

NORTHGATE SCHOOL DISTRICT

PITTSBURGH, PENNSYLVANIA

JUNE 30, 2018

AUDIT REPORT

NORTHGATE SCHOOL DISTRICT

PITTSBURGH, PENNSYLVANIA

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PITTSBURGH, PENNSYLVANIA

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Northgate School District
591 Union Avenue
Pittsburgh, Pennsylvania 15202

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Northgate School District as of and for the year ended June 30, 2018 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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Northgate School District, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the financial statements, the School District adopted Governmental Accounting Standards Board (GASB) Statements 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*, and GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which requires the School District to record its proportionate share of the Public School Employees' Retirement System (PSERS) net OPEB liability and related items on the government-wide financial statements and to record the School District's total OPEB liability. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, postemployment benefits other than pension benefits (OPEB) information, and Public School Employees' Retirement System information on pages i-xiii, 51 and 54-55, and 52-53, respectively, 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. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We 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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Northgate School District's 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.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to 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 our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2019 on our consideration of the Northgate School District's internal control over financial reporting and on our 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 our 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 Northgate School District's internal control over financial reporting and compliance.

Cottrill, Arbutina and Assoc.

Beaver, PA 15009
January 25, 2019

NORTHGATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2018

Required Supplementary Information (RSI)

The Management's Discussion and Analysis (MD&A) of the Northgate School District ("School District")'s financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should review the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

The Management's Discussion and Analysis is an element of the reporting model adopted by the Government Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for the State and Local Governments*. Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A.

USING THE ANNUAL FINANCIAL AUDIT REPORT

The annual financial audit report consists of the Management's Discussion and Analysis (this section) and a series of financial statements and notes to those statements. These statements are organized so that the reader can understand Northgate School District as an entire operating entity.

The first two statements are government-wide financial statements: the statement of net position and the statement of activities. These provide both long-term and short-term information about the School District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the School District's operations in more detail than the government-wide statements. The governmental fund statements tell how general School District services were financed in the short term as well as what remains for future spending. Proprietary fund statements offer financial information about the activities that the School District operates like a business. For our School District, this is our Food Service Fund. Fiduciary fund statements provide information about financial relationships where the School District acts solely as a trustee or agent for the benefit of others to whom the resources in question belong. For our School District, this is our student activities fund and scholarship fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

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

NORTHGATE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2018

Figure A-1
Required components of
NORTHGATE SCHOOL DISTRICT'S
Financial Report

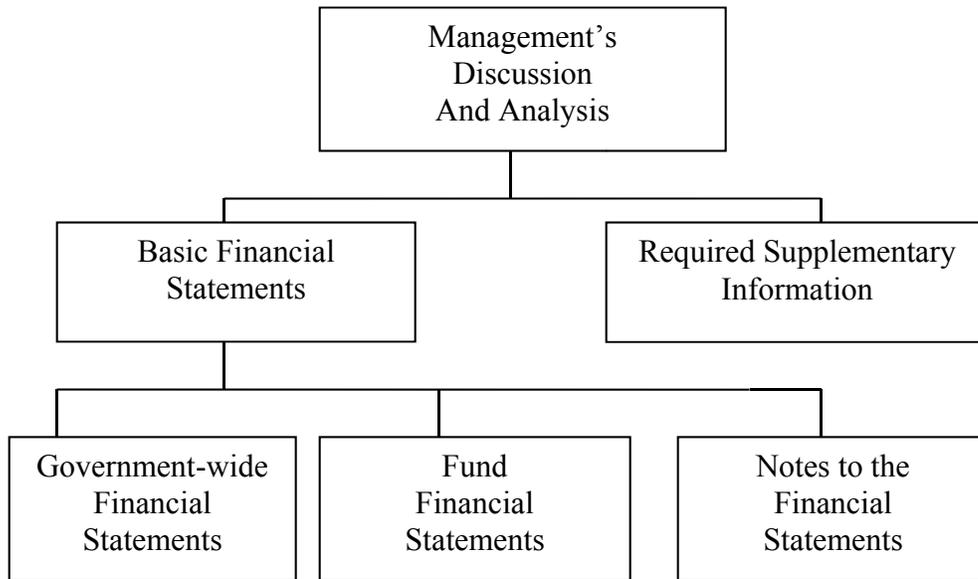


Figure A-2 summarizes the major features of the School District's financial statements, including the portion of the School District they cover and the types of information they contain. The remainder of this overview section of Management's Discussion and Analysis explains the structure and contents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

