from Investing Activities	
Earnings on Investments	0
Net Cash Provided by Investing Activities	0
Net Increase (Decrease) in Cash and Cash Flow	360,569
 Cash and Cash Equivalents Beginning of Year	207,571
Cash and Cash Equivalents End of Year	\$ 568,140
 Reconciliation of Operating Income to Net Cash Provided by (Used for)	
Operating Activities:	
Operating Income (Loss)	\$ (1,327,728)
 Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for)	
Operating Activities:	
Depreciation	12,919
(Increase) Decrease in Accounts Receivable	(112,625)
(Increase) Decrease in Inventories	(3,598)
(Increase) Decrease in Other Current or Noncurrent Assets	(5,035)
Increase (Decrease) in Accounts Payable	325,215
Increase (Decrease) in Accrued Salaries Benefits	0
Advances to Other Funds	0
Increase (Decrease) in Payroll Deductions/Withholding	22,760
Total Adjustments	239,636
 Net Cash (Used for) Operating Activities	\$ (1,088,092)

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, 2016**

	<u>Private Purpose Trust</u>	<u>Student Activities</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 14,348	\$ 20,259	\$ 34,607
Investments	0	27,638	27,638
TOTAL ASSETS	<u>\$ 14,348</u>	<u>\$ 47,897</u>	<u>\$ 62,245</u>
LIABILITIES			
Short-Term Payables	\$ 0	\$ 47,897	\$ 47,897
Other Current Liabilities	0	0	0
TOTAL LIABILITIES	<u>0</u>	<u>47,897</u>	<u>47,897</u>
NET POSITION			
Restricted for Legal Purposes	<u>14,348</u>	<u>0</u>	<u>14,348</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 14,348</u>	<u>\$ 47,897</u>	<u>\$ 62,245</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, 2016

	<u>Scholarship Trust Fund</u>
ADDITIONS	
Local contributions	\$ 0
Interest earnings	<u>0</u>
TOTAL ADDITIONS	<u>\$ 0</u>
DEDUCTIONS	
Fees paid and scholarships awarded	<u>\$ 1,000</u>
TOTAL DEDUCTIONS	<u>1,000</u>
CHANGE IN NET POSITION	(1,000)
NET POSITION AT BEGINNING OF YEAR	<u>15,348</u>
NET POSITION AT END OF YEAR	<u>\$ 14,348</u>

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

**HIGHLANDS SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

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, 2016. The inventory of \$2,582 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, 2016 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 2015-2016 was \$7,493,665.

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 \$4,144,517 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	\$1,547,337	
Payroll Checking	1,000	
Petty Cash	1,000	
Money Market		\$11,951,127
PSDLAF	0	547,351
	<u>\$1,549,337</u>	<u>\$12,498,478</u>
Special Revenue		
Capital Reserve Fund		
Checking	\$ 0	
Checking-2012 Bond Issue	0	\$ 0
	<u>\$ 0</u>	<u>\$ 0</u>
Private Purpose Trust		
Checking	\$ 14,348	
PSDALF	0	\$ 0
	<u>\$ 14,348</u>	<u>\$ 0</u>

NOTE C – CASH DEPOSITS AND INVESTMENTS, Continued

	Cash	Investments
Athletic Fund		
Checking	\$ 30,636	
CD		\$ 10,124
	<u>\$ 30,636</u>	<u>\$ 10,124</u>
Capital Projects Fund		
PSDLAF	\$ 0	\$ 0
Checking-07 Bond Issue	0	0
Checking-12 Bond Issue	0	0
	<u>\$ 0</u>	<u>\$ 0</u>
Food Service		
Regular Checking	\$ 564,951	
Petty Cash	3,190	
	<u>\$ 568,141</u>	
Agency – Student Activities Fund		
Checking	\$ 20,259	
PNC CD's		\$ 27,638
	<u>\$ 20,259</u>	<u>\$ 27,638</u>

PA School District Liquid Asset Fund; \$547,351; 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 2015 - 2016 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, 2016, the following amounts are due from other governmental units:

<u>Due From</u>	<u>General Fund</u>
Federal Government	\$ 91,526
State Government	1,383,229
Other Government	0
	<u>\$1,474,755</u>

NOTE F – DUE TO/FROM OTHER FUNDS

Interfund receivable and payable balances as of June 30, 2016 are as follows:

<u>Due To</u>	<u>Due From</u>	<u>Amount</u>
Food Service	General	\$ 0
General	Food Service	993,556
General	Bond Fund	0

NOTE G - CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 908,987	\$ 0	\$ 0	\$ 908,987
Total Capital Assets Not Being Depreciated	<u>908,987</u>	<u>0</u>	<u>0</u>	<u>908,987</u>
Capital Assets, Being Depreciated				
Buildings	43,034,929	0	0	43,034,929
Site Improvements	3,849,436	0	0	3,849,436
Furniture & Equipment	10,592,164	44,671	0	10,636,835
Total Assets Being Depreciated	<u>57,476,529</u>	<u>44,671</u>	<u>0</u>	<u>57,521,200</u>
Less Accumulated Depreciation For:				
Buildings	16,761,707	1,010,045	0	17,771,752
Site Improvements	3,131,645	192,472	0	3,324,117
Furniture & Equipment	10,592,164	1,117	0	10,593,281
Total Accumulated Depreciation	<u>30,485,516</u>	<u>1,203,634</u>	<u>0</u>	<u>31,689,150</u>
Total Capital Assets, Being Depreciated, Net	<u>26,991,013</u>	<u>(1,158,963)</u>	<u>0</u>	<u>25,832,050</u>
Governmental Activities, Capital Assets, Net	<u>\$ 27,900,000</u>	<u>\$ (1,158,963)</u>	<u>\$ 0</u>	<u>\$ 26,741,037</u>
Business-Type Activities				
Capital Assets Being Depreciated				
Furniture & Equipment	\$ 760,624	\$ 76,336	\$ 0	\$ 836,960
Total Capital Assets, Being Depreciated	<u>760,624</u>	<u>76,336</u>	<u>0</u>	<u>836,960</u>
Less Accumulated Depreciation For:				
Furniture & Equipment	664,552	12,919	0	677,471
Total Accumulated Depreciation	<u>664,552</u>	<u>12,919</u>	<u>0</u>	<u>677,471</u>
Total Capital Assets, Being Depreciated, Net	<u>96,072</u>	<u>63,417</u>	<u>0</u>	<u>159,489</u>
Business-Type Activities Capital Assets, Net	<u>\$ 96,072</u>	<u>\$ 63,417</u>	<u>\$ 0</u>	<u>\$ 159,489</u>

NOTE H - LONG-TERM DEBT OBLIGATIONS

During the fiscal year ended June 30, 2016, general long-term debt changed as follows:

	Bonds Payable	Compensated Absences	Other Post Employment Benefits (OPEB)	Total General Long-Term Debt
Beginning of Year	20,690,000	6,662,192	1,211,041	28,563,233
Additional Debt Incurred During Year	10,680,000	0	196,598	10,876,598
Principal Retirement	12,900,000	0	0	12,900,000
(De)Increase in Compensated Absences	0	831,473	0	831,473
End of Year	18,470,000	7,493,665	1,407,639	27,371,304

The future annual payments required to amortize all outstanding debt and obligations, except compensated absences, as of June 30, 2016, including total interest payments are as follows:

Year Ended June 30,	A Series 2016 Bonds Payable			Series 2007 Bonds Payable			Series 2012 Bonds Payable		
	Principal	Interest	Total	Principle	Interest	Total	Principle	Interest	Total
2017	320,000	445,360	765,360	0	0	0	5,000	154,329	159,329
2018	1,895,000	442,800	2,337,800	0	0	0	5,000	154,229	159,229
2019	1,960,000	382,000	2,342,000	0	0	0	5,000	154,128	159,128
2020	2,055,000	284,000	2,339,000	0	0	0	5,000	154,028	159,028
2021	2,160,000	181,250	2,341,250	0	0	0	5,000	154,429	159,429
Thereafter	2,145,000	91,250	2,236,250	0	0	0	5,960,000	486,873	6,446,873
TOTAL	10,535,000	1,826,660	12,361,660	0	0	0	5,985,000	1,258,016	7,243,016

