

PENN HILLS SCHOOL DISTRICT

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## **FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2017**

**PENN HILLS  
SCHOOL DISTRICT**  
ALLEGHENY COUNTY, PENNSYLVANIA

FINANCIAL STATEMENTS

AND

OTHER INFORMATION REQUIRED BY  
GOVERNMENT AUDITING STANDARDS  
AND UNIFORM GUIDANCE

WITH REPORTS OF

CERTIFIED PUBLIC ACCOUNTANT

**FOR THE YEAR ENDED  
JUNE 30, 2017**

**PENN HILLS SCHOOL DISTRICT**  
**ALLEGHENY COUNTY, PENNSYLVANIA**  
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**PENN HILLSSCHOOL DISTRICT**  
**ALLEGHENY COUNTY, PENNSYLVANIA**  
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**To the Management and Board of Education  
Penn Hills School District**

## **Independent Auditor's Report**

### **Report on Financial Statements**

I have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Penn Hills School District as of and for the year ended June 30, 2017, 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 of 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 Penn Hills School District'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 Penn Hills School District's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Penn Hills School District as of June 30, 2017 and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As shown on the Governmental Funds Balance Sheet (Exhibit C), the Penn Hills School District General Fund maintained a deficit fund balance of \$11,009,543 as of June 30, 2017. My opinion is not modified with respect to this matter. See Note 17 regarding Penn Hills School District's financial watch status.

## **Other Matters**

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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages iv-xiv, and the other required supplementary information on pages 47-49, 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 us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

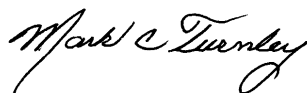
My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Penn Hills School District's basic financial statements. The other supplementary information on pages 41-46 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

***Other Information (Continued)***

The other supplementary information and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 other supplementary information and schedule of expenditures of federal awards are 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 21, 2018 on my consideration of the Penn Hills School District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and 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 the Penn Hills School District's internal control over financial reporting and compliance.



Mark C. Turnley, CPA

March 21, 2018  
New Brighton, Pennsylvania

**PENN HILLS SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION (RSI)  
FISCAL YEAR ENDING JUNE 30, 2017**

## **INTRODUCTION**

The discussion and analysis of the Penn Hills School District's financial performance provides an overall review of the district's financial activities for the fiscal year ended June 30, 2016. This discussion and analysis presents the district's financial performance as a whole. The financial statements and the notes to the basic financial statements provide a more detailed look at the finances for the 2015-2016 school year.

The Management Discussion and Analysis (MD&A) is a requirement of the Comprehensive Annual Financial Report (CAFR) conforming to the model adopted by the Governmental Accounting Standards Board (GASB) in Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments issued June 1999. GASB 34 requires a comparison of certain information between the current year and the prior year.

## **FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2016-17 fiscal year are as follows:

- The District's total governmental and business-type activities liabilities and deferred inflows of resources exceeded total assets and deferred outflows of resources as of June 30, 2017 by \$147,701,824 (net position – deficit). This was a decrease of \$8,156,802 over June 30, 2016. This deficit is mainly the result of the District's implementation of GASB Statement No. 68 '*Accounting and Financial Reporting for Pensions*' during the 2014-2015 fiscal year. The District is now required to recognize their proportionate share of the Pennsylvania School Employees Retirement System (PSERS) overall net pension obligation. For the Penn Hills School District, this liability stands at \$107,725,290 for governmental activities and \$3,331,710 for business-type activities as of June 30, 2017.
- Total revenues were \$84,119,543 for all governmental funds of which the general fund accounted for \$84,119,500 worth of revenues. Excluding other financing sources such as prior year bond proceeds, this represents an increase of \$5,863,444 from the prior fiscal year.
- The School District had \$88,336,602 in expenditures for the General Fund (excluding other financing uses) which represents a decrease of \$157,658 from the prior fiscal year.
- At the end of the current fiscal year, the fund balance of the General Fund was a deficit \$11,009,543 of which \$667,182 is non-spendable for prepaid expenditures applicable to the 2017-2018 fiscal year. This represents a decrease of \$4,217,102 from the prior fiscal year.



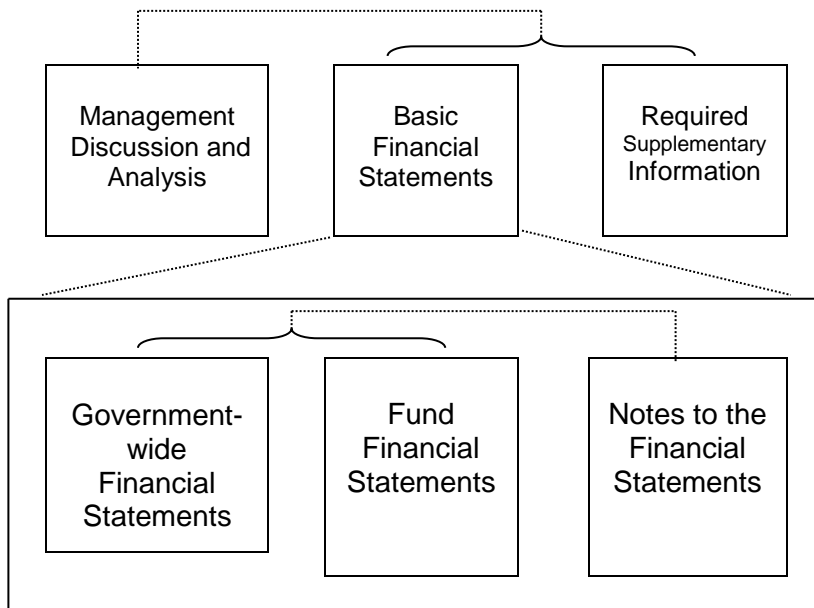
**PENN HILLS SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION (RSI)  
FISCAL YEAR ENDING JUNE 30, 2017**

**USING THE ANNUAL FINANCIAL REPORT (GASB 34)**

The Annual Financial Report consists of this Management Discussion and Analysis and a series of financial statements and notes to those statements. The statements are organized so that the reader can understand Penn Hills School District as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

Figure A-1 shows how the required parts of the Financial Section are arranged and relate to one another:

Figure A-1  
Required components of  
Penn Hills School District's  
Financial Report



**PENN HILLS SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION (RSI)  
FISCAL YEAR ENDING JUNE 30, 2017**

**USING THE ANNUAL FINANCIAL REPORT (GASB 34) (Continued)**

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management discussion and analysis explains the structure and contents of each of the statements.

Figure A-2  
Major Features of Penn Hills School District's  
Government-wide and Fund Financial Statements  
Fund Statements

|                                                 | Government-<br>wide<br>Statements                                                                    | Governmental<br>Funds                                                                                                                                                                                                 | Proprietary<br>Funds                                                                                                                  | Fiduciary Funds                                                                                                                        |
|-------------------------------------------------|------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| Scope                                           | Entire District<br>(except<br>fiduciary funds)                                                       | The activities of the<br>District that are not<br>proprietary or<br>fiduciary, such as<br>education,<br>administration and<br>community services                                                                      | Activities the<br>District operates<br>similar to private<br>business – Food<br>Services                                              | Instances in which<br>the District is the<br>trustee or agent to<br>someone else's<br>resources –<br>Scholarship and<br>Activity Funds |
| Required financial<br>statements                | Statement of<br>net position<br>Statement of<br>activities                                           | Balance Sheet<br>Statement of<br>revenues,<br>expenditures, and<br>changes in fund<br>balance                                                                                                                         | Statement of net<br>position<br>Statement of<br>revenues,<br>expenses and<br>changes in net<br>position<br>Statement of<br>cash flows | Statement of<br>fiduciary net<br>position<br>Statement of<br>changes in<br>fiduciary net<br>position                                   |
| Accounting basis<br>and<br>measurement<br>focus | Accrual<br>accounting and<br>economic<br>resources<br>focus                                          | Modified accrual<br>accounting and<br>current financial<br>resources focus                                                                                                                                            | Accrual<br>accounting and<br>economic<br>resources focus                                                                              | Accrual<br>accounting and<br>economic<br>resources focus                                                                               |
| Type of<br>asset/liability<br>information       | All assets and<br>liabilities, both<br>financial and<br>capital, and<br>short-term and<br>long-term  | Only assets<br>expected to be<br>used up and<br>liabilities that come<br>due during the year<br>or soon thereafter;<br>no capital assets<br>included                                                                  | All assets and<br>liabilities, both<br>financial and<br>capital, and<br>short-term and<br>long-term                                   | All assets and<br>liabilities, both<br>short-term and<br>long-term                                                                     |
| Type of inflow-<br>outflow<br>information       | All revenues<br>and expenses<br>during year,<br>regardless of<br>when cash is<br>received or<br>paid | Revenues for which<br>cash is received<br>during or soon after<br>the end of the year;<br>expenditures when<br>goods or services<br>have been received<br>and payment is due<br>during the year or<br>soon thereafter | All revenues and<br>expenses during<br>year, regardless<br>of when cash is<br>received or paid                                        | All revenues and<br>expenses during<br>year, regardless<br>of when cash is<br>received or paid                                         |

**PENN HILLS SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION (RSI)  
FISCAL YEAR ENDING JUNE 30, 2017**

**OVERVIEW OF FINANCIAL STATEMENTS**

**Government-wide Statements**

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position.

Over time, increases or decreases in the District's net position are an indication of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the District, the reader needs to consider additional non-financial factors, such as changes in the District's property tax base and the performance of the students.

The government-wide financial statements of the District are divided into two categories:

- **Governmental activities** – All of the District's basic services are included here, such as instruction, student support, administration and community services. Property taxes, state and federal subsidies, and grants finance most of these activities.
- **Business type activities** –The District operates a food service operation and charges fees to students, staff and visitors to help it cover the costs of the food service operation.

**Fund Financial Statements**

The District's fund financial statements, which begin on Page 3, provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be reported separately by state law and by bond requirements.

**Governmental funds** – Most of the District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

**Proprietary funds** – These funds are used to account for the District activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the District charges customers for services it provides – whether to outside customers or to other units in the District – these services are generally reported in proprietary funds. The Food Service Fund is the District's proprietary fund and is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows.

**PENN HILLS SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION (RSI)  
FISCAL YEAR ENDING JUNE 30, 2017**

**OVERVIEW OF FINANCIAL STATEMENTS (Continued)**

**Fund Financial Statements (Continued)**

**Fiduciary funds** - The District is the trustee, or fiduciary, for student activity funds. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position on Page 11. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations.

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

A comparative breakdown of assets, liabilities and net position of the District for the past two fiscal years is as follows:

Table A-1  
Fiscal Year Ended June 30, 2017 and 2016  
Net Position

|                                                                | -----JUNE 30, 2017-----    |                             |                         | JUNE 30, 2016           |
|----------------------------------------------------------------|----------------------------|-----------------------------|-------------------------|-------------------------|
|                                                                | GOVERNMENTAL<br>ACTIVITIES | BUSINESS-TYPE<br>ACTIVITIES | TOTAL                   | TOTAL                   |
| Current Assets                                                 | \$ 4,472,522               | \$ 655,548                  | \$ 5,128,070            | \$ 7,397,921            |
| Capital Assets                                                 | 135,158,610                | 76,946                      | 135,235,556             | 138,634,089             |
| Deferred Outflows of Resources                                 | 18,487,991                 | 559,754                     | 19,047,745              | 8,136,548               |
| <b>TOTAL ASSETS AND DEFERRED<br/>OUTFLOWS OF RESOURCES</b>     | <b>\$ 158,119,123</b>      | <b>\$ 1,292,248</b>         | <b>\$ 159,411,371</b>   | <b>\$ 154,168,558</b>   |
| Current Liabilities                                            | \$ 20,573,698              | \$ 246,870                  | \$ 20,820,568           | \$ 18,685,713           |
| Long-Term Liabilities                                          | 278,118,917                | 3,331,710                   | 281,450,627             | 271,196,867             |
| Deferred Inflows of Resources                                  | 4,696,740                  | 145,260                     | 4,842,000               | 3,831,000               |
| <b>TOTAL LIABILITIES AND DEFERRED<br/>INFLOWS OF RESOURCES</b> | <b>\$ 303,389,355</b>      | <b>\$ 3,723,840</b>         | <b>\$ 307,113,195</b>   | <b>\$ 293,713,580</b>   |
| Net Investment in Capital Assets (Deficit)                     | \$ (17,223,732)            | \$ 76,946                   | \$ (17,146,786)         | \$ (17,346,375)         |
| Unrestricted (Deficit)                                         | (128,046,500)              | (2,508,538)                 | (130,555,038)           | (122,198,647)           |
| <b>TOTAL NET POSITION (Deficit)</b>                            | <b>\$ (145,270,232)</b>    | <b>\$ (2,431,592)</b>       | <b>\$ (147,701,824)</b> | <b>\$ (139,545,022)</b> |

The increase in deferred outflows of resources and long-term liabilities, as well as the increase in deferred inflows of resources, is mainly the result of the updated valuation from PSERS as required under GASB Statement No. 68 that requires the District to recognize their proportionate share of the Pennsylvania School Employees Retirement System (PSERS) overall net pension obligation, which for the Penn Hills School District, totals \$111,057,000. Current liabilities increased as the District experienced cash flow issues which delayed payment of year-end liabilities. Capital assets, and related net investment in capital assets decreased as depreciation expense exceeded fixed asset purchases during the 2016-2017 fiscal year.

The results of this year's operations as a whole are reported in the Statement of Activities on Page 2. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District's activities that are supported by other general revenues. The two largest general revenues are the Basic Education Subsidy provided by the State of Pennsylvania, and the local taxes assessed to community taxpayers.

**PENN HILLS SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION (RSI)  
FISCAL YEAR ENDING JUNE 30, 2017**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)**

The following Table A-2 takes the information from the Statement of Activities, rearranges it slightly, so you can see our total revenues, expenses, and change to the net position for the past two fiscal years.

Table A-2  
Fiscal Year Ended June 30, 2017 and June 30, 2016  
Changes in Net Position

|                                      | ----- JUNE 30, 2017 -----  |                             |                      | JUNE 30, 2016          |
|--------------------------------------|----------------------------|-----------------------------|----------------------|------------------------|
|                                      | GOVERNMENTAL<br>ACTIVITIES | BUSINESS-TYPE<br>ACTIVITIES | TOTAL                | TOTAL                  |
| <b>REVENUES</b>                      |                            |                             |                      |                        |
| <b>Program Revenues:</b>             |                            |                             |                      |                        |
| Charges for Services                 | \$ 738,656                 | \$ 791,452                  | \$ 1,530,108         | \$ 1,159,083           |
| Grants and Contributions             | 20,413,148                 | 1,968,503                   | 22,381,651           | 19,036,046             |
| <b>General Revenues:</b>             |                            |                             |                      |                        |
| Property, Other Taxes                | 43,746,681                 | -                           | 43,746,681           | 42,151,553             |
| Grants, Subsidies and Contributions  | 18,701,806                 | -                           | 18,701,806           | 18,220,260             |
| Investment Earnings                  | 3,471                      | 190                         | 3,661                | 3,343                  |
| Sale of Fixed Assets                 | -                          | -                           | -                    | 293,399                |
| Miscellaneous                        | 515,781                    | -                           | 515,781              | 596,930                |
| <b>TOTAL REVENUES</b>                | <b>\$ 84,119,543</b>       | <b>\$ 2,760,145</b>         | <b>\$ 86,879,688</b> | <b>\$ 81,460,614</b>   |
| <b>EXPENSES</b>                      |                            |                             |                      |                        |
| Instruction                          | \$ 53,902,096              | \$ -                        | \$ 53,902,096        | \$ 52,510,853          |
| Instructional Student Support        | 6,572,896                  | -                           | 6,572,896            | 6,117,968              |
| Administrative and Financial Support | 5,293,643                  | -                           | 5,293,643            | 5,528,278              |
| Operation and Maintenance of Plant   | 8,395,859                  | -                           | 8,395,859            | 7,585,890              |
| Pupil Transportation                 | 7,542,955                  | -                           | 7,542,955            | 7,497,854              |
| Student Activities                   | 1,016,114                  | -                           | 1,016,114            | 976,333                |
| Community Services                   | 137,339                    | -                           | 137,339              | 187,508                |
| Interest on Long-term Debt           | 9,193,700                  | -                           | 9,193,700            | 9,390,122              |
| Food Services                        | -                          | 2,981,888                   | \$ 2,981,888         | 2,894,369              |
| <b>TOTAL EXPENSES</b>                | <b>\$ 92,054,602</b>       | <b>\$ 2,981,888</b>         | <b>\$ 95,036,490</b> | <b>\$ 92,689,175</b>   |
| <b>CHANGE IN NET POSITION</b>        | <b>\$ (7,935,059)</b>      | <b>\$ (221,743)</b>         | <b>(8,156,802)</b>   | <b>\$ (11,228,561)</b> |
|                                      |                            |                             | -                    | -                      |
|                                      |                            |                             | -                    | -                      |

Table A-3 shows the District's eight largest functions - instructional programs, instructional student support, administrative, operation and maintenance of plant, pupil transportation, student activities, community services, long-term debt, as well as each program's net cost (total cost less revenues generated by the activities) for the past two fiscal years. This table also shows the net costs offset by the other unrestricted grants, subsidies and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

**PENN HILLS SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION (RSI)  
FISCAL YEAR ENDING JUNE 30, 2017**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)**

Table A-3  
Fiscal Year Ended June 30, 2017 and June 30, 2016  
Governmental Activities

|                                                            | -----JUNE 30, 2017-----          |                                | -----JUNE 30, 2016-----          |                                |
|------------------------------------------------------------|----------------------------------|--------------------------------|----------------------------------|--------------------------------|
|                                                            | <u>TOTAL COST<br/>OF SERVICE</u> | <u>NET COST<br/>OF SERVICE</u> | <u>TOTAL COST<br/>OF SERVICE</u> | <u>NET COST<br/>OF SERVICE</u> |
| <b>EXPENSES</b>                                            |                                  |                                |                                  |                                |
| Instruction                                                | \$ 53,902,096                    | \$ 42,916,328                  | \$ 52,510,853                    | \$ 42,070,253                  |
| Instructional Student Support                              | 6,572,896                        | 5,825,130                      | 6,117,968                        | 5,360,884                      |
| Administrative and Financial Support                       | 5,293,643                        | 4,863,309                      | 5,528,278                        | 5,089,951                      |
| Operation and Maintenance of Plant                         | 8,395,859                        | 7,068,304                      | 7,585,890                        | 6,797,459                      |
| Pupil Transportation                                       | 7,542,955                        | 4,815,580                      | 7,497,854                        | 4,916,237                      |
| Student Activities                                         | 1,016,114                        | 860,470                        | 976,333                          | 797,728                        |
| Community Services                                         | 137,339                          | 135,854                        | 187,508                          | 184,713                        |
| Interest on Long-term Debt/Refunds                         | 9,193,700                        | 4,417,823                      | 9,390,122                        | 7,289,321                      |
| <b>TOTAL EXPENSES</b>                                      | <b><u>\$ 92,054,602</u></b>      | <b><u>\$ 70,902,798</u></b>    | <b><u>\$ 89,794,806</u></b>      | <b><u>\$ 72,506,546</u></b>    |
| <b>Less:</b>                                               |                                  |                                |                                  |                                |
| Unrestricted Grants, Subsidies                             |                                  | <u>18,701,896</u>              |                                  | <u>18,220,260</u>              |
| <b>TOTAL NEEDS FROM LOCAL TAXES<br/>AND OTHER REVENUES</b> |                                  | <b><u>\$ 52,200,902</u></b>    |                                  | <b><u>\$ 54,286,286</u></b>    |

Table A-4 reflects the activities of the Food Service program, the only Business-type activity of the District.

Table A-4  
Fiscal Year ended June 30, 2017 and June 30, 2016  
Business-Type Activities

|                                                                   | ----- JUNE 30, 2017 -----        |                                | ----- JUNE 30, 2016 -----        |                                |
|-------------------------------------------------------------------|----------------------------------|--------------------------------|----------------------------------|--------------------------------|
|                                                                   | <u>TOTAL COST<br/>OF SERVICE</u> | <u>NET COST<br/>OF SERVICE</u> | <u>TOTAL COST<br/>OF SERVICE</u> | <u>NET COST<br/>OF SERVICE</u> |
| <b>EXPENSES</b>                                                   |                                  |                                |                                  |                                |
| Food Service                                                      | \$ 2,981,888                     | \$ (221,933)                   | \$ 2,894,369                     | \$ 12,500                      |
| Investment Earnings                                               |                                  | <u>190</u>                     |                                  | <u>111</u>                     |
| <b>TOTAL BUSINESS-TYPE ACTIVITIES<br/>NET INCOME &lt;LOSS&gt;</b> |                                  | <b><u>\$ (221,743)</u></b>     |                                  | <b><u>\$ 12,611</u></b>        |

Operating expenses of the Food Service program increased by \$87,519 (3%) from the previous fiscal year while operating revenues decreased \$79,845 (9.2%). Federal and state subsidies related to the food service program decreased by \$67,069 (3.3%) for the current fiscal year.

**PENN HILLS SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION (RSI)  
FISCAL YEAR ENDING JUNE 30, 2017**

**THE DISTRICT FUNDS**

At June 30, 2017, the District's governmental funds reported a combined deficit fund balance of \$10,988,686 compared to a deficit balance of \$6,771,627 for the year ended June 30, 2016. The main reason for the increase in deficit was related to the overall general operations of the General Fund where expenditures exceeded revenues by \$4,217,102. The District's capital project fund maintained a fund balance of \$7,721 as of June 30, 2017 while the debt service fund balance remained the same at \$13,136. The following is additional information concerning revenues, expenses and fund balance.

**REVENUES**

The revenues received into the general fund during 2016-2017 came from three major sources (not including other financing sources): local, state, and federal revenues. Of total revenues, local revenues account for 55%, state revenues are 40% and federal revenues only 5%.

Local revenues can be grouped in two major categories, tax revenues and non-tax revenues. Local real estate tax accounted for 81% of total tax revenues and 77% of total local revenues in 2016-2017. Other forms of tax revenue include earned income tax, local service tax, business privilege tax, mercantile tax, real estate transfer tax and delinquent tax collections. Tax revenue increased in the 2016-2017 fiscal year by approximately \$1,595,128. The increase was most notable in current real estate tax collections, which increased by \$2,030,497. Non-tax revenues, including federal monies received through the intermediate unit, athletic admissions and fees, interest earnings, tuition from other PA school districts and other miscellaneous revenues accounted for 4.8% of total local revenues.