NORTHGATE SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2018

Figure A-2 Major Features of Northgate School District’s Government-Wide and Fund Financial Statements				
		Fund Statements		
	Government- Wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School District (except fiduciary funds)	The activities of the School District that are not proprietary or fiduciary, such as education, administration, and community services	Activities the School District operates similar to private business – Food Services	Instances in which the School District is the trustee or agent to someone else’s resources – Student Activities Fund and Scholarship Fund
Required financial statements	Statement of Net Position Statement of Activities	Balance Sheet Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Net Position Statement of Revenues, Expenses, and Changes in Fund Net Position Statement of Cash Flows	Statement of Fiduciary Net Position Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow-outflow information	All revenues and expenses during the year, regardless of when cash is received or spent	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or spent	All revenues and expenses during the year, regardless of when cash is received or spent

NORTHGATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2018

OVERVIEW OF FINANCIAL STATEMENTS

Government-Wide Statements

The government-wide statements report information on the School District as a whole using accounting methods similar to those used by private-sector companies.

The statement of net position presents information on all the School District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The difference between the assets plus deferred outflows of resources less liabilities and deferred inflows of resources is reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating.

The statement of activities presents information showing how the School District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused compensation absences).

To assess the overall health of the School District, non-financial factors must be considered. These factors include changes in the School District's property tax base and the performance of students.

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

- Governmental activities – The School District's basic services include instruction, support services, administration, and community services. Property and earned income taxes, state and federal subsidies, and local grants finance most of these activities.
- Business-type activities – The School District operates a food service operation. Fees charged to staff and students as well as state and federal funding are used to cover the costs related to the food service operations.

Fund Financial Statements

The School District's fund financial statements, which begin on page 6, provide detailed information about the most significant funds – not the School District as a whole. Some funds are required by state law and bond requirements.

Governmental funds – Most of the School 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 a modified accrual accounting method. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School District's operations and the services the School District provides. Governmental fund information helps the reader determine whether there are more or less financial resources that can be spent in the near future to finance the School District's instructional programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds are reflected in the reconciliation on pages 7 and 9.

NORTHGATE SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2018

Proprietary funds – These funds are used to account for the School 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 School District charges customers for services it provides—whether to outside customers or to other units in the School District—these services are generally reported in proprietary funds. The food service fund is the School District’s proprietary fund and is the same as the business-type activities we report in the government-wide statements but provides more detail and additional information, such as cash flows.

Fiduciary funds – The School District is the trustee, or fiduciary, for the student activities fund and scholarship fund. All of the School District’s fiduciary activities are reported in separate statements on page 13 and 14. These activities are excluded from the School District’s other financial statements due to the fact that the School District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The School District's total net position was (\$18,379,273) at June 30, 2018. This is a decrease in net position from the prior year of \$6,680,025 including a prior period adjustment of \$3,352,063 for new GASB standards. (See note 17)