Year Ended June 30,	B Series 2010 Bonds Payable			C Series 2010 Bonds Payable		
	Principle	Interest	Total	Principle	Interest	Total
2017	0	0	0	1,950,000	19,500	1,969,500
2018	0	0	0	0	0	0
2019	0	0	0	0	0	0
2020	0	0	0	0	0	0
Thereafter	0	0	0	0	0	0
TOTAL	0	0	0	1,950,000	19,500	1,969,500

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, 2016 was \$0. The 2007 bonds were paid off with the issue of the 2016 series of bonds.

General Obligation Bonds, Series of 2010

In 2010, the 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, 2016 was \$1,950,000.

General Obligation Bonds, Series of 2012

In 2012, the School District issued general obligation bonds in the amount of \$6,000,000. The bonds bear interest rates ranging from 2% to 2.75% with principal maturities from November 15, 2013 through November 15, 2024. The principal balance outstanding at June 30, 2016 was \$5,985,000. The bond proceeds are being used for building improvements.

General Obligation Bonds, Series of 2016

In 2016, the School District issued general obligation bonds in the amount of \$10,680,000. The bonds bear interest rates ranging from .40% to 5.0% with principal maturities from April 15, 2016 through April 15, 2022. The principal balance outstanding at June 30, 2016 was \$10,535,000. The bond proceeds are being used to pay off the 2007 bond series.

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 2015-2016 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 2015-2016 is \$7,493,665.

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, 2016, thirty-two (32) retirees were receiving such benefits. The total premiums paid by the District, throughout the fiscal year, for those benefits totaled \$215,965.

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, 2016 was 25.48% 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 \$4,271,168.78 for the year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$60,382,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014 to June 30, 2015. 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, 2015, the District’s proportion was 0.1394 percent, which was an increase of 0.0046 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$4,271,168.78. At June 30, 2016, 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	\$3,113,000	\$ 0
Net difference between projected and actual investment earnings	0	122,000
Difference between employer contributions and proportionate share of total contributions	117,805	0
Difference between expected and actual experience	0	249,000
Contributions subsequent to the measurement date	<u>4,271,169</u>	<u>0</u>
	<u>\$7,501,974</u>	<u>\$ 371,000</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, 2016. 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	\$ 544,000
2017	544,000
2018	544,000
2019	1,111,000
2020	0

Actuarial assumptions

The total pension liability as of June 30, 2015 was determined by rolling forward the System's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015 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, 2014 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	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	<u>(14.0%)</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, 2015.

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.

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

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 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	\$74,426,000	\$60,382,000	\$48,577,000

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, 2015	\$1,271,108
Total Annual OPEB Cost	608,348
Contributions in Relation to the ARC	<u>(471,817)</u>
Annual OPEB Cost for fiscal year ending June 30, 2016	\$1,407,639

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, 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%
June 30, 2014	0	6,310,035	6,310,035	0.0%	17,931,349	35.20%

GASB 45 SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	\$ 731,637	76.04%	\$ 853,521
June 30, 2014	728,512	75.46%	1,032,281
June 30, 2015	612,606	77.43%	555,898
June 30, 2016	608,348	87.80%	678,240

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, 2016 no settlements exceeded insurance coverage.

NOTE O – CHANGE IN ACCOUNTING PRINCIPLE

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

NOTE P – SUBSEQUENT EVENTS

Management has determined that there are no additional events subsequent to June 30, 2016 through the Independent Auditor's report date, which is the date the financial statements were available to be issued, that require additional disclosure in the financial statements.