Basic education subsidy and special education subsidy are the two largest sources of state revenue with basic education subsidy providing 48% of the total and special education subsidy providing 9.4% of the total. Subsidies increased overall by \$3,275,164 primarily due to rental subsidies totaling \$2,670,599 in fiscal year ending June 30, 2017 but \$0 during the 2015-2016 fiscal year.

Federal revenues accounted for just 4.9% of the total revenues, and increased from 2015-2016 by \$382,753. This increase was primarily due to an increase of \$277,797 in Title I grant monies.

| <b>FUNCTION</b> | <b>REVENUES</b>      | <b>VARIANCE<br/>FROM<br/>PRIOR YEAR</b> | <b>%<br/>CHANGE</b> | <b>AMOUNT<br/>OVER (UNDER)<br/>2016-2017<br/>BUDGET</b> |
|-----------------|----------------------|-----------------------------------------|---------------------|---------------------------------------------------------|
| Local Sources   | \$ 45,950,619        | \$ 2,205,543                            | 5.0%                | \$ (161,336)                                            |
| State Sources   | 34,064,706           | 3,275,164                               | 10.6%               | 2,228,953                                               |
| Federal Sources | 4,104,218            | 382,753                                 | 10.3%               | (355,921)                                               |
| <b>TOTAL</b>    | <b>\$ 84,119,543</b> | <b>\$ 5,863,460</b>                     |                     | <b>\$ 1,711,696</b>                                     |

**PENN HILLS SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION (RSI)  
FISCAL YEAR ENDING JUNE 30, 2017**

**THE DISTRICT FUNDS (Continued)**

**EXPENSES**

The revenues received during the 2016-2017 fiscal year were used to pay general fund expenses of \$88,336,602. These expenses were categorized into five major functions: instruction, support services, non-instructional operations, construction/improvements, and other financing uses.

The 2016-2017 general fund expenditures (excluding transfers) decreased slightly by \$157,658 or .2% from the past fiscal year.

| <b>FUNCTION</b>                   | <b>EXPENSES</b>      | <b>VARIANCE<br/>FROM<br/>PRIOR YEAR</b> | <b>%<br/>CHANGE</b> | <b>AMOUNT<br/>OVER (UNDER)<br/>2016-2017<br/>BUDGET</b> |
|-----------------------------------|----------------------|-----------------------------------------|---------------------|---------------------------------------------------------|
| Instructional Services            | \$ 48,202,673        | \$ (1,480,157)                          | -3.0%               | \$ 3,386,701                                            |
| Support Services                  | 26,283,598           | 678,353                                 | 2.6%                | 3,345,624                                               |
| Non-instructional Services        | 1,048,439            | (41,766)                                | -3.8%               | (1,152,454)                                             |
| Other Financing Uses/Debt Service | 12,801,892           | 685,912                                 | 5.7%                | 83,927                                                  |
| <b>TOTAL</b>                      | <b>\$ 88,336,602</b> | <b>\$ (157,658)</b>                     |                     | <b>\$ 5,663,798</b>                                     |

**GENERAL FUND BUDGET**

During the fiscal year, the Board of School Directors (The Board) authorizes revisions to the original budget (transfers) to accommodate differences from the original budget to the actual expenditures of the District. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided on Page 7 of the financial statements.

The District applies for federal, state, and local grants and these grants cannot always be anticipated exactly during the budget development process.



**PENN HILLS SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION (RSI)  
FISCAL YEAR ENDING JUNE 30, 2017**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

At June 30, 2017, the District had \$135,235,556 invested in a broad range of capital assets, including land, buildings and furniture and equipment, net of depreciation. This amount represents a net decrease (including additions, deletions and depreciation) of \$3,398,533 from 2015-2016 which is as a result of depreciation expense exceeding new asset additions.

**DEBT ADMINISTRATION**

As of July 1, 2016 the District had total outstanding bond, note, and lease principal of \$172,468,698 on its General Obligation Bond and Note Issues and Lease Purchase Obligations. The District made payments against principal during the year of \$3,553,698. At June 30, 2017 the District had outstanding debt of \$168,915,000.

Other long-term obligations include accrued vacation pay and sick leave for specific employees of the District, as well as retiree health insurance, and net pension obligations. More detailed information about our long-term liabilities is included in Notes 10, 11, and 13 to the financial statements.

**MAJOR FINANCIAL ISSUES**

The Penn Hills School District continues to face a financial burden above and beyond what most districts are experiencing due to the construction of two mega-sized schools that were completed in 2012 and 2014. As reported by PA Auditor General Eugene DePasquale in 2016, the District had no plan in place to pay for these expenditures before construction began and relied almost exclusively on borrowed funds. The resulting debt service obligation is excessive and continues to present a challenge. The District has limited options available to it at this time and has already refinanced its debt once to try and make the payments more affordable. The district is expected to pursue refinancing again in October 2019 after the Series 2009 B Bonds reach their call date.

Additional challenges faced by the Penn Hills School District include turnover in the position of Business Manager, which has been held most recently by two different individuals from November 2015 through March 2018. Recent turnover in this position has directly contributed to new questions about the accuracy of post-construction budgets and noncompliance with various reporting deadlines. As of March 26, 2018, the Penn Hills School District Board of Directors is expected to ratify the hire of a new Business Manager. This individual is a CPA who has more than 15 years' experience supervising business office operations in another district and has been working with various District staff behind the scenes for the past four months, along with Michael Lamb, the PDE appointed Technical Advisor. The new Business Manager has a working knowledge of current status and a realistic view of the many challenges facing the District. The new Business Manager has made a five-year commitment to help facilitate positive changes in business operations.

Penn Hills School District Board of Directors has also implemented a new Treasurer model, whereby a resident who has actively participated in Penn Hills School District public discussions of finance for many years has been appointed to this role of financial advisor. This individual is not an employee of the District and directly reports to the Board. He has a doctorate from Massachusetts Institute of Technology and has had a well-documented history of critical review and vocal expression of questionable business practices. It is our impression that no other local district has dared to employ such a model that allows a resident unrestricted access to financial records and to the Board of School Directors itself.

Our reality remains harsh, and our current options are limited, however, the Penn Hills School District is realigning itself to ensure more accurate budgeting, controlled spending, and regular application of cost-benefit analysis.

**PENN HILLS SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION (RSI)  
FISCAL YEAR ENDING JUNE 30, 2017**

**CONTACTING THE DISTRICT FINANCIAL MANAGEMENT**

The financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances and to show the School District's accountability for the money it receives. If you have questions about this report, or wish to request additional financial information, please contact Eileen Navish, Interim Business Manager at (412) 793-7000 ext. 1231 or by mail at Penn Hills School District, Administrative Office, 260 Aster Street, Pittsburgh, PA 15235.

**PENN HILLS SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

**EXHIBIT A**

|                                                                                  | <b>Governmental<br/>Activities</b> | <b>Business-Type<br/>Activities</b> | <b>Total</b>            |
|----------------------------------------------------------------------------------|------------------------------------|-------------------------------------|-------------------------|
| <b>ASSETS</b>                                                                    |                                    |                                     |                         |
| <b>Current Assets:</b>                                                           |                                    |                                     |                         |
| Cash and Cash Equivalents                                                        | \$ 118,154                         | \$ 101,139                          | \$ 219,293              |
| Taxes Receivable, net                                                            | 96,583                             | -                                   | 96,583                  |
| Internal Balances                                                                | (143,452)                          | 143,452                             | -                       |
| Due From Other Governments                                                       | 3,590,177                          | 207,911                             | 3,798,088               |
| Other Receivables                                                                | 143,878                            | 40,890                              | 184,768                 |
| Inventories                                                                      | -                                  | 38,875                              | 38,875                  |
| Prepaid Expenses                                                                 | 667,182                            | 123,281                             | 790,463                 |
| <b>Total Current Assets</b>                                                      | <b>\$ 4,472,522</b>                | <b>\$ 655,548</b>                   | <b>\$ 5,128,070</b>     |
| <b>Noncurrent Assets:</b>                                                        |                                    |                                     |                         |
| Land                                                                             | \$ 1,135,703                       | \$ -                                | \$ 1,135,703            |
| Land Improvements (net)                                                          | 6,156,845                          | -                                   | 6,156,845               |
| Building & Building Improvements (net)                                           | 126,592,215                        | -                                   | 126,592,215             |
| Furniture & Equipment (net)                                                      | 1,273,847                          | 76,946                              | 1,350,793               |
| <b>Total Noncurrent Assets</b>                                                   | <b>\$ 135,158,610</b>              | <b>\$ 76,946</b>                    | <b>\$ 135,235,556</b>   |
| <b>TOTAL ASSETS</b>                                                              | <b>\$ 139,631,132</b>              | <b>\$ 732,494</b>                   | <b>\$ 140,363,626</b>   |
| <b>Deferred Outflows of Resources:</b>                                           |                                    |                                     |                         |
| Deferred Interest on Refunding                                                   | \$ 348,670                         | \$ -                                | \$ 348,670              |
| Deferred Outflows Related to Pension                                             | 18,139,321                         | 559,754                             | 18,699,075              |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>                                      | <b>\$ 18,487,991</b>               | <b>\$ 559,754</b>                   | <b>\$ 19,047,745</b>    |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS<br/>OF RESOURCES</b>                       | <b>\$ 158,119,123</b>              | <b>\$ 1,292,248</b>                 | <b>\$ 159,411,371</b>   |
| <b>LIABILITIES</b>                                                               |                                    |                                     |                         |
| <b>Current Liabilities:</b>                                                      |                                    |                                     |                         |
| Accounts Payable                                                                 | \$ 4,634,998                       | \$ 216,584                          | \$ 4,851,582            |
| Bonds and Notes Payable - Current Portion                                        | 3,645,000                          | -                                   | 3,645,000               |
| Accrued Interest                                                                 | 1,567,490                          | -                                   | 1,567,490               |
| Accrued Salaries and Benefits                                                    | 9,613,179                          | -                                   | 9,613,179               |
| Payroll Withholdings                                                             | 596,566                            | -                                   | 596,566                 |
| Unearned Revenue                                                                 | 511,474                            | 30,286                              | 541,760                 |
| Other Current Liabilities                                                        | 4,991                              | -                                   | 4,991                   |
| <b>Total Current Liabilities</b>                                                 | <b>\$ 20,573,698</b>               | <b>\$ 246,870</b>                   | <b>\$ 20,820,568</b>    |
| <b>Noncurrent Liabilities:</b>                                                   |                                    |                                     |                         |
| Bonds and Notes Payable - Long Term Portion                                      | \$ 167,081,012                     | \$ -                                | \$ 167,081,012          |
| Net Pension Liability                                                            | 107,725,290                        | 3,331,710                           | 111,057,000             |
| Net OPEB Obligation                                                              | 339,923                            | -                                   | 339,923                 |
| Compensated Absences                                                             | 2,972,692                          | -                                   | 2,972,692               |
| <b>Total Noncurrent Liabilities</b>                                              | <b>\$ 278,118,917</b>              | <b>\$ 3,331,710</b>                 | <b>\$ 281,450,627</b>   |
| <b>TOTAL LIABILITIES</b>                                                         | <b>\$ 298,692,615</b>              | <b>\$ 3,578,580</b>                 | <b>\$ 302,271,195</b>   |
| <b>Deferred Inflows of Resources:</b>                                            |                                    |                                     |                         |
| Deferred Inflows Related to Pension                                              | \$ 4,696,740                       | \$ 145,260                          | \$ 4,842,000            |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>                                       | <b>\$ 4,696,740</b>                | <b>\$ 145,260</b>                   | <b>\$ 4,842,000</b>     |
| <b>TOTAL LIABILITIES AND DEFERRED INFLOWS<br/>OF RESOURCES</b>                   | <b>\$ 303,389,355</b>              | <b>\$ 3,723,840</b>                 | <b>\$ 307,113,195</b>   |
| <b>NET POSITION</b>                                                              |                                    |                                     |                         |
| Net Investment in Capital Assets (Deficit)                                       | \$ (17,223,732)                    | \$ 76,946                           | \$ (17,146,786)         |
| Unrestricted (Deficit)                                                           | (128,046,500)                      | (2,508,538)                         | (130,555,038)           |
| <b>Total Net Position (Deficit)</b>                                              | <b>\$ (145,270,232)</b>            | <b>\$ (2,431,592)</b>               | <b>\$ (147,701,824)</b> |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF<br/>OF RESOURCES, AND NET POSITION</b> | <b>\$ 158,119,123</b>              | <b>\$ 1,292,248</b>                 | <b>\$ 159,411,371</b>   |

The accompanying notes are an integral part of these financial statements

**PENN HILLS SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

**EXHIBIT B**

| Functions/Programs                                | Expenses             | Program Revenues        |                                          |                                        | Net (Expense) Revenue and<br>Changes in Net Position |                             |                         |
|---------------------------------------------------|----------------------|-------------------------|------------------------------------------|----------------------------------------|------------------------------------------------------|-----------------------------|-------------------------|
|                                                   |                      | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Governmental<br>Activities                           | Business-Type<br>Activities | Total                   |
| <b>Governmental Activities:</b>                   |                      |                         |                                          |                                        |                                                      |                             |                         |
| Instruction                                       | \$ 53,902,096        | \$ -                    | \$ 10,985,768                            | \$ -                                   | \$ (42,916,328)                                      |                             | \$ (42,916,328)         |
| Instructional Student Support                     | 6,572,896            | -                       | 747,766                                  | -                                      | (5,825,130)                                          |                             | (5,825,130)             |
| Administrative and Financial Support Services     | 5,293,643            | -                       | 430,334                                  | -                                      | (4,863,309)                                          |                             | (4,863,309)             |
| Operation and Maintenance of Plant Services       | 8,395,859            | 691,390                 | 636,165                                  | -                                      | (7,068,304)                                          |                             | (7,068,304)             |
| Pupil Transportation                              | 7,542,955            | -                       | 2,727,375                                | -                                      | (4,815,580)                                          |                             | (4,815,580)             |
| Student Activities                                | 1,016,114            | 47,266                  | 108,378                                  | -                                      | (860,470)                                            |                             | (860,470)               |
| Community Services                                | 137,339              | -                       | 1,485                                    | -                                      | (135,854)                                            |                             | (135,854)               |
| Interest on Long-Term Debt                        | 9,193,700            | -                       | -                                        | 4,775,877                              | (4,417,823)                                          |                             | (4,417,823)             |
| <b>Total Governmental Activities</b>              | <b>\$ 92,054,602</b> | <b>\$ 738,656</b>       | <b>\$ 15,637,271</b>                     | <b>\$ 4,775,877</b>                    | <b>\$ (70,902,798)</b>                               |                             | <b>\$ (70,902,798)</b>  |
| <b>Business-Type activities:</b>                  |                      |                         |                                          |                                        |                                                      |                             |                         |
| Food Service                                      | \$ 2,981,888         | \$ 791,452              | \$ 1,968,503                             | \$ -                                   | \$ -                                                 | \$ (221,933)                | \$ (221,933)            |
| <b>Total Business-Type Activities</b>             | <b>\$ 2,981,888</b>  | <b>\$ 791,452</b>       | <b>\$ 1,968,503</b>                      | <b>\$ -</b>                            | <b>\$ -</b>                                          | <b>\$ (221,933)</b>         | <b>\$ (221,933)</b>     |
| <b>Total Primary Government</b>                   | <b>\$ 95,036,490</b> | <b>\$ 1,530,108</b>     | <b>\$ 17,605,774</b>                     | <b>\$ 4,775,877</b>                    | <b>\$ (70,902,798)</b>                               | <b>\$ (221,933)</b>         | <b>\$ (71,124,731)</b>  |
| <b>General Revenues:</b>                          |                      |                         |                                          |                                        |                                                      |                             |                         |
| Taxes:                                            |                      |                         |                                          |                                        |                                                      |                             |                         |
| Property Taxes, Levied for General Purposes (net) |                      |                         |                                          |                                        | \$ 38,333,133                                        | \$ -                        | \$ 38,333,133           |
| Taxes Levied for Specific Purposes                |                      |                         |                                          |                                        | 5,413,548                                            | -                           | 5,413,548               |
| State Property Tax Relief                         |                      |                         |                                          |                                        | 2,359,858                                            | -                           | 2,359,858               |
| Basic Subsidy                                     |                      |                         |                                          |                                        | 16,341,948                                           | -                           | 16,341,948              |
| Investment Earnings                               |                      |                         |                                          |                                        | 3,471                                                | 190                         | 3,661                   |
| Miscellaneous Revenue                             |                      |                         |                                          |                                        | 515,781                                              | -                           | 515,781                 |
| <b>Total General Revenues</b>                     |                      |                         |                                          |                                        | <b>\$ 62,967,739</b>                                 | <b>\$ 190</b>               | <b>\$ 62,967,929</b>    |
| <b>Change in Net Position</b>                     |                      |                         |                                          |                                        | <b>\$ (7,935,059)</b>                                | <b>\$ (221,743)</b>         | <b>\$ (8,156,802)</b>   |
| Net Position — July 1, 2016 (Deficit)             |                      |                         |                                          |                                        | (137,335,173)                                        | (2,209,849)                 | (139,545,022)           |
| <b>Net Position — June 30, 2017 (Deficit)</b>     |                      |                         |                                          |                                        | <b>\$ (145,270,232)</b>                              | <b>\$ (2,431,592)</b>       | <b>\$ (147,701,824)</b> |

The accompanying notes are an integral part of these financial statements

**PENN HILLS SCHOOL DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2017**

**EXHIBIT C**

|                                                                                | <b>GENERAL<br/>FUND</b>       | <b>CAPITAL<br/>PROJECT<br/>FUND</b> | <b>DEBT<br/>SERVICE<br/>FUND</b> | <b>TOTAL<br/>GOVERNMENTAL<br/>FUNDS</b> |
|--------------------------------------------------------------------------------|-------------------------------|-------------------------------------|----------------------------------|-----------------------------------------|
| <b>ASSETS:</b>                                                                 |                               |                                     |                                  |                                         |
| Cash and Cash Equivalents                                                      | \$ 62,917                     | \$ 42,101                           | \$ 13,136                        | \$ 118,154                              |
| Taxes Receivable, net                                                          | 96,583                        | -                                   | -                                | 96,583                                  |
| Due From Other Funds                                                           | 3,120                         | -                                   | -                                | 3,120                                   |
| Due From Other Governments                                                     | 3,590,177                     | -                                   | -                                | 3,590,177                               |
| Other Receivables                                                              | 143,878                       | -                                   | -                                | 143,878                                 |
| Prepaid Expenses                                                               | 667,182                       | -                                   | -                                | 667,182                                 |
| <b>TOTAL ASSETS</b>                                                            | <b><u>\$ 4,563,857</u></b>    | <b><u>\$ 42,101</u></b>             | <b><u>\$ 13,136</u></b>          | <b><u>\$ 4,619,094</u></b>              |
| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>           |                               |                                     |                                  |                                         |
| <b>LIABILITIES:</b>                                                            |                               |                                     |                                  |                                         |
| Accounts Payable                                                               | \$ 4,603,738                  | \$ 31,260                           | \$ -                             | \$ 4,634,998                            |
| Due to Other Funds                                                             | 143,452                       | 3,120                               | -                                | 146,572                                 |
| Accrued Salaries and Benefits                                                  | 9,613,179                     | -                                   | -                                | 9,613,179                               |
| Payroll Withholdings                                                           | 596,566                       | -                                   | -                                | 596,566                                 |
| Unearned Revenue                                                               | 511,474                       | -                                   | -                                | 511,474                                 |
| Other Current Liabilities                                                      | 4,991                         | -                                   | -                                | 4,991                                   |
| <b>TOTAL LIABILITIES</b>                                                       | <b><u>\$ 15,473,400</u></b>   | <b><u>\$ 34,380</u></b>             | <b><u>\$ -</u></b>               | <b><u>\$ 15,507,780</u></b>             |
| <b>DEFERRED INFLOWS OF RESOURCES:</b>                                          |                               |                                     |                                  |                                         |
| Delinquent Real Estate Taxes                                                   | \$ 100,000                    | \$ -                                | \$ -                             | \$ 100,000                              |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>                                     | <b><u>\$ 100,000</u></b>      | <b><u>\$ -</u></b>                  | <b><u>\$ -</u></b>               | <b><u>\$ 100,000</u></b>                |
| <b>FUND BALANCES:</b>                                                          |                               |                                     |                                  |                                         |
| Nonspendable                                                                   | \$ 667,182                    | \$ -                                | \$ -                             | \$ 667,182                              |
| Assigned                                                                       | -                             | 7,721                               | 13,136                           | 20,857                                  |
| Unassigned (Deficit)                                                           | (11,676,725)                  | -                                   | -                                | (11,676,725)                            |
| <b>TOTAL FUND BALANCES (Deficit)</b>                                           | <b><u>\$ (11,009,543)</u></b> | <b><u>\$ 7,721</u></b>              | <b><u>\$ 13,136</u></b>          | <b><u>\$ (10,988,686)</u></b>           |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES, AND FUND BALANCES</b> | <b><u>\$ 4,563,857</u></b>    | <b><u>\$ 42,101</u></b>             | <b><u>\$ 13,136</u></b>          | <b><u>\$ 4,619,094</u></b>              |

The accompanying notes are an integral part of these financial statements

**PENN HILLS SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

**Total Fund Balances - Governmental Funds** **\$ (10,988,686)**

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

Capital assets used in governmental activities are not financial resources, and therefore, are not reported as assets in governmental funds. The cost of assets is \$171,600,822, and the accumulated depreciation is \$36,442,212. 135,158,610

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 18,139,321

Deferred inflows of resources related to pensions (4,696,740)

Property taxes receivable in the statement of net position, which will not be available soon enough to pay for the current period's expenditures, are deferred and not recognized as revenue in governmental funds. 100,000

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

|                                                    |                  |                      |
|----------------------------------------------------|------------------|----------------------|
| Bonds and notes payable (net of unamortized costs) | \$ 170,377,342   |                      |
| Accrued interest on the bonds                      | 1,567,490        |                      |
| Net pension liability                              | 107,725,290      |                      |
| Net OPEB obligation                                | 339,923          |                      |
| Compensated absences                               | <u>2,972,692</u> | <u>(282,982,737)</u> |

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES (Deficit)** **\$ (145,270,232)**