**Table A-1
Fiscal Year Ended June 30, 2018 and 2017
Net Position**

	<u>JUNE 30, 2018</u>			<u>JUNE 30, 2017</u>		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current assets	\$ 18,374,951	\$ 232,777	\$ 18,607,728	\$ 18,076,916	\$ 230,502	\$ 18,307,418
Noncurrent assets	5,188,963	33,056	5,222,019	4,977,470	48,563	5,026,033
Total Assets	<u>\$ 23,563,914</u>	<u>\$ 265,833</u>	<u>\$ 23,829,747</u>	<u>\$ 23,054,386</u>	<u>\$ 279,065</u>	<u>\$ 23,333,451</u>
Deferred Outflows	\$ 7,227,409	\$ 0	\$ 7,227,409	\$ 6,539,417	\$ 0	\$ 6,539,417
Current liabilities	\$ 6,677,785	\$ 28,120	\$ 6,705,905	\$ 5,627,074	\$ 31,550	\$ 5,658,624
Long-term liabilities	41,597,381	0	41,597,381	34,413,494	0	34,413,494
Total Liabilities	<u>\$ 48,275,166</u>	<u>\$ 28,120</u>	<u>\$ 48,303,286</u>	<u>\$ 40,040,568</u>	<u>\$ 31,550</u>	<u>\$ 40,072,118</u>
Deferred Inflows	\$ 1,133,145	\$ 0	\$ 1,133,145	\$ 1,500,000	\$ 0	\$ 1,500,000
NET POSITION						
Net Invested in Capital Assets	\$ 2,412,810	\$ 33,056	\$ 2,445,866	\$ 1,657,141	\$ 48,563	\$ 1,705,704
Restricted	172,616	0	172,616	170,509	0	170,509
Unrestricted	(21,202,414)	204,657	(20,997,757)	(13,774,415)	198,952	(13,575,463)
Total Net Position	<u>\$ (18,616,988)</u>	<u>\$ 237,713</u>	<u>\$ (18,379,275)</u>	<u>\$ (11,946,765)</u>	<u>\$ 247,515</u>	<u>\$ (11,699,250)</u>

NORTHGATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2018

Current assets include cash and cash equivalents (money in banks and liquid investments), net taxes receivable (fund accounting includes only property and earned income taxes anticipated to be received within 60 days of the close of the fiscal year, June 30), subsidies still to be received from state and federal government, and inventories.

Capital assets include land values, site improvements, building and building improvements, furniture, and equipment (all net of amortization or depreciation).

Current liabilities include accounts payable, current portion of long-term debt, short-term payables, accrued salaries, and benefits (July and August costs for teachers who do not take "balance of contract" in June).

Long-term liabilities include bonds payable and unamortized bond discount/premium, lease purchase obligations (copiers and Act 57 improvements), long-term portion of other post-employment benefits (medical and dental insurances for retirees paid by the School District under the retirement incentive plans), and long-term portion of compensated absences (value of sick days should employees use all their accumulated entitlements).

Buildings, land, and equipment make up most of the School District's net position in the net investment in capital assets. Table A-1 shows the capital assets of the School District at cost less depreciation and does not reflect market values. The remaining net position is restricted and unrestricted amounts. Restricted net position is the amounts set aside to fund future purchases or capital projects as planned by the School District.

The results of this year's operations as a whole are reported in the statement of activities on page 5. 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 School District's activities that are supported by other general revenues. The two largest general revenues are the basic education subsidy provided by the Commonwealth of Pennsylvania and local taxes assessed to the community taxpayers of the School District.

NORTHGATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2018

Table A-2 takes the information from the statement of activities and rearranges it slightly so one can see our total revenues, expenses, and changes in net position for the year. Prior year information is also provided for a comparative analysis of government-wide data.