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, 2016

	Budgeted Amounts		Actual Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local Revenues	\$ 19,182,762	\$ 19,182,762	\$ 20,054,893	\$ 872,131
State Revenues	19,548,953	19,548,953	20,955,110	1,406,157
Federal Revenues	1,076,093	1,076,093	922,601	(153,492)
TOTAL REVENUES	<u>39,807,808</u>	<u>39,807,808</u>	<u>41,932,604</u>	<u>2,124,796</u>
EXPENDITURES				
Current:				
Regular Programs	18,018,700	18,018,700	17,512,944	505,756
Special Programs	7,177,021	7,177,021	7,870,289	(693,268)
Vocational Programs	718,619	718,619	440,954	277,665
Other Instructional Programs	143,597	143,597	107,443	36,154
Pre-Kindergarten	136,948	136,948	159,222	(22,274)
Support Services:				
Pupil Personnel Services	1,061,102	1,061,102	1,054,951	6,151
Instructional Staff Services	806,885	806,885	777,849	29,036
Administrative Services	2,374,920	2,374,920	2,281,401	93,519
Pupil Health	478,920	478,920	492,137	(13,217)
Business Services	637,106	637,106	503,065	134,041
Operation and Maintenance of Plant Services	4,225,260	4,225,260	4,890,692	(665,432)
Student Transportation Services	2,277,796	2,277,796	2,475,065	(197,269)
Central and Other Support Services	1,029,181	1,029,181	920,969	108,212
Other Support Services	23,000	23,000	21,291	1,709
Operation of Noninstructional Services:				
Student Activities	554,895	554,895	635,540	(80,645)
Community Services	44,750	44,750	72,858	(28,108)
Facilities, Acquisition, Construction and Improvement Services	18,000	18,000	0	18,000
Capital Outlay	0	0	0	0
Debt Service (Principal & Interest)	2,978,673	2,978,673	2,585,362	393,311
Refund of Prior Year Receipts	0	0	0	0
TOTAL EXPENDITURES	<u>42,705,373</u>	<u>42,705,373</u>	<u>42,802,032</u>	<u>(96,659)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	<u>(2,897,565)</u>	<u>(2,897,565)</u>	<u>(869,428)</u>	<u>2,028,137</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, 2016

	<u>Budgeted Amounts</u>		<u>Actual Budgetary Basis</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES (USES)				
Sale of Bonds	0	0	0	0
Transfers In	(152,375)	(152,375)	34,437	186,812
Budgetary Reserve	(106,733)	(106,733)	0	106,733
Sale/Compensation for Fixed Assets	0	0	979,657	979,657
TOTAL OTHER FINANCING SOURCES (USES)	<u>(259,108)</u>	<u>(259,108)</u>	<u>1,014,094</u>	<u>1,273,202</u>
Net Change in Fund Balances	(3,156,673)	(3,156,673)	144,666	3,301,339
Fund Balance - July 1, 2015	3,156,673	3,156,673	12,214,483	9,057,810
Prior Period Adjustment	0	0	0	0
Fund Balance - June 30, 2016	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 12,359,149</u>	<u>\$ 12,359,149</u>

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

**HIGHLANDS SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

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, 2015 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.

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RICHARD M. TROESE, CPA

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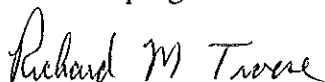
AUDITOR'S TRANSMITTAL LETTER

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

I have performed the Single Audit of the Highlands School District for the fiscal year ended June 30, 2016, 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 9, 2017

**HIGHLANDS SCHOOL DISTRICT
LIST OF REPORT DISTRIBUTION
YEAR ENDED JUNE 30, 2016**

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, 2017.