The accompanying notes are an integral part of these financial statements

**PENN HILLS SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

|                                                              | <b>GENERAL FUND</b>    | <b>CAPITAL<br/>PROJECT<br/>FUND</b> | <b>DEBT<br/>SERVICE<br/>FUND</b> | <b>TOTAL<br/>GOVERNMENTAL<br/>FUNDS</b> |
|--------------------------------------------------------------|------------------------|-------------------------------------|----------------------------------|-----------------------------------------|
| <b><u>REVENUES</u></b>                                       |                        |                                     |                                  |                                         |
| Local Sources                                                | \$ 45,950,576          | \$ 43                               | \$ -                             | \$ 45,950,619                           |
| State Sources                                                | 34,064,706             | -                                   | -                                | 34,064,706                              |
| Federal Sources                                              | 4,104,218              | -                                   | -                                | 4,104,218                               |
| <b>Total Revenue</b>                                         | <b>\$ 84,119,500</b>   | <b>\$ 43</b>                        | <b>\$ -</b>                      | <b>\$ 84,119,543</b>                    |
| <b><u>EXPENDITURES</u></b>                                   |                        |                                     |                                  |                                         |
| Instruction                                                  | \$ 48,202,673          | \$ -                                | \$ -                             | \$ 48,202,673                           |
| Support Services                                             | 26,283,598             | -                                   | -                                | 26,283,598                              |
| Noninstructional Services                                    | 1,048,439              | -                                   | -                                | 1,048,439                               |
| Debt Service                                                 | 12,801,892             | -                                   | -                                | 12,801,892                              |
| <b>Total Expenditures</b>                                    | <b>\$ 88,336,602</b>   | <b>\$ -</b>                         | <b>\$ -</b>                      | <b>\$ 88,336,602</b>                    |
| <b>Excess ( Deficiency) of Revenue<br/>over Expenditures</b> | <b>\$ (4,217,102)</b>  | <b>\$ 43</b>                        | <b>\$ -</b>                      | <b>\$ (4,217,059)</b>                   |
| <b><u>OTHER FINANCING SOURCES (USES)</u></b>                 |                        |                                     |                                  |                                         |
| Operating Transfers In                                       | \$ -                   | \$ -                                | \$ -                             | \$ -                                    |
| Operating Transfers (Out)                                    | -                      | -                                   | -                                | -                                       |
| <b>Total Other Financing Sources (Uses)</b>                  | <b>\$ -</b>            | <b>\$ -</b>                         | <b>\$ -</b>                      | <b>\$ -</b>                             |
| <b>NET CHANGE IN FUND BALANCES</b>                           | <b>\$ (4,217,102)</b>  | <b>\$ 43</b>                        | <b>\$ -</b>                      | <b>\$ (4,217,059)</b>                   |
| FUND BALANCE - JULY 1, 2016 - (Deficit)                      | (6,792,441)            | 7,678                               | 13,136                           | (6,771,627)                             |
| <b>FUND BALANCE - JUNE 30, 2017 - (Deficit)</b>              | <b>\$ (11,009,543)</b> | <b>\$ 7,721</b>                     | <b>\$ 13,136</b>                 | <b>\$ (10,988,686)</b>                  |

The accompanying notes are an integral part of these financial statements

**PENN HILLS SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENT FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

**TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** **\$ (4,217,059)**

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$3,467,352) exceeds net capital outlays (\$105,553) in the period. (3,361,799)

Governmental funds report district pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense. (2,083,855)

Repayment of bond, note, and lease purchase obligation principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 3,553,699

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 18,768

Bond and note discount costs are reported in governmental funds as expenditures. However, in the statement of activities, these costs are capitalized and amortized over the life of the note as interest expense. (274,982)

Bond and note premiums are reported in governmental funds as revenues. However, in the statement of activities, these premiums are capitalized and amortized over the life of the bond and note issues as credit to interest expense. 395,457

Deferred interest on bond refundings is recognized in the government-wide financial statements when bonds are refunded and amortized over the life of the bond issue as interest expense. (71,052)

In the statement of activities, certain operating expenses - compensated absences, retiree incentives, and health benefits - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (paid). This year, the amount of these benefits earned exceeded the amount paid. (1,894,236)

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** **\$ (7,935,059)**



**PENN HILLS SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES, BUDGET AND ACTUAL**  
**GOVERNMENTAL FUNDS - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2017**

|                                                               | Budgeted Amounts     |                      | Actual                 | Variance with<br>Final Budget |
|---------------------------------------------------------------|----------------------|----------------------|------------------------|-------------------------------|
|                                                               | Original             | Final                | (Budgetary Basis)      | Positive<br>(Negative)        |
| <b>REVENUES</b>                                               |                      |                      |                        |                               |
| Local Sources                                                 | \$ 46,111,912        | \$ 46,111,912        | \$ 45,950,576          | \$ (161,336)                  |
| State Sources                                                 | 31,835,753           | 31,835,753           | 34,064,706             | 2,228,953                     |
| Federal Sources                                               | 4,460,139            | 4,460,139            | 4,104,218              | (355,921)                     |
| <b>Total Revenues</b>                                         | <b>\$ 82,407,804</b> | <b>\$ 82,407,804</b> | <b>\$ 84,119,500</b>   | <b>\$ 1,711,696</b>           |
| <b>EXPENDITURES</b>                                           |                      |                      |                        |                               |
| Regular Programs                                              | \$ 31,936,138        | \$ 32,181,013        | \$ 34,975,216          | \$ (2,794,203)                |
| Special Programs                                              | 10,465,281           | 10,467,096           | 10,561,882             | (94,786)                      |
| Vocational Programs                                           | 1,767,611            | 1,768,445            | 1,767,487              | 958                           |
| Other Instructional Programs                                  | 285,427              | 136,927              | 553,811                | (416,884)                     |
| Non Public School Programs                                    | 40,000               | -                    | 194                    | (194)                         |
| Pre-Kindergarten                                              | 235,200              | 262,491              | 344,083                | (81,592)                      |
| Pupil Personnel Services                                      | 2,317,599            | 2,512,158            | 2,530,506              | (18,348)                      |
| Instructional Staff Services                                  | 2,717,408            | 2,831,389            | 2,863,882              | (32,493)                      |
| Administrative Services                                       | 3,191,479            | 3,197,879            | 3,381,293              | (183,414)                     |
| Pupil Health                                                  | 357,640              | 357,171              | 658,623                | (301,452)                     |
| Business Services                                             | 978,734              | 983,864              | 983,069                | 795                           |
| Operation & Maintenance of Plant Services                     | 8,025,160            | 8,025,160            | 7,811,613              | 213,547                       |
| Student Transportation Services                               | 4,467,433            | 4,500,351            | 7,536,677              | (3,036,326)                   |
| Central Services                                              | 485,209              | 488,659              | 469,486                | 19,173                        |
| Other Support Services                                        | 41,343               | 41,343               | 48,449                 | (7,106)                       |
| Student Activities                                            | 2,478,177            | 2,039,804            | 912,518                | 1,127,286                     |
| Community Services                                            | 165,000              | 161,089              | 135,921                | 25,168                        |
| Debt Service                                                  | 12,717,965           | 12,717,965           | 12,801,892             | (83,927)                      |
| <b>Total Expenditures</b>                                     | <b>\$ 82,672,804</b> | <b>\$ 82,672,804</b> | <b>\$ 88,336,602</b>   | <b>\$ (5,663,798)</b>         |
| <b>Excess ( Deficiency) of Revenues<br/>over Expenditures</b> | <b>\$ (265,000)</b>  | <b>\$ (265,000)</b>  | <b>\$ (4,217,102)</b>  | <b>\$ (3,952,102)</b>         |
| <b>OTHER FINANCING SOURCES (USES)</b>                         |                      |                      |                        |                               |
| Operating Transfers In                                        | \$ -                 | \$ -                 | \$ -                   | \$ -                          |
| Operating Transfers (Out)                                     | -                    | -                    | -                      | -                             |
| Sale of Fixes Assets                                          | 265,000              | 265,000              | -                      | (265,000)                     |
| <b>Total Other Financing Sources (Uses)</b>                   | <b>\$ 265,000</b>    | <b>\$ 265,000</b>    | <b>\$ -</b>            | <b>\$ (265,000)</b>           |
| <b>NET CHANGE IN FUND BALANCES</b>                            | <b>\$ -</b>          | <b>\$ -</b>          | <b>\$ (4,217,102)</b>  | <b>\$ (4,217,102)</b>         |
| FUND BALANCE - JULY 1, 2016                                   | -                    | -                    | (6,792,441)            | (6,792,441)                   |
| <b>FUND BALANCE - JUNE 30, 2017</b>                           | <b>\$ -</b>          | <b>\$ -</b>          | <b>\$ (11,009,543)</b> | <b>\$ (11,009,543)</b>        |

The accompanying notes are an integral part of these financial statements

**PENN HILLS SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2017**

|                                                                               | <b>FOOD<br/>SERVICES</b> |
|-------------------------------------------------------------------------------|--------------------------|
| <b>ASSETS</b>                                                                 |                          |
| <b>Current Assets:</b>                                                        |                          |
| Cash & Cash Equivalents                                                       | \$ 101,139               |
| Due from Other Funds                                                          | 143,452                  |
| Due from Other Governments                                                    | 207,911                  |
| Other Accounts Receivables (Special Functions)                                | 40,890                   |
| Inventories                                                                   | 38,875                   |
| Prepaid Expenses                                                              | 123,281                  |
| <b>TOTAL CURRENT ASSETS</b>                                                   | <b>\$ 655,548</b>        |
| <b>Noncurrent Assets:</b>                                                     |                          |
| Furniture and Equipment (net)                                                 | \$ 76,946                |
| <b>TOTAL NONCURRENT ASSETS</b>                                                | <b>\$ 76,946</b>         |
| <b>TOTAL ASSETS</b>                                                           | <b>\$ 732,494</b>        |
| <b>Deferred Outflows of Resources:</b>                                        |                          |
| Deferred Outflows Related to Pension                                          | \$ 559,754               |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>                                   | <b>\$ 559,754</b>        |
| <b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS OF RESOURCES</b>                      | <b>\$ 1,292,248</b>      |
| <b>LIABILITIES</b>                                                            |                          |
| <b>Current Liabilities:</b>                                                   |                          |
| Accounts Payable                                                              | \$ 216,584               |
| Unearned Revenues                                                             | 30,286                   |
| <b>TOTAL CURRENT LIABILITIES</b>                                              | <b>\$ 246,870</b>        |
| <b>Noncurrent Liabilities:</b>                                                |                          |
| Net Pension Liability                                                         | \$ 3,331,710             |
| <b>TOTAL NONCURRENT LIABILITIES</b>                                           | <b>\$ 3,331,710</b>      |
| <b>TOTAL LIABILITIES</b>                                                      | <b>\$ 3,578,580</b>      |
| <b>Deferred Inflows of Resources:</b>                                         |                          |
| Deferred Inflows Related to Pension                                           | \$ 145,260               |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>                                    | <b>\$ 145,260</b>        |
| <b>TOTAL LIABILITIES &amp; DEFERRED INFLOWS OF RESOURCES</b>                  | <b>\$ 3,723,840</b>      |
| <b>NET POSITION</b>                                                           |                          |
| Net Investment in Capital Assets                                              | \$ 76,946                |
| Unrestricted (Deficit)                                                        | (2,508,538)              |
| <b>TOTAL NET POSITION (Deficit)</b>                                           | <b>\$ (2,431,592)</b>    |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES, AND NET POSITION</b> | <b>\$ 1,292,248</b>      |

The accompanying notes are an integral part of these financial statements

**PENN HILLS SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

|                                                |                              |
|------------------------------------------------|------------------------------|
|                                                | <b><u>FOOD SERVICES</u></b>  |
| <b><u>OPERATING REVENUES</u></b>               |                              |
| Food Services Revenue                          | \$ 791,452                   |
| <b>Total Operating Revenues</b>                | <b><u>\$ 791,452</u></b>     |
| <b><u>OPERATING EXPENSES</u></b>               |                              |
| Personnel Services                             | \$ 987,501                   |
| Personnel Services - Benefits                  | 633,391                      |
| Purchased Property Services                    | 5,118                        |
| Other Purchased Services                       | 1,122,935                    |
| Supplies                                       | 195,351                      |
| Depreciation                                   | 36,733                       |
| Other Operating Expenses                       | 859                          |
| <b>Total Operating Expenses</b>                | <b><u>\$ 2,981,888</u></b>   |
| <b>OPERATING INCOME/(LOSS)</b>                 | <b><u>\$ (2,190,436)</u></b> |
| <b><u>NONOPERATING REVENUES (EXPENSES)</u></b> |                              |
| Earnings on investments                        | \$ 190                       |
| State sources                                  | 260,373                      |
| Federal sources                                | 1,708,130                    |
| <b>Total Nonoperating Revenues (Expenses)</b>  | <b><u>\$ 1,968,693</u></b>   |
| <b>CHANGE IN NET POSITION</b>                  | <b><u>\$ (221,743)</u></b>   |
| NET POSITION - JULY 1, 2016 (Deficit)          | <u>(2,209,849)</u>           |
| <b>NET POSITION - JUNE 30, 2017 (Deficit)</b>  | <b><u>\$ (2,431,592)</u></b> |

The accompanying notes are an integral part of these financial statements

**PENN HILLS SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

|                                                                                                                     | <b>FOOD<br/>SERVICES</b>     |
|---------------------------------------------------------------------------------------------------------------------|------------------------------|
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>                                                                  |                              |
| Cash Received from Users                                                                                            | \$ 809,881                   |
| Cash Payments to Suppliers for Goods and Services                                                                   | (2,968,850)                  |
| <b>Net Cash (Used for) Operating Activities</b>                                                                     | <b><u>\$ (2,158,969)</u></b> |
| <b><u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u></b>                                                      |                              |
| State Sources                                                                                                       | \$ 261,720                   |
| Federal Sources                                                                                                     | 1,589,936                    |
| <b>Net Cash Provided by Non-Capital Financing Activities</b>                                                        | <b><u>\$ 1,851,656</u></b>   |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>                                                                  |                              |
| Earnings on Investments                                                                                             | \$ 190                       |
| <b>Net Cash Provided by Investing Activities</b>                                                                    | <b><u>\$ 190</u></b>         |
| <b>NET INCREASE &lt;DECREASE&gt; IN CASH AND CASH EQUIVALENTS</b>                                                   | <b>\$ (307,123)</b>          |
| CASH AND CASH EQUIVALENTS - JULY 1, 2016                                                                            | <u>408,262</u>               |
| <b>CASH AND CASH EQUIVALENTS - JUNE 30, 2017</b>                                                                    | <b><u>\$ 101,139</u></b>     |
| <b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH<br/>PROVIDED BY (USED FOR) OPERATING ACTIVITIES</u></b> |                              |
| Operating Income (Loss)                                                                                             | <b>\$ (2,190,436)</b>        |
| <b>ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS)<br/>TO NET CASH (USED FOR) OPERATING ACTIVITIES:</b>            |                              |
| Depreciation                                                                                                        | 36,733                       |
| Other Adjustments - Donated Commodities                                                                             | 118,275                      |
| Accrual of GASB 68 Pension Expense                                                                                  | 69,896                       |
| (Increase) Decrease in Accounts Receivable                                                                          | 18,429                       |
| (Increase) Decrease in Advances to Other Funds                                                                      | (1,851,686)                  |
| (Increase) Decrease in Inventories                                                                                  | 3,329                        |
| Increase (Decrease) in Advances from Other Funds                                                                    | 1,555,437                    |
| Increase (Decrease) in Accounts Payable                                                                             | 82,416                       |
| Increase (Decrease) in Unearned Revenue                                                                             | (1,362)                      |
| <b>Total Adjustments</b>                                                                                            | <b><u>\$ 31,467</u></b>      |
| <b>NET CASH (USED FOR) OPERATING ACTIVITIES</b>                                                                     | <b><u>\$ (2,158,969)</u></b> |

**NONCASH NONCAPITAL FINANCING ACTIVITIES:**

During the year, the District received \$118,275 of food commodities from the U.S. Department of Agriculture.

The accompanying notes are an integral part of these financial statements

**PENN HILLS SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2017**

|                                            | <b><u>STUDENT<br/>ACTIVITY FUNDS</u></b> |
|--------------------------------------------|------------------------------------------|
| <b>ASSETS</b>                              |                                          |
| Cash and Cash Equivalents                  | \$ 124,273                               |
| <b>TOTAL ASSETS</b>                        | <b><u>\$ 124,273</u></b>                 |
| <b>LIABILITIES</b>                         |                                          |
| Other Current Liabilities (Student Groups) | \$ 124,273                               |
| <b>TOTAL LIABILITIES</b>                   | <b><u>\$ 124,273</u></b>                 |

The accompanying notes are an integral part of these financial statements

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Penn Hills School District was established under the authority of an act of the state legislature that designated a school board as the governing body. This district serves the Municipality of Penn Hills. The School District operates under a locally-elected nine member Board form of government and provides educational services as mandated by the Commonwealth of Pennsylvania and selected federal agencies. The Board of Education has complete authority over the operations and administration of the school district's activities.

The financial statements of the Penn Hills School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

The most significant of the School District's accounting policies are as follows:

**REPORTING ENTITY**

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the Penn Hills School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. As defined by GASB Statement No. 14, component units are legally separate entities that are included in the School District's reporting entity because of the significance of their operating or financial relationships with the School District. Based on the application of these criteria, the Penn Hills School District has no component units.

The School District is associated with two jointly governed organizations (Note 12) and one public entity risk pool (Note 15). These organizations are:

- Jointly Governed Organizations:
  - Forbes Road Career & Technology Center
  - Allegheny Intermediate Unit
- Public Entity Risk Pool:
  - Allegheny County Schools Health Insurance Consortium

**BASIS OF PRESENTATION**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS** – The statement of net position (Exhibit A) and the statement of activities (Exhibit B) display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. That is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations (Exhibit D and F) with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**BASIS OF PRESENTATION (Continued)**

The government-wide statement of activities (Exhibit B) presents a comparison between direct expenses and program revenues for the District's business-type activities (food service operations) and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants, subsidies and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which the business-type activity or government function is self-financing or draws from the general revenues of the School District.

**FUND FINANCIAL STATEMENTS** – Fund financial statements report detailed information about the School District. Under GASB Statement No. 34, the focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Major funds represent the District's most important funds and are determined based on percentages of assets, liabilities, revenues, and expenditures/expenses. For the Penn Hills School District, the General Fund is always considered a major fund. Each major fund is presented in a separate column. Non-major funds, if any, would be segregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

All 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 these funds are included on the statement of net position. The statement of revenues, expenses, and changes in fund net position presents increases (revenues) and decreases (expenses) in total net position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

**FUND ACCOUNTING**

The School District uses funds to report on its financial position and the results of its operations during the year. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary and fiduciary. Fund categories are defined as follows:

**Governmental Funds** – Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major and non-major governmental funds:

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**FUND ACCOUNTING (Continued)**

**MAJOR GOVERNMENTAL FUNDS:**

**GENERAL FUND** - The general fund is used to account for all financial resources not required to be accounted for in some other fund. The general fund balance is available for any purpose provided it is expended according to the Commonwealth of Pennsylvania Public School Code.

**CAPITAL PROJECT FUND** - The capital project fund accounts for financial resources used for the acquisition of capital assets and capital improvements, as deemed necessary by the Board of Education.

**DEBT SERVICE FUND** - The debt service fund is used to account for financial resources accumulated and payment of principal and interest on the District's long-term debt obligations.

**Proprietary Funds** - used to account for activities similar to those found in the private sector, where the determination of net income is necessary and useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies within the school district (internal service funds). The School District's major and sole enterprise fund is its Food Service Fund that accounts for the financial transactions related to the food service operations of the District.

**Fiduciary Funds** – Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature and do not involve measuring income or any other results from operations. The District's Agency Fund is comprised of the various student organization activity accounts administered by the District on behalf of the various student organizations.

**BASIS OF ACCOUNTING AND MEASUREMENT FOCUS**

The basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Government funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year-end.



**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**BASIS OF ACCOUNTING AND MEASUREMENT FOCUS (Continued)**

Revenue resulting from non-exchange transactions, in which the School District receives value without directly giving equal value in return, includes property taxes, grants and contributions. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants and contributions are recognized in the fiscal year in which all eligibility requirements have been satisfied. On a modified accrual basis, revenue from non-exchange transactions must also be 'available' before it can be recognized.

The management of the Penn Hills School District has determined that the revenues most susceptible to accrual (measurable and available) at June 30, 2017 under the modified accrual basis are **1)** certain Act 511 taxes for the month of June, **2)** federal and state subsidies earned in the fiscal year 2016-2017, and **3)** other miscellaneous revenues earned in fiscal year 2016-2017 but received subsequent to June 30, 2017.

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. The primary expenditures deemed susceptible to accrual at June 30, 2017 are those for which the Board of Education's intention was to expense these items as budgeted for the 2016-2017 official budget, and for which the District has incurred an obligation, but has not paid as of June 30, 2017.

Allocations of cost such as depreciation, are not recognized in governmental funds but are included as part of expenses in the government-wide statement of activities.

**BUDGETS**

In June of 2016, the Penn Hills School District adopted its fiscal year June 30, 2017 annual budget for the General Fund totaling \$82,672,804 in accordance with the provisions of the Pennsylvania School Code. The budget is prepared utilizing the modified accrual method of accounting. Budgetary transfers among various expenditure line items can be performed by the district, as approved by the Board of Education, only during the last nine months of the fiscal year. The original and adjusted budgetary amounts are reflected in these financial statements (Exhibit G). Actual General Fund expenditures exceeded budgeted expenditures for the 2016-2017 fiscal year. All annual appropriations of the general fund lapse at fiscal year-end.

**CASH AND CASH EQUIVALENTS**

For the purpose of these basic financial statements, cash and cash equivalents include amounts in demand deposit accounts, and any other highly liquid, short-term investments, with original maturity terms of less than three months.

**INVESTMENTS**

Under Section 440.1 of the Pennsylvania Public School Code of 1949, as amended, and PA Act 10 of 2016, Penn Hills School District is permitted to invest funds consistent with sound business practices in the following types of investments:

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**INVESTMENTS (Continued)**

- I. Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania, or (c) of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- II. Deposits in savings accounts, time deposits and share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC) to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral, as provided by law, is pledged by the depository.
- III. U.S. government obligations, short-term commercial paper issued by a public corporation, and banker's acceptances.

**SHORT-TERM INTERFUND RECEIVABLES/PAYABLES**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as 'due from/to other funds' on the governmental funds balance sheet. For the purposes of the government-wide statement of net position, governmental interfund receivables and payables have been eliminated. Amounts due between governmental activities and business-type activities, if any, are presented as off-setting internal balances on the statement of net position.

**INVENTORIES**

Inventories on the government-wide statement of net position (Exhibit A) and the proprietary fund statement of net position (Exhibit H) are recorded at fair value on a first-in first-out basis. This inventory consists of donated commodities from the U.S. Department of Agriculture as part of the food service program. The School District does not inventory the cost of such items as books and supplies, but rather records these items as expenditures in the governmental funds and an expense in the government-wide statement of activities at the time of purchase.

**CAPITAL ASSETS AND DEPRECIATION**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets are reported in the governmental activities column of the government-wide statement of net position. Capital assets used by the proprietary fund are reported in both the business-type activity column of the government-wide statement of net position and on the proprietary fund statement of net position.