Table A-2
Fiscal Year Ended June 30, 2018
Changes in Net Position

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:					
Instructional Services	\$ 18,317,364	\$ 3,757,945	\$ (14,559,419)	\$ 0	\$ (14,559,419)
Support Services	7,368,860	944,316	(6,424,544)	0	(6,424,544)
Non-Instructional	<u>1,002,374</u>	<u>178,989</u>	<u>(823,385)</u>	<u>0</u>	<u>(823,385)</u>
Total Governmental Activities	\$ 26,688,598	\$ 4,881,250	\$ (21,807,348)	\$ 0	\$ (21,807,348)
Business-type Activities:					
Food Services	<u>649,868</u>	<u>640,029</u>	<u>0</u>	<u>(9,839)</u>	<u>(9,839)</u>
Total:	<u>\$ 27,338,466</u>	<u>\$ 5,521,279</u>	<u>\$ (21,807,348)</u>	<u>\$ (9,839)</u>	<u>\$ (21,817,187)</u>
General Revenues					
Local property taxes			\$ 10,301,151	\$ 0	\$ 10,301,151
Property tax relief			697,594	0	697,594
Other local taxes			3,226,149	0	3,226,149
Refunds of prior years receipts			(71,932)	0	(71,932)
Refunds of prior years expenditures			15,579	0	15,579
Grants, subsidies, contributions not restricted			4,118,483	0	4,118,483
Investment earnings			167,768	37	167,805
Miscellaneous income			34,396	0	34,396
Transfers			<u>0</u>	<u>0</u>	<u>0</u>
Total			<u>\$ 18,489,188</u>	<u>\$ 37</u>	<u>\$ 18,489,225</u>
Change in Net Position			<u>\$ (3,318,160)</u>	<u>\$ (9,802)</u>	<u>\$ (3,327,962)</u>
Net Position-Beginning			\$ (11,946,765)	\$ 247,515	\$ (11,699,250)
Prior Period Adjustment (Note 16)			<u>(3,352,063)</u>	<u>0</u>	<u>(3,352,063)</u>
Net Position-Beginning Restated			<u>\$ (15,298,828)</u>	<u>\$ 247,515</u>	<u>\$ (15,051,313)</u>
Net Position-Ending			<u>\$ (18,616,988)</u>	<u>\$ 237,713</u>	<u>\$ (18,379,275)</u>

NORTHGATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2018

**Table A-2-continued
Fiscal Year Ended June 30, 2017
Changes in Net Position**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:					
Instructional Services	\$ 13,666,755	\$ 4,015,448	\$ (9,651,307)	\$ 0	\$ (9,651,307)
Support Services	7,213,625	853,674	(6,359,951)	0	(6,359,951)
Non-Instructional	<u>1,007,441</u>	<u>301,924</u>	<u>(705,517)</u>	<u>0</u>	<u>(705,517)</u>
Total Governmental Activities	\$ 21,887,821	\$ 5,171,046	\$ (16,716,775)	\$ 0	\$ (16,716,775)
Business-type Activities:					
Food Services	<u>688,098</u>	<u>695,692</u>	<u>0</u>	<u>7,594</u>	<u>7,594</u>
Total:	<u>\$ 22,575,919</u>	<u>\$ 5,866,738</u>	<u>\$ (16,716,775)</u>	<u>\$ 7,594</u>	<u>\$ (16,709,181)</u>
General Revenues					
Local property taxes			\$ 10,284,633	\$ 0	\$ 10,284,633
Property tax relief			697,639	0	697,639
Other local taxes			3,065,590	0	3,065,590
Refunds of prior years receipts			(51,388)	0	(51,388)
Refunds of prior years expenditures			5,148	0	5,148
Grants, subsidies, contributions			4,099,163	0	4,099,163
Investment earnings			58,043	0	58,043
Miscellaneous income			17,736	0	17,736
Transfers			<u>0</u>	<u>0</u>	<u>0</u>
Total			<u>\$ 18,176,564</u>	<u>\$ 0</u>	<u>\$ 18,176,564</u>
Change in Net Position			\$ 1,459,789	\$ 7,594	\$ 1,467,383
Net Position-Beginning			<u>(13,406,554)</u>	<u>239,921</u>	<u>(13,166,633)</u>
Net Position-Ending			<u>\$ (11,946,765)</u>	<u>\$ 247,515</u>	<u>\$ (11,699,250)</u>

Table A-3 shows the School District's largest functions: instruction, instructional student support, administrative and financial support, operation and maintenance of plant, pupil transportation, student activities, community services, interest on long-term debt and capital outlay as well as each program's net cost (total cost less revenues generated by the activities). This table also shows the net costs offset by the other unrestricted grants, subsidies, and unrestricted contributions to show the remaining financial needs supported by local tax efforts and other miscellaneous revenues. Prior year information is again provided to allow for a comparative analysis.

NORTHGATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2018

**Table A-3
Fiscal Year Ended June 30, 2018 & 2017
Governmental Activities**

<u>Functions/Programs</u>	<u>2018 Total Cost of Service</u>	<u>2018 Net Cost of Service</u>	<u>2017 Total Cost of Service</u>	<u>2017 Net Cost of Service</u>
Instruction	\$ 18,317,364	\$ 14,559,419	\$ 13,666,755	\$ 9,651,307
Instructional Student Support	2,463,026	2,136,346	2,309,570	1,963,118
Administrative	2,184,385	1,969,049	2,302,390	2,076,493
Operation and Maintenance	2,103,474	1,839,854	1,980,540	1,804,670
Student Transportation	617,975	479,295	621,125	515,670
Student Activities	472,301	412,844	417,515	357,810
Community Services	137,902	130,221	191,952	184,389
Scholarship and Awards	5,630	5,630	5,000	5,000
Interest on Long-Term Debt	197,265	85,414	241,072	6,416
Capital Outlay	189,276	189,276	151,902	151,902
Total Governmental Activities	<u>\$ 26,688,598</u>	<u>\$ 21,807,348</u>	<u>\$ 21,887,821</u>	<u>\$ 16,716,775</u>
Less:				
Grants, Subsidies Not Restricted		4,118,483		4,009,163
Total Needs from Local Taxes and Other Revenues		<u>\$ 17,688,865</u>		<u>\$ 12,707,612</u>

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

**Table A-4
Fiscal Year Ended June 30, 2018 & 2017
Business-type Activity/Food Service**

<u>Functions/Programs</u>	<u>2018 Total Cost of Service</u>	<u>2018 Net Cost of Service</u>	<u>2017 Total Cost of Service</u>	<u>2017 Net Cost of Service</u>
Food Services	\$ 649,868	\$ 9,839	\$ 688,098	\$ (7,594)
Less: Investment Earnings	(37)	(37)	0	0
Plus: Transfers	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Business - Type Activities	<u>\$ 649,831</u>	<u>\$ 9,802</u>	<u>\$ 688,098</u>	<u>\$ (7,594)</u>

The statement of revenues, expenses, and changes in fund net position for the Food Service program will further detail the actual results of operations.

NORTHGATE SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2018

CAPITAL ASSETS

At June 30, 2018, the School District’s governmental activities had \$5,188,963 invested in a broad range of capital assets, including land, buildings, and furniture and equipment. The change in capital assets is mostly due to depreciation expense of approximately \$490,000, \$18,500 of site improvements, \$132,000 of additional furniture and equipment, and \$550,700 construction in progress during the fiscal year.

**Table A-5
Governmental Activities
Capital Assets – Net of Depreciation
Fiscal Year Ended June 30, 2018 & 2017**

	<u>2018</u>	<u>2017</u>
Land	\$ 821,234	\$ 821,234
Site Improvements	162,569	162,140
Buildings	2,133,989	2,342,451
Furniture & Equipment	1,520,444	1,651,645
Construction in Progress	<u>550,727</u>	<u>0</u>
Total Capital Assets	<u>\$ 5,188,963</u>	<u>\$ 4,977,470</u>

At June 30, 2018, the School District’s business-type activities had \$33,056 invested in buildings and furniture and equipment. The change in capital assets is mostly due to depreciation expense of approximately \$15,500 during the June 30, 2018 year.

**Table A-5-continued
Business-type Activities
Capital Assets – Net of Depreciation
Fiscal Year Ended June 30, 2018 & 2017**

	<u>2018</u>	<u>2017</u>
Land	\$ 0	\$ 0
Site Improvements	0	0
Buildings	5,979	17,377
Furniture & Equipment	<u>27,077</u>	<u>31,186</u>
Total Capital Assets	<u>\$ 33,056</u>	<u>\$ 48,563</u>

More detailed information regarding the School District’s capital assets is included in Note 7 to the financial statements.