**HIGHLANDS SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

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 7/01/15	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE AT 6/30/16
<u>US Department of Education</u>										
Passed through the Pennsylvania Department of Education										
Title I Improve Basic	I	84.010	013-160191	7/1/15-6/30/16	\$ 722,254	\$ 675,914	\$ 0	\$ 722,254	\$ 722,254	* \$ 46,340
Title I Improving Basic	I	84.010	013-150191	7/1/14-6/30/15	678,655	135,557	180,742	0	0	45,186
Title II Improving T.Q.	I	84.367	020-140191	7/1/15-6/30/16	196,083	196,083	0	196,083	196,083	0
Title II Improving T.Q.	I	84.367	020-150191	7/1/14-6/30/15	195,879	39,161	39,161	0	0	0
Medical Access	I	93.778	N/A	7/1/14-6/30/15	4,264	4,264	0	4,264	4,264	0
					<u>\$ 1,797,135</u>	<u>\$ 1,050,979</u>	<u>\$ 219,903</u>	<u>\$ 922,601</u>	<u>\$ 922,601</u>	<u>\$ 91,526</u>
Passed through the Allegheny Intermediate Unit										
IDEA	I	84.027	N/A	7/1/15-6/30/16	\$ 487,662	\$ 481,741	\$ 0	\$ 487,662	\$ 487,662	\$ 5,921
					<u>\$ 487,662</u>	<u>\$ 481,741</u>	<u>\$ 0</u>	<u>\$ 487,662</u>	<u>\$ 487,662</u>	<u>\$ 5,921</u>
<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	7/1/15-6/30/16	N/A	\$ 852,810	\$ 0	\$ 876,314	\$ 876,314	* \$ 23,504
Federal-Breakfast-Reg/Ndy	I	10.553	365-000000	7/1/15-6/30/16	N/A	344,626	0	355,647	355,647	11,021
Federal-Breakfast-Sev. Need	I	10.553	367-000000	7/1/15-6/30/16	N/A	0	0	0	0	0
State-Lunch	I	N/A	510-000000	7/1/15-6/30/16	N/A	43,935	0	45,059	45,059	1,124
State-Breakfast	I	N/A	511-000000	7/1/15-6/30/16	N/A	18,004	0	18,644	18,644	640
Passed through the Pennsylvania Department of Agriculture										
Value of USDA Donated										
Commodities	I	10.555	N/A	7/1/15-6/30/16	N/A	a) 82,903	b) (3,392)	83,713	c) 83,713	* d) (2,582)
					<u>N/A</u>	<u>1,342,278</u>	<u>(3,392)</u>	<u>1,379,377</u>	<u>1,379,377</u>	<u>33,707</u>
Total Federal Financial Assistance					\$ 2,284,797	\$ 2,874,998	\$ 216,511	\$ 2,789,640	\$ 2,789,640	\$ 131,154

Source Codes I=Indirect Funding
* Selected for Testing

Total Expenses per above	\$ 2,789,640
Less: State's share of National School & Lunch Program Expenditures	(63,703)
	<u>2,725,937</u>
Title I Improving Basic & National School Lunch	1,682,281
Total Federal Expenditure	\$ 2,725,937 = 61.71%

**HIGHLANDS SCHOOL DISTRICT
NATRONA HEIGHTS, PENNSYLVANIA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

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, 2016, the district had food commodities totaling \$2,582 in inventory.

- a) Total commodities received from the Pennsylvania Department of Agriculture valued at fair market value.
- b) Beginning inventory at July 1, 2015.
- c) Total amount of commodities used.
- d) Ending inventory at June 30, 2016.

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1200 EASTWOOD DRIVE
PO BOX 680
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

I have audited the financial statements of Highlands School District, as of and for the year ended June 30, 2016, and have issued my report thereon dated March 9, 2017. 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.

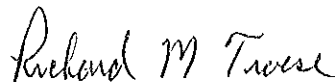
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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 9, 2017

**HIGHLANDS SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

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 #13-160191
National School Lunch, CFDA #10.555
 8. The threshold for distinguishing Types A and B programs was \$750,000.
 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.

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

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT
ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY
THE UNIFORM GUIDANCE**

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

I have audited Highlands School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Highlands School District's major federal programs for the year ended June 30, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In my opinion, Highlands School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

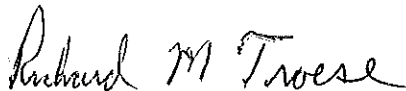
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement 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.

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

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

Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Highlands School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Highlands School District's basic financial statements. I issued my report thereon dated March 9, 2017, which contained an unmodified opinion on those financial statements. My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic 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 basic 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 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 expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Richard M. Troese, C.P.A.
Clarion, Pennsylvania
March 9, 2017