All capital assets are recorded at cost (or estimated historical cost). Donated fixed assets are recorded at fair value at the time of receipt. The School District maintains a capitalization threshold of \$1,500. The cost of infrastructure is included as part of site improvements in the government-wide statement of net position. Routine repair and maintenance costs that do not add to the value of the asset or extend its useful life are charged as an expense in the government-wide statement of activities.

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**CAPITAL ASSETS AND DEPRECIATION (Continued)**

All reported capital assets, except land and construction in progress, are depreciated using the straight-line method over the following useful lives:

| <b><u>CATEGORY</u></b>       | <b><u>GOVERNMENTAL<br/>ACTIVITIES</u></b> |
|------------------------------|-------------------------------------------|
| Land Improvements            | 15-20 years                               |
| Buildings and Improvements   | 20-50 years                               |
| Furniture and Equipment      | 5-15 years                                |
| Vehicles                     | 5-10 years                                |
| Library Books and Text Books | 5 years                                   |

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets purchased by governmental funds are recorded as expenditures in the fund financial statements (Exhibit E). The results of capitalizing fixed assets net of depreciation on the government-wide statement of net position and statement of activities, as opposed to recording these same assets as an expenditure in the fund financial statements (Exhibit E), is reflected in the required reconciliations of fund balance to net position (Exhibit D) and the changes in fund balances to the changes in net position (Exhibit F).

**LONG-TERM DEBT FINANCING COSTS**

Bond and note issue costs are recorded as expenditures in the governmental fund financial statements in the year paid. The School District did not incur long-term debt financing costs during the 2016-2017 fiscal year.

**COMPENSATED ABSENCES**

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, 'Accounting for Compensated Absences'. Participants of the Penn Hills Education Association are entitled to accumulated unused sick reimbursement at the rate of \$100 per day up to 300 days upon retirement. Secretaries and aides are entitled to accumulated unused sick day reimbursement at the rate of \$60 per day for full time employees and \$30 per day for part time employees up to 250 days upon retirement or death. Confidential Executive Secretaries are reimbursed at the rate of \$100 per day up to 220 days upon retirement or death. Plant employees who are members of AFSCME, Local 1314 are entitled to accumulated unused sick reimbursement at the rate of \$70 per day up to 220 days upon retirement or death. They are also entitled to receive vacation earned in the final year of employment. Food service employees who are members of AFSCME, Local 1314 are entitled to accumulated unused sick reimbursement at the rate of \$60/\$50/\$40 per day up to 180 days upon retirement or death.

Act 93 members are entitled to accumulated unused sick day reimbursement at the rate of \$150 per day up to 300 days. Sick leave benefits are accrued as a liability at the time individuals become eligible for retirement in accordance with the terms of the District's collective bargaining agreements. The entire compensated absences liability of \$2,972,692 is shown as a non-current liability in the government-wide statement of net position. For governmental fund financial statements, compensated absences are recorded as expenditures when paid rather than accrued when earned as the likelihood of payment in the immediate fiscal year with available expendable resources is not assured.

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**PENSIONS**

For the 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. Investment assets are reported at fair value. More information on pension activity is included in Note 11.

**ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. For the business-type activities, these obligations and all similar obligations are reported again on the proprietary fund statement of net position (Exhibit H).

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of compensated absences and retiree health benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, liabilities that mature or come due for payment during the fiscal year are considered to have been paid with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements when due. The District's General Fund is typically used to liquidate long-term liability obligations.

The results of recognizing these long-term obligations as liabilities on the government-wide statement of net position and statement of activities, as opposed to recording these same obligations as an expenditure in the fund financial statements (Exhibit E) only when paid, is reflected in the required reconciliations of fund balance to net position (Exhibit D) and the changes in fund balances to the changes in net position (Exhibit F).

**UNEARNED REVENUE**

Unearned Revenue arises when the District receives resources before it has legal claim to them. This occurs when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the School District has a legal claim to the resources, the unearned revenue liability is removed and revenue is recognized.

**DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES**

In addition to assets and liabilities, the statement of net position and/or the balance sheet will sometimes report a separate section for deferred outflows and/or inflows of resources. These separate financial statement elements represent a decrease and/or increase in net position that applies to a future period and will not be recognized as an outflow and/or inflow of resources (expense/expenditure or income/revenue) in the current period.

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**NET POSITION**

Net position is classified into three categories according to external donor or legal restrictions or availability of assets to satisfy District obligations. Net position is classified as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets net of accumulated depreciation, and reduced by the outstanding balances of debt that is attributable to the acquisition, construction and improvement of the capital assets, plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted Net Position – This component of net position consists of restricted assets reduced by liabilities and deferred inflows related to those assets.
- Unrestricted – Consists of net position that does not meet the definition of ‘restricted’ or ‘net investment in capital assets’. The District has a deficit net position of \$145,270,232 at June 30, 2017.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the School District’s policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

**FUND EQUITY**

In the Balance Sheet – Governmental Funds (Exhibit C), fund balances are reported in specific categories to make the nature and extent of the constraints placed on any entity’s fund balance more transparent in accordance with GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance – amounts that are not in a spendable form (such as prepaid expenses) or are required to be maintained intact. The non-spendable fund balance of \$667,182 represents July of 2017 insurance coverage applicable to 2017-2018 fiscal year paid in June of 2017.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and high levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the School District itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the School District takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the School District intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. The Board of Education has assigned \$7,271 for future capital projects and \$13,136 for future debt service payments.
- Unassigned fund balance – amounts that are available for any purpose. The District had a deficit General Fund balance of \$11,009,543 at June 30, 2017.

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**FUND EQUITY (Continued)**

Act 48 of 2003 prohibits school districts from increasing real property taxes for the school year 2006-2007 or any subsequent school year, unless the school district has adopted a budget for such school year the includes an estimated ending unassigned fund balance which is not more than a specified percentage of the district's total budgeted expenditures. For the Penn Hills School District, estimated ending unassigned fund balance must not exceed 8% of total budgeted expenditures.

The School District establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. The Board of Education has authority to assign fund balance.

When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the District's general policy to spend the committed resources first, followed by assigned amounts and then unassigned amounts.

**ESTIMATES**

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

**OPERATING REVENUES AND EXPENSES**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Penn Hills School District, these revenues are food service charges for lunch and breakfast service. Operating expenses are the necessary costs incurred to provide the aforementioned food service. Non-operating revenues of the District's food service proprietary fund are **1)** investment earnings and **2)** state and federal subsidies, including donated commodities, received from the U.S. Department of Agriculture. The District did not have non-operating expenses during the fiscal year.

**ADOPTION OF GASB PRONOUNCEMENTS**

The requirements of the following GASB Statements were adopted for the School District's 2016-2017 financial statements where applicable. Except where noted, the adoption of these pronouncements did not have a significant impact on the School District's financial statements.

GASB issued Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*". The primary objective of this Statement is to address reporting by OPEB plans that administer benefits on behalf of governments. This Statement replaces Statement No. 43. Currently, the School District does not offer any postemployment benefits that require reporting under GASB 74.

GASB issued Statement No. 77, "*Tax Abatement Disclosures*". The primary objective of this Statement is to require state and local governments for the first time to disclose information about tax abatement agreements, and is designed to provide financial statement users with essential information about these agreements and the impact that they have on a government's finances.

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**ADOPTION OF GASB PRONOUNCEMENTS (Continued)**

GASB issued Statement No. 78, *“Pensions Provided through Certain Multiple- Employer Defined Benefit Pension Plans”*. The primary objective is to address a practice issue regarding the scope and applicability of Statement No. 68, “Accounting and Financial Reporting for Pensions.” The issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local government employers whose employees are provided with such pensions.

GASB issued Statement No. 79, *“Certain External Investment Pools and Pool Participants”*. The primary objective of this Statement is to address accounting and reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for the election to measure all of its investments at amortized costs for financial reporting purposes. This pronouncement required additional disclosures related to investments, which have been incorporated into Note 2.

GASB issued Statement No. 80, *“Blending Requirements for Certain Component Units- an amendment of GASB Statement No. 14”*. The primary objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units.

GASB issued Statement No. 82, *‘Pension Issues- an amendment of GASB Statements No. 67, No. 68, and No. 73’*. The primary objective of this Statement is to address certain issues that have been raised with respect to GASB Statements No. 67, “Financial Reporting for Pension Plans,” No. 68, “Accounting and Financial Reporting for Pensions,” and No. 73, “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.”

**PENDING GASB PRONOUNCEMENTS**

In June of 2015, the GASB issued Statement No. 75, *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”*. The primary objective of this Statement is to address reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This Statement replaces the requirements of Statement No. 45. The provisions of this Statement are effective for the School District’s June 30, 2018 financial statements.

In March of 2016, the GASB issued Statement No. 81, *“Irrevocable Split-Interest Agreement”*. The primary objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of this Statement are effective for the School District’s June 30, 2018 financial statements.

In November of 2016, the GASB issued Statement No. 83, *‘Certain Asset Retirement Obligations’*. The primary objective of this Statement is to provide financial statement users with information about ‘asset retirement obligations (ARO) that were not addressed in GASB Standards by establishing uniform accounting and financial reporting requirements for these obligations. The provisions of this Statement are effective for the School District’s June 30, 2019 financial statements.

In January of 2017, the GASB issued Statement No. 84, *‘Fiduciary Activities’*. The primary objective of this Statement is to enhance the consistency and comparability of fiduciary activity reporting by state and local governments. This Statement also is intended to improve the usefulness of fiduciary activity information primarily for assessing the accountability of governments in their roles as fiduciaries. The provisions of this Statement are effective for the School District’s June 30, 2020 financial statements.

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**PENDING GASB PRONOUNCEMENTS (Continued)**

In March of 2017, the GASB issued Statement No. 85, '*Omnibus 2017*'. The primary objective of this Statement is to improve consistency in accounting and financial reporting by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The provisions of this Statement are effective for the School District's June 30, 2018 financial statements.

In May of 2017, the GASB issued Statement No. 86, '*Certain Debt Extinguishment Issues*'. The primary objective of this Statement is to improve consistency in accounting and financial reporting for certain debt extinguishments and to enhance the decision-usefulness of that information. The provisions of this Statement are effective for the School District's June 30, 2018 financial statements.

In June of 2017, the GASB issued Statement No. 87, '*Leases*'. The primary objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability (representational faithfulness), and consistency of information about the leasing activities of governments. The provisions of this Statement are effective for the School District's June 30, 2021 financial statements.

The effects of implementing the aforementioned GASB Statements on the School District's financial statements have not yet been determined.

**NOTE 2 - CASH DEPOSITS**

The following represents the bank balance and carrying value for the Penn Hills School District's cash and cash equivalents at June 30, 2017:

|                      | <b><u>Bank<br/>Balance</u></b> | <b><u>Carrying<br/>Value</u></b> |
|----------------------|--------------------------------|----------------------------------|
| General Fund         | \$ 173,784                     | \$ 62,917                        |
| Capital Project Fund | 42,101                         | 42,101                           |
| Debt Service Fund    | 13,136                         | 13,136                           |
| Enterprise Fund      | 101,296                        | 101,139                          |
| Agency Fund          | 127,438                        | 124,273                          |
| <b>Totals</b>        | <b><u>\$ 457,755</u></b>       | <b><u>\$ 343,566</u></b>         |

The difference between the bank balance and carrying value represents year-end reconciling items such as deposits in transit and outstanding checks, and petty cash. The Federal Deposit Insurance Corporation (FDIC) coverage threshold for government accounts is \$250,000 per official custodian. This coverage includes checking and savings accounts, money market deposits accounts, and certificates of deposit.

**Custodial Credit Risk:**

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to invest funds consistent with sound business practices evaluating each investment opportunity in terms of risk, yield, liquidity, and legal restrictions as allowable by law or regulations.



**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 2 - CASH DEPOSITS (Continued)**

**Custodial Credit Risk: (Continued)**

As of June 30, 2017, \$194,222 of the District's bank balance total is exposed to custodial credit risk as this amount represents uninsured deposits collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the District's name. In accordance with Act Number 72-1971 Session of the Commonwealth of Pennsylvania, the aforementioned deposits, in excess of \$250,000, are collateralized by securities pledged to a pooled public funds account with the Federal Reserve System.

**NOTE 3 - PROPERTY TAXES**

The Penn Hills School District levies property taxes July 1st of each fiscal year. The tax millage assessment for the 2016-2017 fiscal year was 27.557 mills, which represents \$27.557 of revenue for every \$1,000 of assessed property value. Taxpayers are entitled to a 2% discount if taxes are paid prior to August 31st. Collections beginning November 1st are assessed a 10% penalty. Unpaid taxes are submitted to the Municipal Revenue Service for collection. Tax collectors are required under Act 169 of the Commonwealth of Pennsylvania to submit a reconciliation of their tax duplicate to the District by January 15<sup>th</sup> of the year following levy.

The final tax collector reconciliations reflected \$3,337,677 in unpaid 2016 property taxes, which represents 9.4% of the total assessed property taxes (\$35,654,380) for the current fiscal year (See Note 15 – Sale of Tax Claims).

**NOTE 4 – TAXES RECEIVABLE**

Taxes receivable are comprised of the following at June 30, 2017:

|                     |                  |
|---------------------|------------------|
| Earned Income Taxes | \$ 64,665        |
| Deed Transfer Taxes | 31,819           |
| Local Service Taxes | 99               |
|                     | <u>\$ 96,583</u> |

**NOTE 5 – DUE FROM OTHER GOVERNMENTS**

The amount of 'due from other governments', as reflected on the government-wide statement of net position (Exhibit A), the governmental funds balance sheet (Exhibit C), and the proprietary fund statement of net position (Exhibit H), is comprised of the following:

|                               | <b><u>GOVERNMENTAL<br/>ACTIVITIES</u></b> | <b><u>BUSINESS-TYPE<br/>ACTIVITIES</u></b> |
|-------------------------------|-------------------------------------------|--------------------------------------------|
| JROTC                         | \$ 705                                    | \$ -                                       |
| Allegheny Intermediate Unit   | 872,618                                   | -                                          |
| Academy Charter School        | 37,835                                    | -                                          |
| Commonwealth of Pennsylvania: |                                           |                                            |
| State Subsidies               | 2,396,922                                 | 9,129                                      |
| Federal Pass-Through Grants   | 282,097                                   | 198,782                                    |
|                               | <u>\$ 3,590,177</u>                       | <u>\$ 207,911</u>                          |

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 6 – OTHER RECEIVABLES**

The amount of 'other receivables', as reflected on the government-wide statement of net position (Exhibit A), and the governmental funds balance sheet (Exhibit C) totaling \$184,768 represents miscellaneous billings to third-party vendors for services rendered by the District on or prior to June 30, 2017.

**NOTE 7 – INTER-FUND RECEIVABLES/PAYABLES/TRANSFERS**

Inter-fund receivables and payables as reflected on the governmental funds balance sheet (Exhibit C) and the proprietary fund statement of net position (Exhibit H) are as follows:

|                      | <b><u>RECEIVABLE</u></b> | <b><u>PAYABLE</u></b>    |
|----------------------|--------------------------|--------------------------|
| General Fund         | \$ 3,120                 | \$ 143,452               |
| Capital Project Fund | -                        | 3,120                    |
| Food Service Fund    | 143,452                  | -                        |
|                      | <b><u>\$ 146,572</u></b> | <b><u>\$ 146,572</u></b> |

The amount due from the General Fund to the Cafeteria Fund is for general operating costs. All interfund payables are expected to be paid during the 2017-2018 fiscal year.

**NOTE 8 – UNEARNED REVENUES**

Unearned revenue totaling \$541,760, as reflected on the statement of net position (Exhibit A), is comprised of \$511,474 related to the District's General Fund and \$30,286 related to the District's Proprietary Fund (food services) as follows:

|                               | <b><u>GOVERNMENTAL<br/>ACTIVITIES</u></b> | <b><u>BUSINESS-TYPE<br/>ACTIVITIES</u></b> |
|-------------------------------|-------------------------------------------|--------------------------------------------|
| Title I Grant                 | \$ 477,353                                | \$ -                                       |
| Title II Grant                | 34,121                                    | -                                          |
| Donated Commodities           | -                                         | 14,838                                     |
| Student Advance Meal Payments | -                                         | 15,448                                     |
|                               | <b><u>\$ 511,474</u></b>                  | <b><u>\$ 30,286</u></b>                    |

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 9 - CAPITAL ASSETS**

A summary of the governmental fixed asset activity for the 2016-2017 fiscal year was as follows:

|                                       | <b><u>Balance</u></b><br><b><u>7/1/2016</u></b> | <b><u>Additions</u></b>      | <b><u>Deductions</u></b> | <b><u>Balance</u></b><br><b><u>6/30/2017</u></b> |
|---------------------------------------|-------------------------------------------------|------------------------------|--------------------------|--------------------------------------------------|
| <b>Governmental Activities</b>        |                                                 |                              |                          |                                                  |
| Land                                  | \$ 1,135,703                                    | \$ -                         | \$ -                     | \$ 1,135,703                                     |
| Land Improvements                     | 10,954,346                                      | -                            | -                        | 10,954,346                                       |
| Buildings and Improvements            | 96,324,903                                      | -                            | 53,702,310               | 150,027,213                                      |
| Furniture and Fixtures                | 7,475,589                                       | 105,553                      | -                        | 7,581,142                                        |
| Vehicles                              | 538,700                                         | -                            | -                        | 538,700                                          |
| Library Books and Textbooks           | 1,363,718                                       | -                            | -                        | 1,363,718                                        |
| Construction in Progress              | 53,702,310                                      | -                            | (53,702,310)             | -                                                |
|                                       | <u>\$ 171,495,269</u>                           | <u>\$ 105,553</u>            | <u>\$ -</u>              | <u>\$ 171,600,822</u>                            |
| <b>Less: Accumulated depreciation</b> |                                                 |                              |                          |                                                  |
| Land Improvements                     | \$ (4,302,660)                                  | \$ (494,841)                 | \$ -                     | \$ (4,797,501)                                   |
| Buildings and Improvements            | (21,222,911)                                    | (2,212,087)                  | -                        | (23,434,998)                                     |
| Furniture and Fixtures                | (5,574,763)                                     | (732,532)                    | -                        | (6,307,295)                                      |
| Vehicles                              | (510,808)                                       | (27,892)                     | -                        | (538,700)                                        |
| Library Books and Textbooks           | (1,363,718)                                     | -                            | -                        | (1,363,718)                                      |
|                                       | <u>\$ (32,974,860)</u>                          | <u>\$ (3,467,352)</u>        | <u>\$ -</u>              | <u>\$ (36,442,212)</u>                           |
| <b>Governmental Activities</b>        |                                                 |                              |                          |                                                  |
| <b>Capital Assets, Net</b>            | <u><b>\$ 138,520,409</b></u>                    | <u><b>\$ (3,361,799)</b></u> | <u><b>\$ -</b></u>       | <u><b>\$ 135,158,610</b></u>                     |
| <b>Business-Type Activities</b>       |                                                 |                              |                          |                                                  |
| Furniture and Equipment               | \$ 1,541,307                                    | \$ -                         | \$ -                     | \$ 1,541,307                                     |
| Less: Accumulated Depreciation        | (1,427,628)                                     | (36,733)                     | -                        | (1,464,361)                                      |
| <b>Business-Type Activities</b>       |                                                 |                              |                          |                                                  |
| <b>Capital Assets, Net</b>            | <u><b>\$ 113,679</b></u>                        | <u><b>\$ (36,733)</b></u>    | <u><b>\$ -</b></u>       | <u><b>\$ 76,946</b></u>                          |

Depreciation expense was charged to governmental functions as follows:

|                                               |                            |
|-----------------------------------------------|----------------------------|
| Instruction                                   | \$ 2,385,323               |
| Instructional Student Support                 | 390,656                    |
| Administrative and Financial Support Services | 256,932                    |
| Operation and Maintenance of Plant Services   | 364,927                    |
| Transportation                                | 3,921                      |
| Student Activities                            | 64,707                     |
| Community Services                            | 886                        |
|                                               | <u><u>\$ 3,467,352</u></u> |

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 10 - LONG-TERM LIABILITIES**

**GENERAL OBLIGATION BONDS – SERIES B OF 2009**

On October 1, 2009, the Penn Hills School District issued General Obligation Bonds, Series B of 2009 in the amount of \$104,760,000 for the purpose of **1)** providing funds for various capital projects throughout the School District, and **2)** paying the costs of issuing the Bonds. The bonds were issued in denominations of \$5,000 with interest payable on October 1 and April 1 each year through maturity. Interest rates range between 6.1% and 6.2% with the bonds maturing on October 1, 2039. The bonds provide for early redemption options for the School District as more fully described in the detailed Official Statement.

**GENERAL OBLIGATION NOTES - SERIES B OF 2012**

On September 5, 2012, the Penn Hills School District issued General Obligation Notes, Series B of 2012 in the amount of \$1,030,000 for the purpose of **1)** advance refunding a portion of the School District's outstanding General Obligation Bonds, Series C of 2009, and **2)** paying the costs of issuing the Notes. The notes were issued in denominations of \$5,000 with interest payable on October 1 and April 1 each year through maturity. Interest rates range between 4.2% and 4.75 with the notes maturing on October 1, 2030. The notes provide for early redemption options for the School District as more fully described in the detailed Official Statement.

**GENERAL OBLIGATION BONDS - SERIES C OF 2012**

On September 5, 2012, the Penn Hills School District issued General Obligation Bonds, Series C of 2012 in the amount of \$22,355,000 for the purpose of **1)** providing funds for the completion of the construction and equipping of the new elementary center, new high school, and new athletic facilities, **2)** funding capitalized interest on the debt related to the new elementary center, and **3)** paying the costs of issuing the Bonds. The bonds were issued in denominations of \$5,000 with interest payable on October 1 and April 1 each year through maturity. The interest rate is 4.0% with the bonds maturing on October 1, 2042. The bonds provide for early redemption options for the School District as more fully described in the detailed Official Statement.

**GENERAL OBLIGATION NOTES - SERIES OF 2013**

On September 18, 2013, the Penn Hills School District issued General Obligation Notes, Series of 2013 in the amount of \$2,570,000 for the purpose of **1)** currently refunding a portion of the School District's outstanding General Obligation Bonds, Series A of 2009, **2)** currently refunding all of the School District's outstanding General Obligation Bonds, Series C of 2009, and **3)** paying the costs of issuing the Notes. The notes were issued in denominations of \$5,000 with interest payable on October 1 and April 1 each year through maturity. Interest rates range between 2.0% and 4.0% with the notes maturing on October 1, 2028. The notes provide for early redemption options for the School District as more fully described in the detailed Official Statement.