NORTHGATE SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2018

DEBT ADMINISTRATION

As of July 1, 2017, the School District had total outstanding debt of \$3,616,846, which includes the School District’s share in the amount of \$439,680 of the A. W. Beattie Career Center bond and \$261,922 in compensated absences and retirement incentives. During 2017-2018, the School District made principal payments in the amount of \$28,640 towards the A. W. Beattie Career Center bond and also made principal and interest payments of \$700,000 on the Capital Appreciation Bond resulting in ending outstanding debt at June 30, 2018 of \$3,115,620.

**Table A-6
Outstanding Debt
Fiscal Year Ended June 30, 2018 & 2017**

	<u>2018</u>	<u>2017</u>
General Obligation Notes/Bonds:		
Bonds, Series of 2016	\$ 411,040	\$ 439,680
Capital Appreciation Bonds: 1997 B	2,365,113	2,880,649
Deferred Amounts for Discount/Premium	31,828	34,595
Compensated Absences/Retirement	<u>307,639</u>	<u>261,922</u>
Total	<u>\$ 3,115,620</u>	<u>\$ 3,616,846</u>

More detailed information regarding the School District’s debt is included in Note 9 to the financial statements.

2017-2018 BUDGET

The revenue budget for the 2017-2018 fiscal year is \$16,312 less than the original budget for 2016-2017. This represents .07% decrease in budgeted revenues. The expenditure budget for the 2017-2018 year is \$151,313 more than the original budget for 2016-2017 fiscal year, or a .67% increase. This increase is mostly due to changes in regular programs.

The comparison of budget revenue and expenditure categories is as follows:

**Table A-7
BUDGETED REVENUES**

	<u>2018</u>	<u>2017</u>
Local	59.79%	57.67%
State	37.51%	37.06%
Federal/Other	2.70%	5.27%

NORTHGATE SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2018

Table A-7-continued
BUDGETED EXPENDITURES

	<u>2018</u>	<u>2017</u>
Instruction Services	62.31%	60.24%
Support Services	31.09%	31.57%
Non-Instruction/Community	2.78%	2.75%
Facilities Acquisition/Improvement	0.04%	1.56%
Debt Service/Transfers	3.78%	3.88%

FINANCIAL HIGHLIGHTS

The School District audit reflected a general fund balance of \$10,353,886 at fiscal year end June 30, 2018, and \$10,851,616 at fiscal year end June 30, 2017, which is a decrease of \$497,730.

During the June 30, 2018 fiscal year, federal subsidies decreased by \$556,041 while state subsidies increased by \$222,955. An increase in earned income taxes accounted for most of the remaining overall increase in general fund local revenues over the prior year by \$167,177.

A construction project at A.W. Beattie Career Center required a bond issue by the nine participating school districts during the June 30, 2009 fiscal year. Northgate’s share of the cost was \$668,480 over 20 years. During the June 30, 2017 fiscal year, the bond was refinanced with Northgate’s share of the cost at \$472,480. The principal payment of \$28,640 was paid during the June 30, 2018 fiscal year. At June 30, 2018, the School District’s balance was \$411,040.

Expenditures were 4.9% over the budgeted amount, caused mostly by increases in instructional staff services, regular programs, and facilities acquisition and construction.

Actual expenses were up 5.7% over 2016-2017. This was a result of increases in expenditures in regular programs, special programs, and the \$637,000 increase in facilities acquisition and construction during 2017-2018.

Actual revenues were higher than 2017-2018 budgeted revenues by 4.42%. This was a result of higher than anticipated collection of state revenues, delinquent real estate taxes, and earned income taxes.

The Northgate Board of School Directors has for many years approved a budget adequate to cover necessary expenditures but which is not necessarily a commitment to spend. Administrators and staff are directed to continue careful evaluation of expenditures throughout the year. When revenues meet or exceed what is anticipated and budgeted, spending less than budgeted contributes even more to the fund balance and provides capital for improvements, which are the foundations of fiscal health.