**GENERAL OBLIGATION BONDS - SERIES OF 2014**

On April 14, 2014, the Penn Hills School District issued General Obligation Bonds, Series of 2014 in the amount of \$23,690,000 for the purpose of **1)** advance refunding all of the School District's outstanding General Obligation Bonds Series A of 2009, and, **2)** paying the costs of issuing the Bonds. The bonds were issued in denominations of \$5,000 with interest payable on October 1 and April 1 each year through maturity. Interest rates range between 3.0% and 4.0% with the bonds maturing on October 1, 2022. The bonds are not subject to optional or mandatory sinking fund redemption.

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 10 - LONG-TERM LIABILITIES (Continued)**

**GENERAL OBLIGATION BONDS – SERIES OF 2015**

On September 10, 2015, the Penn Hills School District issued General Obligation Bonds, Series 2015 in the amount of \$18,000,000 for the purpose of **1)** paying the current General Fund expenses of the School District as permitted by the Final Order of the Court dated August 17, 2015, pursuant to Sections 8129 and 8130 of the Act, the same constituting an incurrence of unfunded debt under the aforementioned provisions of the Act: and **2)** costs and expenses incurred by the School District in connection with the issuance and sale of the 2015 Bonds. The bonds were issued in denominations of \$5,000 with interest payable on November 15 and May 15 each year through maturity. Interest rates range between 3.0% and 5.0% with the bonds maturing November 15, 2024. The bonds are not subject to optional redemption prior to their stated dates of maturity.

**GENERAL OBLIGATION NOTES – SERIES A OF 2015**

On September 10, 2015, the Penn Hills School District issued General Obligation Notes, Series A of 2015 in the amount of \$1,965,000 for the purpose of **1)** partially refunding the School District's General Obligation Bonds, Series of 2014 and **2)** to pay all costs and expenses incurred by the School District in connection with the issuance and sale of the Notes. The notes were issued in denominations of \$5,000 with interest payable on November 15 and May 15 each year through maturity. Interest rates range between 2.25% and 4.0% with the notes maturing November 15, 2028. The notes provide for early redemption options for the School District as more fully described in the detailed Official Statement

A summary of the Penn Hills School District's general obligation bonds and notes outstanding at June 30, 2017 is as follows:

| <b>Year End<br/>June 30,</b> | <b>2009B<br/>Principal</b>   | <b>2012B<br/>Principal</b> | <b>2012C<br/>Principal</b>  | <b>2013<br/>Principal</b>  | <b>2014<br/>Principal</b>   |
|------------------------------|------------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|
| 2018                         | \$ -                         | \$ 45,000                  | \$ -                        | \$ 165,000                 | \$ 3,425,000                |
| 2019                         | -                            | 50,000                     | -                           | 170,000                    | 3,530,000                   |
| 2020                         | -                            | 50,000                     | -                           | 170,000                    | 3,655,000                   |
| 2021                         | -                            | 55,000                     | -                           | 175,000                    | 3,805,000                   |
| 2022                         | -                            | 55,000                     | -                           | 180,000                    | 3,960,000                   |
| 2023-2027                    | 17,045,000                   | 325,000                    | -                           | 1,005,000                  | 475,000                     |
| 2028-2032                    | 26,195,000                   | 320,000                    | 95,000                      | 230,000                    | -                           |
| 2033-2037                    | 32,005,000                   | -                          | 555,000                     | -                          | -                           |
| 2038-2042                    | 29,515,000                   | -                          | 17,535,000                  | -                          | -                           |
| 2043                         | -                            | -                          | 4,170,000                   | -                          | -                           |
|                              | <b><u>\$ 104,760,000</u></b> | <b><u>\$ 900,000</u></b>   | <b><u>\$ 22,355,000</u></b> | <b><u>\$ 2,095,000</u></b> | <b><u>\$ 18,850,000</u></b> |

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 10 - LONG-TERM LIABILITIES (Continued)**

| <b>Year End<br/>June 30,</b> | <b>2015<br/>Principal</b>   | <b>2015<br/>Principal</b>  | <b>Total<br/>Interest</b>    | <b>BAB<br/>Subsidy</b>        | <b>Total</b>                 |
|------------------------------|-----------------------------|----------------------------|------------------------------|-------------------------------|------------------------------|
| 2018                         | \$ 5,000                    | \$ 5,000                   | \$ 9,071,313                 | \$ (2,260,141)                | \$ 10,456,172                |
| 2019                         | 2,200,000                   | 5,000                      | 8,906,455                    | (2,260,141)                   | 12,601,314                   |
| 2020                         | 2,315,000                   | 5,000                      | 8,661,387                    | (2,260,141)                   | 12,596,246                   |
| 2021                         | 2,435,000                   | 5,000                      | 8,386,591                    | (2,260,141)                   | 12,601,450                   |
| 2022                         | 2,555,000                   | 5,000                      | 8,099,013                    | (2,260,141)                   | 12,593,872                   |
| 2023-2027                    | 8,485,000                   | 785,000                    | 34,875,724                   | (10,191,304)                  | 52,804,420                   |
| 2028-2032                    | .                           | 1,150,000                  | 26,137,895                   | (7,552,762)                   | 46,575,133                   |
| 2033-2037                    | -                           | -                          | 15,774,476                   | (4,285,750)                   | 44,048,726                   |
| 2038-2042                    | -                           | -                          | 5,586,225                    | (714,744)                     | 51,921,481                   |
| 2043                         | -                           | -                          | 83,400                       | -                             | 4,253,400                    |
|                              | <b><u>\$ 17,995,000</u></b> | <b><u>\$ 1,960,000</u></b> | <b><u>\$ 125,582,479</u></b> | <b><u>\$ (34,045,265)</u></b> | <b><u>\$ 260,452,214</u></b> |

The District has defeased various bond issues by entering into irrevocable trust agreements with The Bank of New York Mellon to purchase U.S. Government Securities in amounts sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the total amount of defeased debt outstanding is removed as a liability from the District's statement of net position as of June 30, 2017.

The difference between the District's defeased debt and the reacquisition prices (amounts deposited with escrow agent for refunding purposes) totaling \$600,692, is considered 'deferred interest' and is being amortized over the life of the new bond issues. The remaining amount of deferred interest on refunding totaling \$348,670 is reflected as a component of 'deferred outflows of resources' in the governmental activities column on the government-wide statement of net position. Total amortization for the 2016-2017 fiscal year was \$71,052 and was charged to the 'interest on long-term debt' expense category in the statement of activities.

In connection with the School District's various general obligation bond issues, the District paid bond discount costs which are being amortized on a straight-line basis over the life of the various bond issues. The unamortized amount of bond discount totaling \$1,183,258 is reflected as a component of 'Bonds Payable – Long-Term Portion (Net)' in the governmental activities column on the government-wide statement of net position. Amortization expense for the year ended June 30, 2017 was \$274,982. This amount was charged to the 'Interest on Long-Term Debt' expense category in the statement of activities.

The School District's various general obligation bond issues were issued at premiums which are being accreted as a component of interest expense on a straight-line basis over the life of the bond issues. The un-accreted amount of bond premiums totaling \$2,994,270 is reflected as a component of 'Bonds Payable – Long-Term Portion (Net)', in the governmental activities column on the government-wide statement of net position. Premium accretion for the year ended June 30, 2017 was \$395,457. This amount was credited to the 'Interest on Long-Term Debt' expense category in the statement of activities.

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 10 - LONG-TERM LIABILITIES (Continued)**

The following represents the changes in the District's long-term liabilities during the 2016-2017 fiscal year:

|                           | <b>Balance<br/>7/1/2016</b>  | <b>Additions</b>            | <b>Reductions</b>          | <b>Balance<br/>6/30/2017</b> | <b>Due Within<br/>One Year</b> |
|---------------------------|------------------------------|-----------------------------|----------------------------|------------------------------|--------------------------------|
| General Obligation Bonds  | \$ 167,290,000               | \$ -                        | \$ 3,330,000               | \$ 163,960,000               | \$ 3,430,000                   |
| General Obligation Notes  | 5,165,000                    | -                           | 210,000                    | 4,955,000                    | 215,000                        |
| Lease Purchase Obligation | 13,698                       | -                           | 13,698                     | -                            | -                              |
| Net Pension Liability     | 98,932,000                   | 12,125,000                  | -                          | 111,057,000                  | -                              |
| Compensated Absences      | 1,078,456                    | 1,894,236                   | -                          | 2,972,692                    | -                              |
| Net OPEB Obligation       | 339,923                      | -                           | -                          | 339,923                      | -                              |
|                           | <b><u>\$ 272,819,077</u></b> | <b><u>\$ 14,019,236</u></b> | <b><u>\$ 3,553,698</u></b> | <b><u>\$ 283,284,615</u></b> | <b><u>\$ 3,645,000</u></b>     |

**NOTE 11 - PENSION PLAN**

**PSERS**

The Penn Hills School District participates in the Public School Employees' Retirement System (PSERS). PSERS is a component unit of the Commonwealth of Pennsylvania. A brief description of the plan, and summary of the plan's provisions, are as follows:

**Plan Description**

PSERS is a governmental cost-sharing multiple-employer defined-benefit 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](http://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 a 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 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than ninety-two with a minimum of thirty-five 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.

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 11 – PENSION PLAN (Continued)**

**Benefits Provided (Continued)**

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.

**Contribution Rates**

**Member Contributions** - Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class TC) or at 6.5% (Membership Class TD) 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 6.25% (Membership Class TC) or at 7.5% (Membership Class TD) of the members qualifying compensation. Members who joined the System after June 30, 2001 and before June 1, 2011, contribute at 7.5% (automatic Membership Class TD). 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 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a 'shared risk' provision in Act 120 of 2010 that in future years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.30%.

**Employer Contributions** – The School District's contractually required contribution rate for fiscal year ended June 30, 2017 was 29.20% 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 employer were \$8,337,516 for the year ended June 30, 2017.

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

At June 30, 2017, the School District reported a liability of \$111,057,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2015 to June 30, 2016.



**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 11 – PENSION PLAN (Continued)**

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

The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the School District's proportion was .2241%, which was a decrease of .0043% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the School District recognized pension expense of \$10,620,920. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|                                                                 | <b><u>Deferred Outflows<br/>of Resources</u></b> | <b><u>Deferred Inflows<br/>of Resources</u></b> |
|-----------------------------------------------------------------|--------------------------------------------------|-------------------------------------------------|
| Difference between expected and actual experience               | \$ -                                             | \$ 925,000                                      |
| Changes in assumptions                                          | 4,009,000                                        | -                                               |
| Net difference between projected and actual investment earnings | 6,190,000                                        | -                                               |
| Changes in proportions                                          | 393,000                                          | 3,917,000                                       |
| Contributions subsequent to the measurement date                | 8,107,075                                        | -                                               |
|                                                                 | <b><u>\$ 18,699,075</u></b>                      | <b><u>\$ 4,842,000</u></b>                      |

The \$8,107,075 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows/outflows of resources related to pensions will be recognized in pension expense as follows:

| <b><u>Measurement<br/>Date<br/>Year ended<br/>June 30,</u></b> | <b><u>Reporting<br/>Date<br/>Year ended<br/>June 30,</u></b> | <b><u>Amount</u></b> |
|----------------------------------------------------------------|--------------------------------------------------------------|----------------------|
| 2017                                                           | 2018                                                         | \$ 788,000           |
| 2018                                                           | 2019                                                         | 788,000              |
| 2019                                                           | 2020                                                         | 2,218,000            |
| 2020                                                           | 2021                                                         | 1,956,000            |

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 11 - PENSION PLAN (Continued)**

**Changes in Actuarial Assumptions**

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

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

- The Investment Rate of Return was adjusted from 7.50% to 7.25%
- The inflation assumption was decreased from 3.0% to 2.75%
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases
- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three (3) years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MD-2015 Mortality Improvement Scale. The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the Board at its June 10, 2016 Board meeting, and were effective beginning with the June 30, 2016 actuarial valuation.

**Investment Asset Allocation**

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 weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 11 - PENSION PLAN (Continued)**

**Investment Asset Allocation (Continued)**

| <u>Asset Class</u>      | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-------------------------|--------------------------|-----------------------------------------------|
| Global public equity    | 22.5%                    | 5.30%                                         |
| Fixed Income            | 28.5%                    | 2.10%                                         |
| Commodities             | 8.0%                     | 2.50%                                         |
| Absolute return         | 10.0%                    | 3.30%                                         |
| Risk parity             | 10.0%                    | 3.90%                                         |
| Infrastructure/MLP's    | 5.0%                     | 4.80%                                         |
| Real estate             | 12.0%                    | 4.00%                                         |
| Alternative investments | 15.0%                    | 6.60%                                         |
| Cash                    | 3.0%                     | 0.20%                                         |
| Financing (LIBOR)       | -14.0%                   | 0.50%                                         |
|                         | <u>100%</u>              |                                               |

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016.

**Discount Rate**

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

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

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

|                                                                    | <u>1% Decrease<br/>6.25%</u> | <u>Current Discount Rate<br/>7.25%</u> | <u>1% Increase<br/>8.25%</u> |
|--------------------------------------------------------------------|------------------------------|----------------------------------------|------------------------------|
| School District's proportionate share of the net pension liability | <u>\$ 135,852,000</u>        | <u>\$ 111,057,000</u>                  | <u>\$ 90,221,000</u>         |

**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.pa.gov](http://www.psers.pa.gov).

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 12 – JOINTLY GOVERNED ORGANIZATIONS**

**FORBES ROAD CAREER & TECHNOLOGY CENTER**

The Penn Hills School District, in conjunction with nine other School Districts, funds the operating and capital budget of the Forbes Road Career & Technology Center. The Technology Center is designed to teach students trade related professions. Each district's share of tuition is based on the percentage of the district's enrollment to the total enrollment at the Forbes Road Career & Technology Center. A representative from each district's school board sits on the board of the Technology Center. The Penn Hills School District paid \$1,071,537 in operating subsidy during the 2016-2017 fiscal year. The Forbes Road Career & Technology Center issues separate financial statements annually which can be obtained by contacting the Technology Center directly.

**ALLEGHENY INTERMEDIATE UNIT**

The Penn Hills School District participates with 42 other School Districts and 5 Vocational-Technical schools located in Allegheny County in the Allegheny Intermediate Unit #3 (AIU3). The AIU3 was established in 1971 by Act 102 of the Commonwealth of Pennsylvania to function as a regional educational service agency for 42 school districts, as well as nonpublic schools and other institutions, located within Allegheny County. The AIU3 provides services relative to curriculum development, continuing education, educational planning, instructional materials, pupil personnel, state and federal agency liaison and managerial oversight. The Allegheny Intermediate Unit is governed by a thirteen (13) member board appointed by the 42 participating school districts on a rotating basis. The School District contributed \$60,911 to AIU3 for operating expenses, transportation recovery, and institutionalized children, through state subsidy withholdings, for the year-ended June 30, 2017. The Allegheny Intermediate Unit issues separate financial statements annually which can be obtained by contacting the AIU directly.

**NOTE 13 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION**

**PLAN DESCRIPTION**

The District administers a single-employer defined benefit healthcare plan (the Retiree Health Plan). The plan provides healthcare, prescription drug, dental, vision, and/or life for the life of the member, until the member is eligible for Medicare, or up to four or ten years or until age 65, whichever comes first, for eligible retirees, their spouses and/or their dependents through the District's health insurance plan. A Medicare supplement is also provided to grandfathered employees until death. The member is covered until death for life insurance. The Retiree Health Plan covers both active and retired members. Benefit provisions are established through negotiation with the District and the union representing the District's employees. The Retiree Health Plan does not issue a publicly available financial report.

**FUNDING POLICY**

The contribution requirements of plan members and the School District are negotiated between the District and the union representatives as part of the collective bargaining agreements. The plan is funded on a pay-as-you-go basis, i.e. premiums are paid monthly to fund the health care benefits provided to current retirees. A description of the coverages provided to retirees is as follows:

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 13 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

**FUNDING POLICY (Continued)**

- **Teachers who retired prior to June 30, 1996** – District pays full premium for life insurance of \$5,000 for member only. The District also paid for the full premium for medical and prescription drug and a portion of dental and vision coverage for up to 10 years or until the member reached age 65. Members were responsible for premium costs increases in excess of a yearly maximum. If the 10 year period expires before the member reaches age 65, the member could continue coverage for an additional 5 years by paying the full premium. Once the member reaches Medicare age, the District pays the full premium for the Medicare supplement plan if elected.
- **Administrators who retired prior to July 12, 2001 and teachers who retired on or after October 14, 1996 and before June 30, 2001** – District pays full premium for life insurance of \$5,000 for member only. The District also paid for the full premium for medical and prescription drug and a portion of dental and vision coverage for up to 10 years or until the member reached age 65. Members were responsible for premium costs increases in excess of a yearly maximum. If the 10 year period expires before the member reaches age 65, the member could continue coverage for an additional 5 years by paying the full premium. For grandfathered administrative retirees prior to July 12, 2001, the District pays the full premium for the Medicare supplement plan until the member's death if elected.
- **Administrators who retired on or after July 12, 2001 and on or before June 30, 2007, and teachers who retired on or after July 12, 2001 and on or before June 30, 2007** – District pays full premium for life insurance of \$5,000 for member only. The District also paid for the full premium for medical and prescription drug and a portion of dental and vision coverage for up to 10 years or until the member reached age 65. The member's spouse is covered until the later of 10 years past retirement or member age 65. Members were responsible for premium costs increases in excess of a yearly maximum. If the 10 year period expires before the member reaches age 65, the member and spouse could continue coverage for an additional 5 years by paying the full premium. If the member or spouse reach age 65 before the 10 year period, they switch to a Medicare supplement plan with costs in excess of a predetermined cap to be covered by the member.
- **Administrators who retired on or after July 1, 2008 and on or before June 30, 2009, and either superannuation whereas the member is age 60 with 30 years of service, age 62 with 1 year of service, or 35 years of service of Act 110/43 is met** – District pays full premium for life insurance of \$10,000 for member only. The District pays the premium at the time of retirement for medical, prescription drug, dental, and vision for 1 year for every 4 years of PSERS service for the member and spouse. The District pays premium increases of up to 5% per year. After the District subsidy ends, if the member is under age 65, then the member may continue coverage by paying the full premium.
- **Administrators who retired on or after July 1, 2009 if the requirements of Act 110/43 are met** – District pays full premium for life insurance of \$10,000 for member only. The member may obtain medical, prescription drug, dental, and vision coverage by paying the full premium.
- **Teachers who retired on or after July 1, 2007 if the requirements of Act 110/43 are met** – District pays full premium for life insurance of \$5,000 for member only. The member and spouse may obtain medical, prescription drug, dental, and vision coverage by paying the full premium.

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 13 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

**FUNDING POLICY (Continued)**

- **Food service staff if the requirements of Act 110/43 are met** – District pays full premium for life insurance of \$3,000 for member only. The member and spouse may obtain medical, prescription drug, dental, and vision coverage by paying the full premium.
- **Plant employees if the requirements of Act 110/43 are met** – District pays full premium for life insurance of \$3,000 for member only. The member and spouse may obtain medical, prescription drug, dental, and vision coverage by paying the full premium. Additional life insurance costs and provisions are included in the plan. If the member is age 62 or older, the District pays the premium for tier of coverage held at the time of retirement for medical and prescription drugs until age 65. For grandfathered retirees, the District pays the full premium for a Medicare supplement plan until the member's death, if elected.
- **Secretarial staff and aides, if either attained the age of 61 with 10 years of service and are eligible for PSERS retirement, or Act 110/43 are met** – District pays full premium for life insurance of \$5,000 for member only. The member and spouse may obtain medical, prescription drug, dental, and vision coverage by paying the full premium. Additional life insurance costs and provisions are included in the plan. If the member is age 61 or older, the District pays the premium for tier of coverage held at the time of retirement for medical and prescription drugs until age 65. For grandfathered retirees, the District also pays the full premium for a Medicare supplement plan until the member's death, if elected.

During the 2016-2017 fiscal year, the Penn Hills School District paid \$2,042,426 for retiree health insurance coverage for 140 participants.

**ANNUAL OPEB COST AND NET OPEB OBLIGATION**

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following show the components of the Penn Hills School District's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the Penn Hills School District's net OPEB obligation:

|                                            |                          |
|--------------------------------------------|--------------------------|
| Annual required contribution               | \$ 2,162,151             |
| Interest on net OPEB obligation            | 1,193                    |
| Adjustment to annual required contribution | (4,019)                  |
| Annual OPEB cost (expense)                 | \$ 2,159,325             |
| Contributions made (estimate)              | (1,845,909)              |
| (Decrease) in net OPEB obligation          | \$ 313,416               |
| Net OPEB obligation at July 1, 2015        | 26,507                   |
| Net OPEB obligation at June 30, 2016       | <u><u>\$ 339,923</u></u> |

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 13 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

**ANNUAL OPEB COST AND NET OPEB OBLIGATION (Continued)**

The School District did not have an updated actuarial valuation to independently calculate its net OPEB obligation as of June 30, 2017. The District believes based on factors used by the Actuary, and changes in their healthcare benefits for the 2016-2017 year that the amount of net OPEB obligation would not have materially changed through the end of the 2016-2017 fiscal year.

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the Net OPEB obligation is as follows:

| <b>FISCAL YEAR<br/>ENDED</b> | <b>ANNUAL OPEB<br/>COST</b> | <b>PERCENTAGE<br/>CONTRIBUTED</b> | <b>NET OPEB<br/>OBLIGATION</b> |
|------------------------------|-----------------------------|-----------------------------------|--------------------------------|
| 6/30/2016                    | \$ 2,159,325                | 85%                               | \$ 339,923                     |
| 6/30/2015                    | 2,157,992                   | 101%                              | 26,507                         |
| 6/30/2014                    | 2,195,485                   | 99%                               | 39,017                         |
| 6/30/2013                    | 2,186,558                   | 107%                              | 24,307                         |
| 6/30/2012                    | 2,518,588                   | 95%                               | 177,485                        |

**FUNDED STATUS AND FUNDING PROGRESS**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarial amounts determined regarding the funded status of the plan and the annual required contributions of the School District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about actuarial value of plan assets and actuarial accrued liabilities for benefits.

**ACTUARIAL METHODS AND ASSUMPTIONS**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used to include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The July 1, 2014 actuarial valuation report utilized the Entry Age Normal Cost Method. The actuarial assumptions included a 4.5% discount rate and an inflation rate of 2.5%. The UAAL is being amortized based on a level dollar amount over 8 years (open). The health care cost trend rates are 5.5% for the 2015-2016 year, decreasing by .20% to 5.3% for the 2016-2017 year, and decreasing by 1.10% for years 2089 and thereafter.

The Net OPEB liability of \$339,923 is reflected as part of Noncurrent Liabilities in the government-wide financial statement of net position (Exhibit A).

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 14 – OPERATING LEASE**

In April of 2016, the Penn Hills School District entered into an operating lease agreement with Hewlett-Packard Financial Services for teacher laptops. The terms of the lease agreement call for quarterly payments of \$6,586.26 over a period of 36 months. During the 2016-2017 fiscal year, the School District's lease expense on this equipment totaled \$26,345.92.

**NOTE 15 - RISK MANAGEMENT**

**GENERAL INSURANCE**

The Penn Hills School District is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

**HEALTH INSURANCE**

The Penn Hills School District is one of forty-seven members of the Allegheny County Schools Health Insurance Consortium (Consortium) which purchases health benefits on behalf of participating public school districts. The school district is billed monthly based on employee count and coverage information at rates established by the Consortium at the beginning of each fiscal year. As the Consortium is self-insured, rates are established with the objective of satisfying estimated claims and other costs, as well as maintaining working capital requirements. Contributions by the District, as reported by the Consortium, totaled \$8,024,161 for the year ended June 30, 2017.

Participating school districts are permitted to withdraw from the Consortium under terms specified in the agreement. Withdrawing participants are entitled to or responsible for a proportionate share of the Consortium's net position, as determined on the fiscal year-end date after withdrawal. As of June 30, 2017, the net assets available for benefits of the Consortium were \$47,685,965 of which \$1,504,301 is attributable to the Penn Hills School District.

**NOTE 16 – CONTINGENCIES**

**STATE AND FEDERAL SUBSIDIES**

The Penn Hills School District state and federally funded programs are subject to audit by various governmental agencies. The District is potentially liable for any expenditure disallowed by the results of these audits. In May of 2016, the Commonwealth of Pennsylvania Department of the Auditor General issued the results of its 'Performance Audit' of the Penn Hills School District covering the period July 1, 2012 through June 30, 2015. The performance audit highlighted eight (8) findings in total addressing the areas of District finance and the District's compliance with applicable laws and regulations. The School District responded to each of these findings with a correction action plan either implementing or in the process of implementing policies and procedures to address each of the findings. Management is not aware of any material items of noncompliance, other than what was outlined in the aforementioned performance audit, which would result in the disallowance of program expenditures.



**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 16 – CONTINGENCIES (Continued)**

**SALE OF TAX CLAIMS**

The Penn Hills School District sold its outstanding delinquent real estate tax claims for the tax years 2014-2017 to the Northwest Pennsylvania Incubator Association (NPIA). NPIA borrowed the necessary funds from Firsttrust Savings Bank. Section 3.02 of the agreement of sale between the District and NPIA provides for a mandatory repurchase clause by the District in the event of default by NPIA on its loan obligation to Firsttrust Savings Bank. In the event of default, the District would be responsible for the outstanding balance due Firsttrust Savings Bank by NPIA. On June 27, 2016, the Penn Hills School District approved a resolution to sell its 2018, and 2019 tax claims in addition to the 2017 tax claims sold during the current fiscal year.

**NOTE 17 - FINANCIAL WATCH STATUS**

Pursuant to Act 141 of 2012, the Pennsylvania Department of Education (PDE) was required to develop and implement an 'Early Warning System' in order to identify and offer technical assistance to school districts experiencing financial difficulties. The Early Warning System identifies a number of indicators of financial difficulty that PDE evaluates to determine whether a school district should be designated in financial watch status. Pursuant to the Early Warning System, PDE conducts an initial analysis of the financial results of the school district. PDE conducted this analysis of the Penn Hills School District and determined the factors exist to support the School District's designation in financial watch status. Some, but not all of the factors supporting the School District's designation include a negative fund balance, a requested and received advance of \$2,000,000 in basic subsidy funding (March 30, 2017), issuance of unfunded debt in 2015, and the results of the Auditor General's Performance Audit (see Note 16). On June 5, 2017, the Penn Hills School District was notified by PDE that the School District was designated in financial watch status pursuant to Section 611-A of the Public School Code of 1949. When designated in financial watch status, PDE provides technical assistance to the School District in an effort to manage its financial challenges. This technical assistance process is currently in place the Penn Hills School District.

**NOTE 18 – SUBSEQUENT EVENTS**

The Penn Hills School District evaluated its June 30, 2017 financial statements for subsequent events through the date of the 'Independent Auditor's Report, which is the date the financial statements were available to be issued. The following subsequent events occurred:

On August 30, 2017, the Penn Hills School District issued General Obligation Notes, Series of 2017 in the amount of \$21,395,000 for the purpose of **1)** advance refunding all of the School District's outstanding General Obligation Bonds Series of 2014, and, **2)** paying the costs of issuing the Notes. The notes were issued in denominations of \$5,000 with interest payable on March 15 and September 15 each year through maturity. Interest rates range between 4.641% and 5.372% with the notes maturing on September 15, 2039. The notes provide for early redemption options for the School District as more fully described in the detailed Official Statement.

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 18 – SUBSEQUENT EVENTS (Continued)**

During the 2017-2018 fiscal year, the Department of Education deducted approximately \$1,283,017 from the Penn Hills School District's state subsidy payments for charter school liabilities due by the School District for the 2016-2017 year. The accompanying financial statements include a liability of \$527,539 of subsidy deductions by PDE through October 1, 2017 as recommended by the PDE Technical Advisor to the School District. The remaining amount of \$755,478 is being recognized as an expenditure of the School District during the 2017-2018 fiscal year.

The Penn Hills School District is not aware of any additional subsequent events that would require recognition or disclosure in the financial statements.

**OTHER  
SUPPLEMENTARY  
INFORMATION**

**PENN HILLS SCHOOL DISTRICT**  
**SCHEDULE OF GENERAL FUND REVENUES - FINAL BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2017**

|                                                     | FINAL<br>BUDGET      | ACTUAL               | VARIANCE WITH<br>FINAL BUDGET<br>POSITIVE<br>(NEGATIVE) |
|-----------------------------------------------------|----------------------|----------------------|---------------------------------------------------------|
| <b>LOCAL SOURCES</b>                                |                      |                      |                                                         |
| Real Estate                                         | \$ 36,101,391        | \$ 35,572,944        | \$ (528,447)                                            |
| Public Utility Tax                                  | 50,379               | 46,204               | (4,175)                                                 |
| Payments in lieu of Taxes                           | 16,000               | 15,608               | (392)                                                   |
| Local Service Tax                                   | 34,000               | 38,135               | 4,135                                                   |
| Real Estate Transfer Tax                            | 320,000              | 333,480              | 13,480                                                  |
| Business Privilege Taxes                            | 250,000              | 301,471              | 51,471                                                  |
| Mercantile Taxes                                    | 380,000              | 374,279              | (5,721)                                                 |
| Real Estate Tax - Delinquent                        | 3,122,000            | 2,760,189            | (361,811)                                               |
| Delinquent Earned Income Taxes                      | 650,000              | 251,425              | (398,575)                                               |
| Wage Taxes                                          | 3,700,000            | 4,052,945            | 352,945                                                 |
| Interest                                            | 2,500                | 3,428                | 928                                                     |
| Admissions                                          | 29,000               | 45,017               | 16,017                                                  |
| Revenue From Other Student Activities               | -                    | 2,250                | 2,250                                                   |
| Federal Revenue Pass Thru Funds                     | -                    | 10,856               | 10,856                                                  |
| Federal IDEA Revenue from IU                        | 653,142              | 935,175              | 282,033                                                 |
| Rental Fees                                         | -                    | 110,118              | 110,118                                                 |
| Renals/Gas Well Royalty Revenue                     | 521,000              | 581,271              | 60,271                                                  |
| Contributions from Private Sources                  | 10,000               | 44,508               | 34,508                                                  |
| Tuition                                             | 15,000               | -                    | (15,000)                                                |
| Miscellaneous                                       | 170,000              | 345,718              | 175,718                                                 |
| Fines and Forfeitures/Employee Health Contributions | 87,500               | 91,354               | 3,854                                                   |
| Refunds                                             | -                    | 34,200               | 34,200                                                  |
| <b>TOTAL REVENUES FROM LOCAL SOURCES</b>            | <b>\$ 46,111,912</b> | <b>\$ 45,950,576</b> | <b>\$ (161,336)</b>                                     |
| <b>STATE SOURCES</b>                                |                      |                      |                                                         |
| Basic Subsidy                                       | \$ 17,192,914        | \$ 16,341,948        | \$ (850,966)                                            |
| Tuition for children (Section 1305/1306)            | 175,000              | -                    | (175,000)                                               |
| Special Education                                   | 3,170,674            | 3,212,356            | 41,682                                                  |
| Transportation                                      | 3,257,117            | 2,720,809            | (536,308)                                               |
| Rental Payments                                     | 644,092              | 2,670,599            | 2,026,507                                               |
| Medical Dental                                      | 65,000               | 76,031               | 11,031                                                  |
| Property Relief Payment                             | 2,359,794            | 2,359,858            | 64                                                      |
| Safe School Grant                                   | -                    | 24,949               | 24,949                                                  |
| Ready to Learn Grant                                | -                    | 850,686              | 850,686                                                 |
| Social Security                                     | 1,005,584            | 1,263,281            | 257,697                                                 |
| Retirement                                          | 3,965,578            | 4,544,189            | 578,611                                                 |
| <b>TOTAL REVENUES FROM STATE SOURCES</b>            | <b>\$ 31,835,753</b> | <b>\$ 34,064,706</b> | <b>\$ 2,228,953</b>                                     |
| <b>FEDERAL SOURCES</b>                              |                      |                      |                                                         |
| ROTC                                                | \$ -                 | \$ 41,790            | \$ 41,790                                               |
| Esea, Title I                                       | 1,602,732            | 1,377,503            | (225,229)                                               |
| Title II. Improving Teacher Quality                 | 184,996              | 188,362              | 3,366                                                   |
| 21st Century CLC Cohort Grant                       | 300,000              | 373,862              | 73,862                                                  |
| ARRA - Build America Bonds                          | 2,097,411            | 2,105,278            | 7,867                                                   |
| Medical Assistance                                  | 220,000              | -                    | (220,000)                                               |
| Medical Assistance Reimbursement for Admin          | 55,000               | 17,423               | (37,577)                                                |
| <b>TOTAL REVENUES FROM FEDERAL SOURCES</b>          | <b>\$ 4,460,139</b>  | <b>\$ 4,104,218</b>  | <b>\$ (355,921)</b>                                     |
| <b>OTHER FINANCING SOURCES</b>                      |                      |                      |                                                         |
| Sale of Fixed Assets                                | \$ 265,000           | \$ -                 | \$ (265,000)                                            |
| <b>TOTAL OTHER FINANCING SOURCES</b>                | <b>\$ 265,000</b>    | <b>\$ -</b>          | <b>\$ (265,000)</b>                                     |
| <b>TOTAL REVENUES</b>                               | <b>\$ 82,672,804</b> | <b>\$ 84,119,500</b> | <b>\$ 1,446,696</b>                                     |

The accompanying notes are an integral part of these financial statements

**PENN HILLS SCHOOL DISTRICT**  
**STATEMENT OF GENERAL FUND EXPENDITURES - FINAL BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2017**

| <b><u>INSTRUCTION</u></b>                  | <b><u>FINAL<br/>BUDGET</u></b> | <b><u>ACTUAL</u></b> | <b><u>VARIANCE WITH<br/>FINAL BUDGET<br/>POSITIVE<br/>(NEGATIVE)</u></b> |
|--------------------------------------------|--------------------------------|----------------------|--------------------------------------------------------------------------|
| <b>Regular Programs</b>                    |                                |                      |                                                                          |
| Personnel Services - Salaries              | \$ 12,190,499                  | \$ 15,085,153        | \$ (2,894,654)                                                           |
| Personnel Services - Employee Benefits     | 11,748,443                     | 10,056,247           | 1,692,196                                                                |
| Purchased Professional/Tech Services       | 378,267                        | 365,720              | 12,547                                                                   |
| Purchased Property Services                | 7,200                          | 4,283                | 2,917                                                                    |
| Other Purchased Services                   | 6,846,800                      | 8,618,464            | (1,771,664)                                                              |
| Supplies                                   | 717,083                        | 564,091              | 152,992                                                                  |
| Property                                   | 270,221                        | 261,409              | 8,812                                                                    |
| Other Objects                              | 22,500                         | 19,850               | 2,651                                                                    |
| <b>Total Regular Programs</b>              | <b>\$ 32,181,013</b>           | <b>\$ 34,975,216</b> | <b>\$ (2,794,203)</b>                                                    |
| <b>Special Programs:</b>                   |                                |                      |                                                                          |
| Personnel Services - Salaries              | \$ 2,773,616                   | \$ 3,414,646         | \$ (641,030)                                                             |
| Personnel Services - Employee Benefits     | 2,203,665                      | 2,181,941            | 21,724                                                                   |
| Purchased Professional/Tech Services       | 1,024,500                      | 821,843              | 202,657                                                                  |
| Other Purchased Services                   | 4,455,000                      | 4,131,489            | 323,511                                                                  |
| Supplies                                   | 6,000                          | 8,061                | (2,061)                                                                  |
| Property                                   | 4,315                          | 3,903                | 412                                                                      |
| <b>Total Special Programs</b>              | <b>\$ 10,467,096</b>           | <b>\$ 10,561,882</b> | <b>\$ (94,786)</b>                                                       |
| <b>Vocational Education Programs</b>       |                                |                      |                                                                          |
| Personal Services-Salaries                 | \$ 443,956                     | \$419,390            | \$ 24,566                                                                |
| Personal Services- Employee Benefits       | 242,955                        | 251,642              | (8,687)                                                                  |
| Purchased Property Services                | 500                            | -                    | 500                                                                      |
| Other Purchased Services                   | 1,050,000                      | 1,071,512            | (21,512)                                                                 |
| Supplies                                   | 27,800                         | 21,758               | 6,042                                                                    |
| Property                                   | 3,234                          | 3,185                | 49                                                                       |
| <b>Total Vocational Education Programs</b> | <b>\$ 1,768,445</b>            | <b>\$ 1,767,487</b>  | <b>\$ 958</b>                                                            |
| <b>Other Instructional Programs</b>        |                                |                      |                                                                          |
| Personal Services - Salaries               | \$ -                           | \$ 201,843           | \$ (201,843)                                                             |
| Personal Services - Employee Benefits      | (145,073)                      | 85,873               | (230,946)                                                                |
| Purchased Professional/ Technical Services | 250,000                        | 255,891              | (5,891)                                                                  |
| Other Purchased Services                   | 32,000                         | 10,204               | 21,796                                                                   |
| <b>Total Other Instructional Programs</b>  | <b>\$ 136,927</b>              | <b>\$ 553,811</b>    | <b>\$ (416,884)</b>                                                      |
| <b>Non-Public School Programs</b>          |                                |                      |                                                                          |
| Purchased Professional Services            | \$ -                           | \$ 194               | \$ (194)                                                                 |
| <b>Total Non-Public School Programs</b>    | <b>\$ -</b>                    | <b>\$ 194</b>        | <b>\$ (194)</b>                                                          |

The accompanying notes are an integral part of these financial statements

**PENN HILLS SCHOOL DISTRICT**  
**STATEMENT OF GENERAL FUND EXPENDITURES - FINAL BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2017**

| <b>INSTRUCTION (Continued)</b>            | <b><u>FINAL<br/>BUDGET</u></b> | <b><u>ACTUAL</u></b>        | <b><u>VARIANCE WITH<br/>FINAL BUDGET<br/>POSITIVE<br/>(NEGATIVE)</u></b> |
|-------------------------------------------|--------------------------------|-----------------------------|--------------------------------------------------------------------------|
| <b>Pre-Kindergarten</b>                   |                                |                             |                                                                          |
| Personal Services- Salaries               | \$ 206,369                     | \$ 198,540                  | \$ 7,829                                                                 |
| Personal Services-Employee                | 51,122                         | 140,627                     | (89,505)                                                                 |
| Supplies                                  | 5,000                          | 4,916                       | 84                                                                       |
| <b>Total Pre-School</b>                   | <b><u>\$ 262,491</u></b>       | <b><u>\$ 344,083</u></b>    | <b><u>\$ (81,592)</u></b>                                                |
| <b>TOTAL INSTRUCTION</b>                  | <b><u>\$ 44,815,972</u></b>    | <b><u>\$ 48,202,673</u></b> | <b><u>\$ (3,305,109)</u></b>                                             |
| <b><u>SUPPORT SERVICES</u></b>            |                                |                             |                                                                          |
| <b>Pupil Personnel</b>                    |                                |                             |                                                                          |
| Personal Services - Salaries              | \$ 1,563,884                   | \$ 1,449,696                | \$ 114,188                                                               |
| Personal Services - Employee Benefits     | 849,659                        | 1,013,283                   | (163,624)                                                                |
| Purchased Professional/Technical Services | 81,221                         | 60,444                      | 20,777                                                                   |
| Other Purchased Services                  | 5,304                          | 2,071                       | 3,233                                                                    |
| Supplies                                  | 12,090                         | 4,837                       | 7,253                                                                    |
| Property                                  | -                              | 175                         | (175)                                                                    |
| <b>Total Pupil Personnel</b>              | <b><u>\$ 2,512,158</u></b>     | <b><u>\$ 2,530,506</u></b>  | <b><u>\$ (18,348)</u></b>                                                |
| <b>Instructional Staff</b>                |                                |                             |                                                                          |
| Personal Services - Salaries              | \$ 1,257,625                   | \$ 1,338,915                | \$ (81,290)                                                              |
| Personal Services - Employee Benefits     | 711,519                        | 975,211                     | (263,692)                                                                |
| Purchased Professional/Technical Services | 178,805                        | 161,500                     | 17,305                                                                   |
| Purchased Property Services               | 4,400                          | 2,102                       | 2,298                                                                    |
| Other Purchased Services                  | 5,440                          | 2,234                       | 3,206                                                                    |
| Supplies                                  | 429,600                        | 162,463                     | 267,137                                                                  |
| Property                                  | 244,000                        | 221,457                     | 22,543                                                                   |
| <b>Total Instructional Staff</b>          | <b><u>\$ 2,831,389</u></b>     | <b><u>\$ 2,863,882</u></b>  | <b><u>\$ (32,493)</u></b>                                                |
| <b>Administration</b>                     |                                |                             |                                                                          |
| Personnel Services - Salaries             | \$ 1,547,978                   | \$ 1,674,168                | \$ (126,190)                                                             |
| Personnel Services - Employee Benefits    | 1,019,901                      | 1,092,531                   | (72,630)                                                                 |
| Purchased Professional/Tech Services      | 499,600                        | 522,922                     | (23,322)                                                                 |
| Other Purchased Services                  | 105,500                        | 53,379                      | 52,121                                                                   |
| Supplies                                  | 5,000                          | 11,515                      | (6,515)                                                                  |
| Other Objects                             | 19,900                         | 26,777                      | (6,877)                                                                  |
| <b>Total Administration</b>               | <b><u>\$ 3,197,879</u></b>     | <b><u>\$ 3,381,293</u></b>  | <b><u>\$ (183,414)</u></b>                                               |

The accompanying notes are an integral part of these financial statements

**PENN HILLS SCHOOL DISTRICT**  
**STATEMENT OF GENERAL FUND EXPENDITURES - FINAL BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2017**

|                                                   | <b><u>FINAL<br/>BUDGET</u></b> | <b><u>ACTUAL</u></b>       | <b><u>VARIANCE WITH<br/>FINAL BUDGET<br/>POSITIVE<br/>(NEGATIVE)</u></b> |
|---------------------------------------------------|--------------------------------|----------------------------|--------------------------------------------------------------------------|
| <b>SUPPORT SERVICES (Continued)</b>               |                                |                            |                                                                          |
| <b>Pupil Health</b>                               |                                |                            |                                                                          |
| Personal Services - Salaries                      | \$ 195,599                     | \$ 375,459                 | \$ (179,860)                                                             |
| Personal Services - Employee Benefits             | 146,541                        | 269,924                    | (123,383)                                                                |
| Purchased Professional/Technical Services         | 5,685                          | 3,850                      | 1,835                                                                    |
| Supplies                                          | 9,346                          | 9,390                      | (44)                                                                     |
| <b>Total Pupil Health</b>                         | <b><u>\$ 357,171</u></b>       | <b><u>\$ 658,623</u></b>   | <b><u>\$ (301,452)</u></b>                                               |
| <b>Business</b>                                   |                                |                            |                                                                          |
| Personnel Services - Salaries                     | \$ 228,441                     | \$ 178,735                 | \$ 49,706                                                                |
| Personnel Services - Employee Benefits            | 173,024                        | 123,835                    | 49,189                                                                   |
| Purchased Professional/Technical Services         | 82,470                         | 147,232                    | (64,762)                                                                 |
| Purchased Property Services                       | 380,214                        | 418,759                    | (38,545)                                                                 |
| Other Purchased Services                          | 2,000                          | 2,420                      | (420)                                                                    |
| Supplies                                          | 115,949                        | 93,503                     | 22,446                                                                   |
| Other Objects                                     | 1,766                          | 18,585                     | (16,819)                                                                 |
| <b>Total Business</b>                             | <b><u>\$ 983,864</u></b>       | <b><u>\$ 983,069</u></b>   | <b><u>\$ 795</u></b>                                                     |
| <b>Operation &amp; Maintenance of Plant</b>       |                                |                            |                                                                          |
| Personal Services - Salaries                      | \$ 3,167,051                   | \$ 2,955,671               | \$ 211,380                                                               |
| Personal Services - Employee Benefits             | 2,096,933                      | 2,254,335                  | (157,402)                                                                |
| Purchased Professional/Technical Services         | 750,000                        | 774,048                    | (24,048)                                                                 |
| Purchased Property Services                       | 334,519                        | 321,837                    | 12,682                                                                   |
| Other Purchased Services                          | 152,638                        | 228,938                    | (76,300)                                                                 |
| Supplies                                          | 1,518,019                      | 1,273,838                  | 244,181                                                                  |
| Property                                          | 5,000                          | 2,947                      | 2,053                                                                    |
| Other Objects                                     | 1,000                          | -                          | 1,000                                                                    |
| <b>Total Operation &amp; Maintenance of Plant</b> | <b><u>\$ 8,025,160</u></b>     | <b><u>\$ 7,811,613</u></b> | <b><u>\$ 213,547</u></b>                                                 |
| <b>Student Transportation</b>                     |                                |                            |                                                                          |
| Personnel Services - Salaries                     | \$ 78,103                      | \$ 31,754                  | \$ 46,349                                                                |
| Personnel Services - Employee Benefits            | 67,941                         | 11,357                     | 56,584                                                                   |
| Purchased Professional/Technical Services         | -                              | 6,750                      | (6,750)                                                                  |
| Other Purchased Services                          | 4,354,307                      | 7,180,384                  | (2,826,077)                                                              |
| Supplies                                          | -                              | 306,432                    | (306,432)                                                                |
| <b>Total Student Transportation</b>               | <b><u>\$ 4,500,351</u></b>     | <b><u>\$ 7,536,677</u></b> | <b><u>\$ (3,036,326)</u></b>                                             |