Rebuilding the fund balance and preparing for major capital expenses is not a small thing for a school district with no industry, little commercial developments, nor land for residential development. Maintaining the quality level of education and the wide variety of extra-curricular and athletic opportunities available to the students of Avalon and Bellevue are of paramount

NORTHGATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2018

importance. Providing that in a safe and healthy environment with a secure future is a goal of the Northgate School District.

The School District's business-type activities net position decreased \$9,802, including \$15,508 of depreciation expense.

SUMMARY

With no expectation of future growth given the residential nature of the communities of Avalon and Bellevue and the fact that both have been fully developed for decades, the Northgate School District has successfully executed its strategy to rebuild an unrestricted fund balance and set aside money for unexpected and foreseeable capital improvements.

The School District is actively preparing for unexpected and proposed capital projects each year. In order to fund these projects without the need for additional borrowing issues or tax increases, the School District has established the Capital Reserve Fund and makes transfers from the available fund balance of the General Funds when possible. In addition, the Board has budgeted additional monies in a capital projects line item in the general operating budget.

Northgate School District continues to budget for significant increases in health benefit costs, retirement contributions, and increases in the cost of transportation and charter schools. Special education costs are dependent upon the type of students enrolled in the School District each year, and enrollment or withdrawal of a severely handicapped student would cause this expenditure to fluctuate. As previously reported, the School District budgets to meet anticipated expenditures but does not necessarily spend all budgeted revenue.

Also, the School District applies for federal, state, and local grants, which cannot always be anticipated in the budgeting process. When grant applications are funded, this revenue is above and beyond what was estimated to pay for budgeted expenses. While these grants frequently cannot be used to "supplant" programs we would provide but instead "supplement," the money can impact the fund balance.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the School District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Christopher J. Ursu, Director of Finance and Operations, at Northgate School District, 591 Union Avenue, Pittsburgh, PA 15202-2958, or e-mail at cursu@northgate.k12.pa.us.

NORTHGATE SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2018

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 11,521,149	\$ 191,497	\$ 11,712,646
Taxes Receivable, net			
Property Taxes	5,374,833	0	5,374,833
Earned Income Taxes	194,322	0	194,322
Internal Balances	36,778	(36,778)	0
Intergovernmental Receivables	1,012,518	47,376	1,059,894
Other Receivables	125,736	9,585	135,321
Prepaid Expenses	0	0	0
Inventories	109,615	21,097	130,712
Total Current Assets	<u>\$ 18,374,951</u>	<u>\$ 232,777</u>	<u>\$ 18,607,728</u>
Noncurrent Assets			
Land	\$ 821,234	\$ 0	\$ 821,234
Site Improvements (net of depreciation)	162,569	0	162,569
Building & Building Improvements (net of depreciation)	2,133,989	5,979	2,139,968
Furniture & Equipment (net of depreciation)	1,520,444	27,077	1,547,521
Construction in Progress	550,727	0	550,727
Total Noncurrent Assets	<u>\$ 5,188,963</u>	<u>\$ 33,056</u>	<u>\$ 5,222,019</u>
TOTAL ASSETS	<u>\$ 23,563,914</u>	<u>\$ 265,833</u>	<u>\$ 23,829,747</u>
DEFERRED OUTFLOWS OF RESOURCES			
Related to Pensions	\$ 6,846,069	\$ 0	\$ 6,846,069
Related to Retirement Incentives OPEB	21,720	0	21,720
Related to District OPEB	218,872	0	218,872
Related to PSERS OPEB	140,748	0	140,748
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 7,227,409</u>	<u>\$ 0</u>	<u>\$ 7,227,409</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 965,518	\$ 28,120	\$ 993,638
Short-Term Payables	3,181	0	3,181
Accrued Salaries and Benefits	1,621,469	0	1,621,469
Bonds Payable - Current	722,800	0	722,800
PSERS Other Post-Employment Benefits - Current	85,748	0	85,748
Net Pension Liability - Current	3,279,069	0	3,279,069
Total Current Liabilities	<u>\$ 6,677,785</u>	<u>\$ 28,120</u>	<u>\$ 6,705,905</u>
Noncurrent Liabilities			
Bonds Payable - Long Term	\$ 2,053,353	\$ 0	\$ 2,053,353
Unamortized Bond Discount/Premium	31,828	0	31,828
Compensated Absences - Long Term	34,932	0	34,932
Retirement Incentives OPEB - Long Term	272,707	0	272,707
District Other Post-Employment Benefits - Long Term	5,337,378	0	5,337,378
PSERS Other Post-Employment Benefits - Long Term	1,389,252	0	1,389,252
Net Pension Liability - Long Term	32,477,931	0	32,477,931
Total Noncurrent Liabilities	<u>\$ 41,597,381</u>	<u>\$ 0</u>	<u>\$ 41,597,381</u>
TOTAL LIABILITIES	<u>\$ 48,275,166</u>	<u>\$ 28,120</u>	<u>\$ 48,303,286</u>
DEFERRED INFLOWS OF RESOURCES			
Related to Pensions	\$ 865,000	\$ 0	\$ 865,000
Related to Retirement Incentives OPEB	6,381	0	6,381
Related to District OPEB	192,764	0	192,764
Related to PSERS OPEB	69,000	0	69,000
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 1,133,145</u>	<u>\$ 0</u>	<u>\$ 1,133,145</u>
NET POSITION			
Net Investment in Capital Assets	\$ 2,412,810	\$ 33,056	\$ 2,445,866
Restricted for:			
Capital Reserves	172,616	0	172,616
Unrestricted (deficit)	(21,202,414)	204,657	(20,997,757)
TOTAL NET POSITION	<u>\$ (18,616,988)</u>	<u>\$ 237,713</u>	<u>\$ (18,379,275)</u>