The accompanying notes are an integral part of these financial statements

**SCHEDULE 2**

**PENN HILLS SCHOOL DISTRICT**  
**STATEMENT OF GENERAL FUND EXPENDITURES - FINAL BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2017**

|                                                           | <b><u>FINAL<br/>BUDGET</u></b> | <b><u>ACTUAL</u></b>        | <b><u>VARIANCE WITH<br/>FINAL BUDGET<br/>POSITIVE<br/>(NEGATIVE)</u></b> |
|-----------------------------------------------------------|--------------------------------|-----------------------------|--------------------------------------------------------------------------|
| <b>SUPPORT SERVICES (Continued)</b>                       |                                |                             |                                                                          |
| <b>Support Services - Central</b>                         |                                |                             |                                                                          |
| Personnel Services - Salaries                             | \$ 223,136                     | \$ 228,075                  | \$ (4,939)                                                               |
| Personnel Services - Employee Benefits                    | 149,523                        | 175,234                     | (25,711)                                                                 |
| Purchased Professional/Technical Services                 | 21,300                         | 21,300                      | -                                                                        |
| Purchased Property Services                               | 20,000                         | 19,962                      | 38                                                                       |
| Other Purchased Services                                  | 22,200                         | 18,629                      | 3,571                                                                    |
| Supplies                                                  | 2,500                          | 2,152                       | 348                                                                      |
| Property                                                  | 50,000                         | 4,108                       | 45,892                                                                   |
| Other Objects                                             | -                              | 25                          | (25)                                                                     |
| <b>Total Support Services - Central</b>                   | <b><u>\$ 488,659</u></b>       | <b><u>\$ 469,486</u></b>    | <b><u>\$ 19,173</u></b>                                                  |
| <b>Other Support Services</b>                             |                                |                             |                                                                          |
| Other Purchased Services                                  | \$ 41,343                      | \$ 48,449                   | \$ (7,106)                                                               |
| <b>Total Other Support Services</b>                       | <b><u>\$ 41,343</u></b>        | <b><u>\$ 48,449</u></b>     | <b><u>\$ (7,106)</u></b>                                                 |
| <b>TOTAL SUPPORT SERVICES</b>                             | <b><u>\$ 22,937,974</u></b>    | <b><u>\$ 26,283,598</u></b> | <b><u>\$ (3,345,624)</u></b>                                             |
| <br><b><u>OPERATION OF NON-INSTRUCTIONAL SERVICES</u></b> |                                |                             |                                                                          |
| <b>Student Activities</b>                                 |                                |                             |                                                                          |
| Personal Services - Salaries                              | \$ 1,383,667                   | \$ 524,085                  | \$ 859,582                                                               |
| Personal Services - Employee Benefits                     | 252,057                        | 171,580                     | 80,477                                                                   |
| Purchased Professional/Technical Services                 | 179,626                        | 147,194                     | 32,432                                                                   |
| Other Purchased Services                                  | 124,989                        | 19,537                      | 105,452                                                                  |
| Supplies                                                  | 90,965                         | 50,124                      | 40,841                                                                   |
| Property                                                  | 8,500                          | -                           | 8,500                                                                    |
| <b>Total Student Activities</b>                           | <b><u>\$ 2,039,804</u></b>     | <b><u>\$ 912,518</u></b>    | <b><u>\$ 1,127,286</u></b>                                               |
| <b>Community Services</b>                                 |                                |                             |                                                                          |
| Personal Services - Salaries                              | \$ 7,000                       | \$ 7,180                    | \$ (180)                                                                 |
| Personal Services - Employee Benefits                     | 2,310                          | 2,872                       | (562)                                                                    |
| Purchased Professional/Technical Services                 | 126,959                        | 119,641                     | 7,318                                                                    |
| Supplies                                                  | 24,820                         | 6,228                       | 18,592                                                                   |
| <b>Total Community Services</b>                           | <b><u>\$ 161,089</u></b>       | <b><u>\$ 135,921</u></b>    | <b><u>\$ 25,168</u></b>                                                  |
| <b>TOTAL OPERATION OF NON-INSTRUCTIONAL<br/>SERVICES</b>  | <b><u>\$ 2,200,893</u></b>     | <b><u>\$ 1,048,439</u></b>  | <b><u>\$ 1,152,454</u></b>                                               |

The accompanying notes are an integral part of these financial statements



**PENN HILLS SCHOOL DISTRICT**  
**STATEMENT OF GENERAL FUND EXPENDITURES - FINAL BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2017**

|                                      | <b><u>FINAL<br/>BUDGET</u></b> | <b><u>ACTUAL</u></b>        | <b><u>VARIANCE WITH<br/>FINAL BUDGET<br/>POSITIVE<br/>(NEGATIVE)</u></b> |
|--------------------------------------|--------------------------------|-----------------------------|--------------------------------------------------------------------------|
| <b><u>OTHER FINANCING USES</u></b>   |                                |                             |                                                                          |
| <b>Debt Service</b>                  |                                |                             |                                                                          |
| Other Objects - Debt Interest        | \$ 9,177,965                   | \$ 9,178,008                | \$ (43)                                                                  |
| Other Objects- PSERS Interest        | -                              | 77,604                      | (77,604)                                                                 |
| Refund of Prior Year Receipts        | -                              | 6,279                       | (6,279)                                                                  |
| Other Uses of Funds - Debt Principal | 3,540,000                      | 3,540,000                   | -                                                                        |
| <b>Total Debt Service</b>            | <b><u>\$ 12,717,965</u></b>    | <b><u>\$ 12,801,892</u></b> | <b><u>\$ (83,927)</u></b>                                                |
| <b>TOTAL EXPENDITURES</b>            | <b><u>\$ 82,672,804</u></b>    | <b><u>\$ 88,336,602</u></b> | <b><u>\$ (5,582,206)</u></b>                                             |

The accompanying notes are an integral part of these financial statements

# **REQUIRED SUPPLEMENTARY INFORMATION**

**PENN HILLS SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF SCHOOL DISTRICT'S CONTRACTUALLY REQUIRED CONTRIBUTIONS**  
**DEFINED BENEFIT PENSION PLAN**  
**JUNE 30,**

|                                                                        | <b><u>2017</u></b> | <b><u>2016</u></b> | <b><u>2015</u></b> | <b><u>2014</u></b> | <b><u>2013</u></b> |
|------------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Contractually Required Contributions                                   | \$ 8,337,516       | \$ 7,136,635       | \$ 6,114,177       | \$ 5,187,370       | \$ 3,366,841       |
| Contribution in relation to the contractually<br>required contribution | <u>(8,337,516)</u> | <u>(7,136,635)</u> | <u>(6,114,177)</u> | <u>(5,187,370)</u> | <u>(3,366,841)</u> |
| Contribution deficiency (excess)                                       | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        |
| District's covered payroll                                             | 29,043,887         | 29,027,925         | 29,427,421         | 30,356,988         | 30,239,967         |
| Contributions as a percentage of<br>covered-employee payroll           | 28.71%             | 24.59%             | 20.78%             | 17.09%             | 11.13%             |

This schedule is intended to illustrate information for a ten (10) year period. Information for that ten year period will be presented as information becomes available.

**PENN HILLS SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**DEFINED BENEFIT PENSION PLAN**  
**JUNE 30,**

| <b>As of the measurement date of June 30,</b>                                                                  | <b><u>2016</u></b> | <b><u>2015</u></b> | <b><u>2014</u></b> | <b><u>2013</u></b> |
|----------------------------------------------------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
| District's proportion of the net pension liability                                                             | 0.2241%            | 0.2284%            | 0.2379%            | 0.2356%            |
| District's proportionate share of the net pension liability                                                    | \$ 111,057,000     | \$ 98,932,000      | \$ 94,162,000      | \$ 96,445,000      |
| District's covered-employee payroll                                                                            | 29,027,925         | \$ 29,427,421      | \$ 30,356,988      | \$ 30,239,967      |
| District's proportionate share of the net pension liability<br>as a percentage of its covered-employee payroll | 382.59%            | 336.19%            | 310.18%            | 318.93%            |
| Plan fiduciary net position as a percentage of<br>the total pension liability                                  | 50.14%             | 54.36%             | 57.24%             | 54.49%             |

The amounts presented for each fiscal year were determined as of the measurement date, which is June 30 of the preceding fiscal year. This schedule is intended to illustrate information for a ten (10) year period. Information for that ten year period will be presented as information becomes available.

**PENN HILLS SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFIT PLANS**  
**JUNE 30, 2017**

The schedule of funding progress, as shown below, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

|                                | (A)                             | (B)                               | (B-A)<br>(UAAL)                               | (A/B)           | (C)                | (B-A)/C                                 |
|--------------------------------|---------------------------------|-----------------------------------|-----------------------------------------------|-----------------|--------------------|-----------------------------------------|
| ACTUARIAL<br>VALUATION<br>DATE | ACTUARIAL<br>VALUE OF<br>ASSETS | ACTUARIAL<br>ACCRUED<br>LIABILITY | UNFUNDED<br>ACTUARIAL<br>ACCRUED<br>LIABILITY | FUNDED<br>RATIO | COVERED<br>PAYROLL | UAAL AS A<br>% OF<br>COVERED<br>PAYROLL |
| 7/1/14                         | \$ -                            | \$ 12,853,148                     | \$ 12,853,148                                 | 0%              | \$ 26,940,067      | 47.71%                                  |
| 7/1/12                         | -                               | 16,656,598                        | 16,656,598                                    | 0%              | 26,606,779         | 62.60%                                  |
| 7/1/10                         | -                               | 20,513,020                        | 20,513,020                                    | 0%              | 29,773,764         | 68.9%                                   |
| 7/1/08                         | -                               | 18,085,360                        | 18,085,360                                    | 0%              | 31,371,309         | 57.7%                                   |

**PENN HILLS  
SCHOOL DISTRICT**

***AS REQUIRED BY  
GOVERNMENT AUDITING STANDARDS  
AND UNIFORM GUIDANCE***

**Mark C. Turnley**

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Certified Public Accountant

**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 Management and Board of Education  
Penn Hills School District**

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Penn Hills School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Penn Hills School District's basic financial statements, and have issued my report thereon dated March 21, 2018.

**Internal Control over Financial Reporting**

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

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that I consider to be significant deficiencies (2017-001, 2017-002, 2017-003).

**To the Board of Education  
Penn Hills School District**

**Compliance and Other Matters**

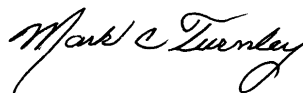
As part of obtaining reasonable assurance about whether Penn Hills School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2017-003.

**Penn Hills School District's Response to Findings**

Penn Hills School District's responses to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. Penn Hills School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

**Purpose of this Report**

This purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Penn Hills School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Penn Hills School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Mark C. Turnley  
Certified Public Accountant

March 21, 2018  
New Brighton, Pennsylvania



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

**To the Board of Education  
Penn Hills School District**

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

I have audited Penn Hills 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 Penn Hills School District's major federal programs for the year ended June 30, 2017. Penn Hills School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of 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 Penn Hills 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 Penn Hills 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 on Penn Hills School District's compliance.

**Opinion on Each Major Federal Program**

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

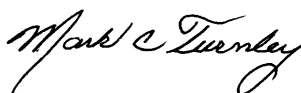
## Report on Internal Control over Compliance

Management of the Penn Hills 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 the Penn Hills School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing my 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 Penn Hills 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 a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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



Mark C. Turnley  
Certified Public Accountant

March 21, 2018  
New Brighton, Pennsylvania

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

| FEDERAL GRANTOR /                                                              | PROJECT TITLE | FUNDING SOURCE | FEDERAL CFDA NUMBER | PASS-THROUGH GRANTOR NUMBER | GRANT PERIOD BEGINNING / ENDING DATE | PROGRAM AWARD AMOUNT | 2016-2017 PASSED THROUGH TO SUBRECIPIENTS | TOTAL RECEIVED THIS PERIOD | ACCRUED (DEFERRED) REVENUE JULY 1 | REVENUE RECOGNIZED | EXPENDITURES | ACCRUED (DEFERRED) REVENUE JUNE 30 |
|--------------------------------------------------------------------------------|---------------|----------------|---------------------|-----------------------------|--------------------------------------|----------------------|-------------------------------------------|----------------------------|-----------------------------------|--------------------|--------------|------------------------------------|
| <b>U.S. Department of Education:</b>                                           |               |                |                     |                             |                                      |                      |                                           |                            |                                   |                    |              |                                    |
| <b>Passed through Pa. Dept. of Education:</b>                                  |               |                |                     |                             |                                      |                      |                                           |                            |                                   |                    |              |                                    |
| Title I                                                                        |               | Indirect       | 84.010              | 13-170323                   | 7/31/16-9/30/17                      | \$ 1,567,077         | \$ -                                      | \$ 1,463,618               | \$ -                              | \$ 986,266         | \$ 986,266   | \$ (477,352)                       |
| Title I                                                                        |               | Indirect       | 84.010              | 13-160323                   | 7/31/15-9/30/16                      | 1,345,258            | -                                         | 92,336                     | (114,228)                         | 391,237            | 391,237      | 184,673                            |
| Title II - Improving Teacher Quality                                           |               | Indirect       | 84.367              | 20-170323                   | 7/31/16-9/30/17                      | 180,057              | -                                         | 168,078                    | -                                 | 133,957            | 133,957      | (34,121)                           |
| Title II - Improving Teacher Quality                                           |               | Indirect       | 84.367              | 20-160323                   | 7/1/15-9/30/16                       | 184,653              | -                                         | 12,276                     | (17,577)                          | 54,405             | 54,405       | 24,552                             |
|                                                                                |               |                |                     |                             |                                      |                      | \$ -                                      | \$ 1,736,308               | \$ (131,805)                      | \$ 1,565,865       | \$ 1,565,865 | \$ (302,248)                       |
| <b>Passed through Bureau of Curriculum, Assessment &amp; Instruction:</b>      |               |                |                     |                             |                                      |                      |                                           |                            |                                   |                    |              |                                    |
| 21st Century Community Learning                                                |               | Indirect       | 84.287c             | 4100068083                  | 10/1/16-9/30/17                      | 300,000              | \$ -                                      | \$ 140,905                 | \$ -                              | \$ 196,353         | \$ 196,353   | \$ 55,448                          |
| 21st Century Community Learning                                                |               | Indirect       | 84.287c             | 4100068083                  | 10/1/15-9/30/16                      | 300,000              | -                                         | 282,901                    | 105,392 (2)                       | 177,509            | 177,509      | -                                  |
| <b>TOTAL PASSED THROUGH BUREAU OF CURRICULUM, ASSESSMENT &amp; INSTRUCTION</b> |               |                |                     |                             |                                      |                      | \$ -                                      | \$ 423,806                 | \$ 105,392                        | \$ 373,862         | \$ 373,862   | \$ 55,448                          |
| <b>Passed through Allegheny Intermediate Unit:</b>                             |               |                |                     |                             |                                      |                      |                                           |                            |                                   |                    |              |                                    |
| IDEA                                                                           |               | Indirect       | 84.027              | 062-17-0-003                | 7/1/16-6/30/17                       | \$ 872,618           | \$ -                                      | \$ -                       | \$ -                              | \$ 872,618         | \$ 872,618   | (1) \$ 872,618                     |
| IDEA                                                                           |               | Indirect       | 84.027              | 062-16-0-003                | 7/1/15-6/30/16                       | 698,977              | -                                         | 698,977                    | 642,406                           | 56,571             | 56,571       | (1) -                              |
| IDEA Section 619                                                               |               | Indirect       | 84.173              | 131-16-0-003                | 7/1/16-6/30/17                       | 5,986                | -                                         | 5,986                      | -                                 | 5,986              | 5,986        | (1) -                              |
| IDEA Section 619                                                               |               | Indirect       | 84.173              | 131-15-0-003                | 7/1/15-6/30/16                       | 3,142                | -                                         | 3,142                      | 3,142                             | -                  | -            | (1) -                              |
| <b>TOTAL SPECIAL EDUCATION CLUSTER (IDEA)</b>                                  |               |                |                     |                             |                                      |                      | \$ -                                      | \$ 708,105                 | \$ 645,548                        | \$ 935,175         | \$ 935,175   | \$ 872,618                         |
| Race to the Top                                                                |               | Indirect       | 84.413A             | N/A                         | 7/1/15-6/30/16                       | 10,856               | -                                         | 10,856                     | -                                 | 10,856             | 10,856       | -                                  |
| <b>TOTAL PASSED THROUGH ALLEGHENY INTERMEDIATE UNIT</b>                        |               |                |                     |                             |                                      |                      | \$ -                                      | \$ 718,961                 | \$ 645,548                        | \$ 946,031         | \$ 946,031   | \$ 872,618                         |
| <b>TOTAL DEPARTMENT OF EDUCATION</b>                                           |               |                |                     |                             |                                      |                      | \$ -                                      | \$ 2,879,075               | \$ 619,135                        | \$ 2,885,758       | \$ 2,885,758 | \$ 625,818                         |
| <b>U.S. Department of Health and Human Services:</b>                           |               |                |                     |                             |                                      |                      |                                           |                            |                                   |                    |              |                                    |
| <b>Passed through Pa. Dept. of Public Welfare:</b>                             |               |                |                     |                             |                                      |                      |                                           |                            |                                   |                    |              |                                    |
| Title 19                                                                       |               | Indirect       | 93.778              | N/A                         | 7/1/16-6/30/17                       | N/A                  | \$ -                                      | \$ -                       | \$ -                              | \$ 17,423          | \$ 17,423    | \$ 17,423                          |
| Title 19                                                                       |               | Indirect       | 93.778              | N/A                         | 7/1/15-6/30/16                       | N/A                  | -                                         | 32,745                     | 32,745                            | -                  | -            | -                                  |
| <b>TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>                           |               |                |                     |                             |                                      |                      | \$ -                                      | \$ 32,745                  | \$ 32,745                         | \$ 17,423          | \$ 17,423    | \$ 17,423                          |
| <b>U.S. Department of Agriculture:</b>                                         |               |                |                     |                             |                                      |                      |                                           |                            |                                   |                    |              |                                    |
| <b>Passed through Pa. Dept. of Education:</b>                                  |               |                |                     |                             |                                      |                      |                                           |                            |                                   |                    |              |                                    |
| National School Lunch Program                                                  |               | Indirect       | 10.555              | N/A                         | 7/1/16-6/30/17                       | N/A                  | \$ -                                      | \$ 896,805                 | \$ -                              | \$ 1,021,058       | \$ 1,021,058 | (1) \$ 124,253                     |
| Lunch Program                                                                  |               | Indirect       | 10.555              | N/A                         | 7/1/15-6/30/16                       | N/A                  | -                                         | 131,554                    | 131,554                           | -                  | -            | (1) -                              |
| Breakfast Program                                                              |               | Indirect       | 10.553              | N/A                         | 7/1/16-6/30/17                       | N/A                  | -                                         | 346,681                    | -                                 | 393,362            | 393,362      | (1) 46,681                         |
| Breakfast Program                                                              |               | Indirect       | 10.553              | N/A                         | 7/1/15-6/30/16                       | N/A                  | -                                         | 55,970                     | 55,970                            | -                  | -            | (1) -                              |
| Summer Food                                                                    |               | Indirect       | 10.559              | N/A                         | 7/1/16-6/30/17                       | N/A                  | -                                         | 27,497                     | -                                 | 34,830             | 34,830       | (1) 7,333                          |
| Summer Food                                                                    |               | Indirect       | 10.559              | N/A                         | 7/1/15-6/30/16                       | N/A                  | -                                         | 10,949                     | 10,949                            | -                  | -            | (1) -                              |
| <b>Passed through Pa. Dept. of Agriculture:</b>                                |               |                |                     |                             |                                      |                      |                                           |                            |                                   |                    |              |                                    |
| National School Lunch Program                                                  |               | Indirect       | 10.555              | N/A                         | 7/1/16-6/30/17                       | N/A                  | -                                         | 118,275 *                  | (16,200) **                       | 119,638            | 119,638      | (1) (14,837) ***                   |
| <b>TOTAL CHILD NUTRITION CLUSTER</b>                                           |               |                |                     |                             |                                      |                      | \$ -                                      | \$ 1,587,731               | \$ 182,273                        | \$ 1,568,888       | \$ 1,568,888 | \$ 163,430                         |
| Child Care                                                                     |               | Indirect       | 10.558              | N/A                         | 7/1/16-6/30/17                       | N/A                  | -                                         | 55,414                     | -                                 | 64,912             | 64,912       | 9,498                              |
| Child Care                                                                     |               | Indirect       | 10.558              | N/A                         | 7/1/15-6/30/16                       | N/A                  | -                                         | 390                        | 390                               | -                  | -            | -                                  |
| Fresh Fruit/Vegetable Program                                                  |               | Indirect       | 10.582              | N/A                         | 7/1/16-6/30/17                       | N/A                  | -                                         | 64,677                     | -                                 | 75,694             | 75,694       | 11,017                             |
| <b>TOTAL DEPARTMENT OF AGRICULTURE</b>                                         |               |                |                     |                             |                                      |                      | \$ -                                      | \$ 1,708,212               | \$ 182,663                        | \$ 1,709,494       | \$ 1,709,494 | \$ 183,945                         |
| <b>U.S. Department of Defense:</b>                                             |               |                |                     |                             |                                      |                      |                                           |                            |                                   |                    |              |                                    |
| Department of Army ROTC                                                        |               | Direct         | N/A                 | N/A                         | 7/1/16-6/30/17                       | N/A                  | \$ -                                      | \$ 41,085                  | \$ -                              | \$ 41,790          | \$ 41,790    | \$ 705                             |
| Department of Army ROTC                                                        |               | Direct         | N/A                 | N/A                         | 7/1/15-6/30/16                       | N/A                  | -                                         | 17,880                     | 17,880                            | -                  | -            | -                                  |
| <b>TOTAL DEPARTMENT OF DEFENSE</b>                                             |               |                |                     |                             |                                      |                      | \$ -                                      | \$ 58,965                  | \$ 17,880                         | \$ 41,790          | \$ 41,790    | \$ 705                             |
| <b>TOTAL FEDERAL ASSISTANCE</b>                                                |               |                |                     |                             |                                      |                      | \$ -                                      | \$ 4,678,997 #             | \$ 852,423                        | \$ 4,654,465       | \$ 4,654,465 | \$ 827,891                         |

**# Reconciliation with federal subsidy confirmation:**

Per above  
School Lunch/Breakfast matching subsidy 78,657  
21st Century Community Learning (423,806)  
Allegheny Intermediate Unit (718,961)  
Title 19 (32,745)  
Donated commodities (118,275)  
Department of ARMY ROTC (58,965)  
Per confirmation **\$ 3,404,902**

\* Total USDA Commodity Received

\*\* Represents beginning inventory - 7/1/16

\*\*\* Represents ending inventory - 6/30/17

(1) Denotes Major Program

(2) 21st Century Community Learning adjusted at 6/30/2016 from \$10,950 deferred revenue to \$105,392 receivable based on updated report filing.

**PENN HILLS SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2017**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the 'Schedule') includes the federal grant activity administered by the Penn Hills School District for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Grant Guidance – UGG)*. Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position or changes in net position of the Penn Hills School District.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF ACCOUNTING**

Expenditures reported on the Schedule are presented using the accrual method of accounting. Under this method, grant revenue is recognized to the extent expenditures are incurred. Expenditures are recognized when the liability for the expenditure is incurred rather than when the disbursement is actually made.

The federal expenditures are recognized, as applicable, under the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or limited to reimbursement.

**NOTE 3 - RELATIONSHIP TO FINANCIAL STATEMENTS**

Federal financial award revenues are included in the financial statements as 'local source' and 'federal source' revenues.

**NOTE 4 – RECEIVABLES AND UNEARNED REVENUE**

Federal grants receivable are included as part of 'due from other governments' in Exhibit A and Exhibit C as referenced in Note 5 to the Financial Statements. Unearned federal grant revenue is included as part of 'unearned revenue' in Exhibit A and Exhibit C, and is referenced in Note 8 to the Financial Statements.

**NOTE 5 - NON-CASH ASSISTANCE**

The Penn Hills School District received donated commodities from the Department of Agriculture in connection with its food service program. The amount of non-cash assistance expended in the accompanying schedule of expenditures of federal awards reflects the fair market value of the commodities used during the 2016-2017 fiscal year.

**NOTE 6 – INDIRECT COST RATE**

The District has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**PENN HILLS SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

**Section I – Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

\_\_\_\_yes    X no  
X yes    \_\_\_\_no

Noncompliance material to financial statements noted?

\_\_\_\_yes    X no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

\_\_\_\_yes    X no  
X yes    X no

Type of auditor's report issued on compliance for major programs

Unmodified

Any audit findings disclosed that are required to be reported in  
accordance with 2 CFR 200.516(a)?

X yes    \_\_\_\_no

Identification of major programs:

CFDA number(s)

Name of Federal Program or Cluster

84.037  
84.173

Special Education Cluster - IDEA Section 611  
Special Education Cluster – IDEA Section 619

10.555  
10.553  
10.559

National School Lunch Program (Child Nutrition Cluster)  
National School Breakfast Program (Child Nutrition Cluster)  
Summer Food (Child Nutrition Cluster)

The dollar threshold for distinguishing type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

\_\_\_\_yes    X no

**PENN HILLS SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

**Section II – Financial Statement Findings**

Findings related to the financial statements which are required to be report in accordance with Government Auditing Standards.

- **FINDING 2017-001: BUDGETING PROCESS**

**CONDITION:** During my preliminary and final review of the District's financial statements, in particular the General Fund actual expenditures compared to the approved budget submitted to the Department of Education, it was noted that there were functional categories of actual expenditures that were significantly over and under budget. Although not all inclusive, two functional areas of note that were over budget were 1) regular program instruction of \$2,794,203, and 2) student transportation services of \$3,036,326. In total, General Fund actual expenditures exceeded the approved budget (as adjusted) by approximately \$5,663,798 (6.9%). A complete listing of the budget versus actual variances is reported on page 7 (Exhibit G), and as other supplementary information on pages 41-46 of the audit report.

**CRITERIA:** Internal controls should be in place during the budget preparation process to ensure that budgetary amounts are reasonable, realistic, and supported by underlying documents, facts, and circumstances that justify the appropriateness of the amounts budgeted.

**CAUSE:** Actual expenditures over budget for the category of regular program instruction occurred mainly because the District did not include the cost of salaries for its instructional aides during the budget process. It was not readily determinable as to why the category of student transportation services was significantly over budget however this has been a recurring problem for the School District.

**EFFECT:** The District expended funds in excess of the approved appropriated budget for the 2016-2017 fiscal year which contributed to a \$4,217,102 decrease in General Fund balance.

**RECOMMENDATION:** In light of the School District's deficit General Fund balance, I would strongly encourage the District to closely monitor all functional areas of spending so as to minimize the significant individual functional variances as mentioned above. I would also recommend that department heads and building principals, in conjunction with business office officials, review any purchase orders which will cause actual expenditures to exceed the detail line-item budgetary amounts as approved by the Board of Education. Any such excesses should be brought to the attention of the District Superintendent and Board of Education with proper justification prior to expenditure of District monies. The District's deficit fund balance mandates that these procedures be followed strictly going forward as a means of protecting the District from further financial losses.

**VIEW OF RESPONSIBLE OFFICIALS (CORRECTIVE ACTION PLAN):** The School District concurs with the above noted finding. Effective June 5, 2017, the District is designated in 'financial watch status' by the Pennsylvania Department of Education (PDE) pursuant to Section 611-A of the Public School Code of 1949. Accordingly, PDE has provided the School District with a Technical Advisor to assist the District in managing its financial challenges such as the budget preparation process. This technical assistance along with the District's employment of a new Business Manager should enable the School District to make significant strides toward remediating problems in the budget preparation process as described above for all future District budgets.

**PENN HILLS SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

**Section II – Financial Statement Findings (Continued)**

Findings related to the financial statements which are required to be report in accordance with Government Auditing Standards.

- **FINDING 2017-002: FUND ACCOUNT RECONCILIATION**

**CONDITION:** I noted during my audit of the General and Food Service Funds of the School District, that a significant number of journal entry adjustments were necessary during the audit process to ensure that the financial statements were presented as materially correct in conformity with generally accepted accounting principles (GAAP). A number of balance sheet, and revenue and expenditure accounts had not been properly reconciled throughout the fiscal year to the underlying supporting documentation on hand at the School District. Accordingly, prior to these year-end adjustments, the financial statements did not properly present the financial activity of the School District in conformity with GAAP as required under the Pa. Public School Code.

**CRITERIA:** Internal controls should be in place throughout the fiscal year to ensure that all balance sheet, revenue and expenditure accounts, of all funds of the District, are properly being reconciled on a monthly basis to the supporting underlying documentation on hand at the School District. In addition, the Pa Public School Codes mandates that the District's financial records be maintained in conformity with GAAP.

**CAUSE:** It was not readily determinable as to why the School Districts balance sheet, revenue and expenditure accounts were not being reconciled and adjusted during the current fiscal year.

**EFFECT:** The effect of not properly adjusting the financial accounts of the School District to their actual balance on a monthly basis results in District officials not being able to manage the District in a prudent manner, and also distorts the financial position of the School District to the general public and other third-party individuals who may rely on this financial information to assess the performance of the District. The importance of this matter can be demonstrated by comparing the unadjusted General Fund deficit fund balance (as presented in the District's records) at June 30, 2017 of \$6,354,442, to the actual audited (adjusted) General Fund deficit fund balance of \$11,009,543.

**RECOMMENDATION:** In light of the School District's current financial position, it is imperative that all balance sheet, revenue and expenditure account balances contained on the books of the District's General and Food Service Funds be reconciled on a monthly basis. This procedure will enable the business office to generate meaningful up-to-date financial information for use by all department heads, but most importantly, for the Superintendent and Board of Education, so that financial management decisions regarding the District's operations can be detected and corrected in a timely manner.

**VIEW OF RESPONSIBLE OFFICIALS (CORRECTIVE ACTION PLAN):** The School District concurs with the above noted finding. The School District has employed a new Business Manager with the requisite skills necessary to make the above referenced adjustments throughout the fiscal year in order to accurately assess the financial position of the School District on a timely basis. This will also ensure that District officials such as the Superintendent and Board of Education will be in a position to make meaningful and prudent decisions regarding District operations based on the information they are receiving from the business office.

**PENN HILLS SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

**Section II – Financial Statement Findings (Continued)**

Findings related to the financial statements which are required to be report in accordance with Government Auditing Standards.

- **FINDING 2017-003: FEDERAL FINANCIAL REPORTS**

**CONDITION:** During my review of District's compliance with the laws and regulations related to its participation in the Title I and Title II grant programs, I noted that the School District did not complete and submit the required 'final expenditure report' (FER) for these grant programs for three prior fiscal years as listed on the Pennsylvania Department of Education (PDE) website.

**CRITERIA:** The Department of Education's (PDE) Title I and Title II programs require the completion and submission of a 'final expenditure report' (FER) at the conclusion of each grant program year (including any carryover period) based on information contained in the School District's general ledger and supported by all underlying documentation.

**EFFECT:** The District was not in compliance with the financial reporting requirements relative to its participation in the Title I and Title II Grant Programs which require the completion and timely submission of a 'final expenditure report' (FER).

**CAUSE:** It was not readily determinable as to why the School Districts had not completed and filed with 'final expenditure reports' as noted above with PDE.

**RECOMMENDATION:** I recommend that the District file the required Title I and Title II 'final expenditure reports' for the fiscal years in question, based on available financial information obtained from the District's business office, in order to comply with PDE reporting requirements for the Title I and Title II Programs, and to avoid any sanctions from PDE as a result of not filing these reports in a timely manner.

**VIEW OF RESPONSIBLE OFFICIALS (CORRECTIVE ACTION PLAN):** The School District concurs with the above noted finding. The School District has employed a new Business Manager whose responsibilities include the oversight and preparation of all required financial reports related to PDE federal grant programs in a timely manner, and to insure that the information reported to PDE is supported by the underlying documentation contained in the District's books and records.

**Section III – Federal Award Findings and Questioned Costs**

None



**PENN HILLS SCHOOL DISTRICT**  
**MANAGEMENT'S CORRECTIVE ACTION PLAN**  
**FOR THE YEAR ENDING JUNE 30, 2017**

**INDEPENDENT AUDIT FIRM:**

MARK C. TURNLEY CPA  
1000 3<sup>RD</sup> AVENUE  
NEW BRIGHTON, PA. 15066

The following represent the management of the Penn Hills School District's corrective action plan related to financial statement findings noted in the schedule of findings and questioned costs:

- **FINDING 2017-001: BUDGETING PROCESS**

**CONDITION:** During my preliminary and final review of the District's financial statements, in particular the General Fund actual expenditures compared to the approved budget submitted to the Department of Education, it was noted that there were functional categories of actual expenditures that were significantly over and under budget. Although not all inclusive, two functional areas of note that were over budget were 1) regular program instruction of \$2,794,203, and 2) student transportation services of \$3,036,326. In total, General Fund actual expenditures exceeded the approved budget (as adjusted) by approximately \$5,663,798 (6.9%). A complete listing of the budget versus actual variances is reported on page 7 (Exhibit G), and as other supplementary information on pages 41-46 of the audit report.

**RECOMMENDATION:** In light of the School District's deficit General Fund balance, I would strongly encourage the District to closely monitor all functional areas of spending so as to minimize the significant individual functional variances as mentioned above. I would also recommend that department heads and building principals, in conjunction with business office officials, review any purchase orders which will cause actual expenditures to exceed the detail line-item budgetary amounts as approved by the Board of Education. Any such excesses should be brought to the attention of the District Superintendent and Board of Education with proper justification prior to expenditure of District monies. The District's deficit fund balance mandates that these procedures be followed strictly going forward as a means of protecting the District from further financial losses.

**CORRECTIVE ACTION PLAN:** The School District concurs with the above noted finding. Effective June 5, 2017, the District is designated in 'financial watch status' by the Pennsylvania Department of Education (PDE) pursuant to Section 611-A of the Public School Code of 1949. Accordingly, PDE has provided the School District with a Technical Advisor to assist the District in managing its financial challenges such as the budget preparation process. This technical assistance along with the District's employment of a new Business Manager should enable the School District to make significant strides toward remediating problems in the budget preparation process as described above for all future District budgets. The District will implement the revised budgetary procedures during the preparation of the 2018-2019 budget process.

**PENN HILLS SCHOOL DISTRICT**  
**MANAGEMENT'S CORRECTIVE ACTION PLAN**  
**FOR THE YEAR ENDING JUNE 30, 2017**  
**(Continued)**

- **FINDING 2017-002: FUND ACCOUNT RECONCILIATION**

**CONDITION:** I noted during my audit of the General and Food Service Funds of the School District, that a significant number of journal entry adjustments were necessary during the audit process to ensure that the financial statements were presented as materially correct in conformity with generally accepted accounting principles (GAAP). A number of balance sheet, and revenue and expenditure accounts had not been properly reconciled throughout the fiscal year to the underlying supporting documentation on hand at the School District. Accordingly, prior to these year-end adjustments, the financial statements did not properly present the financial activity of the School District in conformity with GAAP as required under the Pa. Public School Code.

**RECOMMENDATION:** In light of the School District's current financial position, it is imperative that all balance sheet, revenue and expenditure account balances contained on the books of the District's General and Food Service Funds be reconciled on a monthly basis. This procedure will enable the business office to generate meaningful up-to-date financial information for use by all department heads, but most importantly, for the Superintendent and Board of Education, so that financial management decisions regarding the District's operations can be detected and corrected in a timely manner.

**CORRECTIVE ACTION PLAN:** The School District concurs with the above noted finding. The School District has employed a new Business Manager with the requisite skills necessary to make the above referenced adjustments throughout the fiscal year in order to accurately assess the financial position of the School District on a timely basis. This will also ensure that District officials such as the Superintendent and Board of Education will be in a position to make meaningful and prudent decisions regarding District operations based on the information they are receiving from the business office. The School District will be implementing these revised procedures effective immediately with the hire of the new Business Manager.

- **FINDING 2017-003: FEDERAL FINANCIAL REPORTS**

**CONDITION:** During my review of District's compliance with the laws and regulations related to its participation in the Title I and Title II grant programs, I noted that the School District did not complete and submit the required 'final expenditure report' (FER) for these grant programs for three prior fiscal years as listed on the Pennsylvania Department of Education (PDE) website.

**RECOMMENDATION:** I recommend that the District file the required Title I and Title II 'final expenditure reports' for the fiscal years in question, based on available financial information obtained from the District's business office, in order to comply with PDE reporting requirements for the Title I and Title II Programs, and to avoid any sanctions from PDE as a result of not filing these reports in a timely manner.

**CORRECTIVE ACTION PLAN:** The School District concurs with the above noted finding. The School District has employed a new Business Manager whose responsibilities include the oversight and preparation of all required financial reports related to PDE federal grant programs in a timely manner, and to insure that the information reported to PDE is supported by the underlying documentation contained in the District's books and records. The School District will be implementing these revised procedures effective immediately with the hire of the new Business Manager.

**RESPONSIBLE SCHOOL DISTRICT OFFICIALS FOR CORRECTIVE ACTION PLAN – District Superintendent and Business Manager**

**PENN HILLS SCHOOL DISTRICT**  
**STATUS OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDING JUNE 30, 2017**

The following represents the current status of the audit findings reported in the audit report of the Penn Hills School District for the year ended June 30, 2016, dated February 20, 2017:

- **FINDING 2016-1: BUDGETING PROCESS**

**CONDITION:** During my preliminary and final review of the District's financial statements, in particular the General Fund actual expenditures compared to the approved budget submitted to the Department of Education, it was noted that there were functional categories of actual expenditures that were significantly over and under budget. Although not all inclusive, three functional areas of note that were over budget were 1) regular program instruction of \$1,789,952, 2) student transportation services of \$1,215,696, and 3) debt service of \$2,335,236. Offsetting these variances was the functional category of special programs which was over budgeted by \$3,490,953. In total however, General Fund actual expenditures exceeded the approved budget (as adjusted) by approximately \$538,611 (.6%). A complete listing of the budget versus actual variances is reported on page 7 (Exhibit G) of the audit report.

**RECOMMENDATION:** It should be noted that the overall budget versus actual variance for expenditures has improved significantly from the prior 2014-2015 fiscal year. However in light of the School District's deficit net position, I would strongly encourage the District to continue to closely monitor all functional areas of spending so as to minimize the significant individual functional variances as mentioned above. I would also recommend that department heads and building principals, in conjunction with business office officials, review any purchase orders which will cause actual expenditures to exceed the detail line-item budgetary amounts as approved by the Board of Education. Any such excesses should be brought to the attention of the District Superintendent and Board of Education with proper justification prior to expenditure of District monies. The District's deficit fund balance mandates that these procedures be followed strictly going forward as a means of protecting the District from further financial losses.

**CURRENT STATUS:** This finding still existed during the 2016-2017 year (see 2017-001). Effective June 5, 2017, the District is designated in 'financial watch status' by the Pennsylvania Department of Education (PDE) pursuant to Section 611-A of the Public School Code of 1949. Accordingly, PDE has provided the School District with a Technical Advisor to assist the District in managing its financial challenges such as the budget preparation process. This technical assistance along with the District's employment of a new Business Manager should enable the School District to make significant strides toward remediating problems in the budget preparation process as described above for all future District budgets.

- **FINDING 2016-2: BALANCE SHEET ACCOUNT RECONCILIATION**

**CONDITION:** I noted during my audit of the individual 'receivable' and 'payable' asset and liability line-items that comprise the General Fund balance sheet of the School District, that significant account balances had not been adjusted during the year on a monthly basis to agree with underlying supporting documentation. In certain instances, balance sheet account balances that existed from the year end June 30, 2015, still existed unadjusted as of June 30, 2016. In addition, there were a number of smaller account balances with activity in and out during the fiscal year with no tracking so as to support the correctness of the balance that existed at June 30, 2016

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- **FINDING 2016-2: BALANCE SHEET ACCOUNT RECONCILIATION (Continued)**

**RECOMMENDATION:** In light of the School District's current financial position, it is imperative that all balance sheet account balances contained on the books of the District's General Fund be reconciled on a monthly basis. This procedure will enable the business office to generate meaningful up-to-date financial information for use by all department heads, but most importantly, for the Superintendent and Board of Education, so that financial management decisions regarding the District's operations can be detected and corrected in a timely manner.

**CURRENT STATUS:** This finding still existed during the 2016-2017 year (see 2017-002). The School District has employed a new Business Manager with the requisite skills necessary to make the above referenced adjustments throughout the fiscal year in order to accurately assess the financial position of the School District on a timely basis. This will also ensure that District officials such as the Superintendent and Board of Education will be in a position to make meaningful and prudent decisions regarding District operations based on the information they are receiving from the business office.

- **FINDING 2016-3: FINANCIAL REPORTS**

**CONDITION:** During my review of the District's account balances, and also in conjunction with my review of the District's compliance with grant and subsidy program laws and regulations, I noted that certain reports were not available for review. The reports included 1) the 'on-site review checklist' required to be completed as part of the National School Lunch Program, 2) the quarterly 'cash-on-hand' reports and 'final expenditure reports (FER)' required to be completed as part of the Title I program, and 3) the 'medical assistance - ACCESS' report required to be submitted to the Department of Education for reimbursement of eligible ACCESS expenditures. The District received approximately \$220,000 in ACCESS funding during the 2014-2015 fiscal year, but no such funding during the 2015-2016 year. It was not determinable if this report had been filed, delayed, or was in process as of the date of the audit report.

**RECOMMENDATION:** I would strongly encourage District officials to follow-up on researching the status of each of the aforementioned financial reports applicable to the 2015-2016 fiscal year. In certain instances, the unavailability of these reports represents a compliance finding with the Department of Education which could jeopardize future grant and subsidy funding without proper completion and submission of these reports. In addition, in light of the District's deficit net position, it is important to file required requests for reimbursement such as those for medical assistance – ACCESS on a timely basis so as to insure the District is receiving all possible funding that it is entitled to in order to offset the cost of overall District operations.

**CURRENT STATUS:** The portion of this finding related to the completion of the 'final expenditure reports' still existed during the 2016-2017 year (see 2017-003). The School District has employed a new Business Manager whose responsibilities include the oversight and preparation of all required financial reports related to PDE federal grant programs, and other federal and state grants and subsidies, in a timely manner, and to insure that the information reported to PDE and other applicable governmental agencies is supported by the underlying documentation contained in the District's books and records.

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- **FINDING 2016-4:** NATIONAL SCHOOL LUNCH PROGRAM (CFDA 10.555) - ON-SITE REVIEW CHECKLIST

**CONDITION:** During my review of District's compliance with the laws and regulations related to its participation in the National School Lunch Program, the required 'on-site review checklists' could not be located.

**RECOMMENDATION:** I would recommend that the District continue to search for the location of these checklists as they are important to the oversight process in determining whether the District is complying with the National School Lunch Program provisions for the assessment of the meal counting and claiming system at each of its cafeteria serving locations. If these checklists cannot be located, I would recommend that District officials contact the Department of Education (PDE) to determine what course of action, if any, would be deemed necessary at this point in time.

**CURRENT STATUS:** The District properly completed the required 'on-site review checklists' during the 2016-2017 fiscal year to comply with requirements of the National School Lunch Program. With the hire of a new Business Manager with the requisite skills necessary to insure the proper and timely completion of these reports, the District does not anticipate noncompliance with this requirement into the future.

- **FINDING 2016-5:** TITLE I PROGRAM (CFDA 84.010) – FEDERAL FINANCIAL REPORTS

**CONDITION:** During my review of District's compliance with the laws and regulations related to its participation in the Title I grant program, I noted that the district's new Business Manager had completed the required 'to-date' quarterly 'cash-on-hand' reports for the 2016-2017 fiscal year, and had completed the 'final expenditure report' for the district's Title I program for the 2014-2015 year (although amendments may be necessary), but could not locate the quarterly 'cash-on-hand' reports for the 2015-2016 fiscal year.

**RECOMMENDATION:** The District separately accounts for the expenditures of its Title I program, by source code, in its general ledger books of account. A review of a sample of these expenditures determined that they were allowable Title I program costs. However, it is important for the District to continue to search for the location of these quarterly 'cash-on-hand' reports so as to comply with PDE reporting requirements under the Title I Program, and to insure that the District is complying with the Uniform Guidance by insuring that the information contained on these federal financial reports is reconciled to its books and records (general ledger). If these financial reports cannot be located, I would recommend that the District complete these reports as soon as possible so as to comply with PDE reporting requirements under the Title I Program.

**CURRENT STATUS:** The School District has employed a new Business Manager whose responsibilities include the oversight and preparation of all required financial reports related to PDE federal grant programs, and other federal and state grants and subsidies, in a timely manner, and to insure that the information reported to PDE and other applicable governmental agencies is supported by the underlying documentation contained in the District's books and records.