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

NORTHGATE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction:							
Regular Instruction	\$ 13,022,775	\$ 0	\$ 1,904,458	\$ 0	\$ (11,118,317)	\$ 0	\$ (11,118,317)
Special Instruction	3,267,520	0	1,514,048	0	(1,753,472)	0	(1,753,472)
Vocational Instruction	952,374	0	63,911	0	(888,463)	0	(888,463)
Other Instructional Programs	883,995	0	89,614	0	(794,381)	0	(794,381)
Pre-Kindergarten	190,700	0	185,914	0	(4,786)	0	(4,786)
Total Instructional Services	\$ 18,317,364	\$ 0	\$ 3,757,945	\$ 0	\$ (14,559,419)	\$ 0	\$ (14,559,419)
Support Services:							
Pupil Personnel	\$ 953,104	\$ 0	\$ 115,104	\$ 0	\$ (838,000)	\$ 0	\$ (838,000)
Instructional Staff	849,012	0	76,446	0	(772,566)	0	(772,566)
Administration	1,713,805	0	173,864	0	(1,539,941)	0	(1,539,941)
Pupil Health	347,853	0	65,496	0	(282,357)	0	(282,357)
Business Services	470,580	0	41,472	0	(429,108)	0	(429,108)
Operation of Plant and Maintenance Services	2,103,474	110,247	153,373	0	(1,839,854)	0	(1,839,854)
Student Transportation Services	617,975	0	138,680	0	(479,295)	0	(479,295)
Central and Other Support Services	313,057	0	69,634	0	(243,423)	0	(243,423)
Total Support Services	\$ 7,368,860	\$ 110,247	\$ 834,069	\$ 0	\$ (6,424,544)	\$ 0	\$ (6,424,544)
Non-Instructional Services:							
Student Activities	\$ 472,301	\$ 23,990	\$ 35,467	\$ 0	\$ (412,844)	\$ 0	\$ (412,844)
Community Services	137,902	0	7,681	0	(130,221)	0	(130,221)
Scholarship and Awards	5,630	0	0	0	(5,630)	0	(5,630)
Interest on Long-Term Debt	197,265	0	0	111,851	(85,414)	0	(85,414)
Capital Outlay (Not subject to capitalization)	189,276	0	0	0	(189,276)	0	(189,276)
Unallocated Depreciation Expense	0	0	0	0	0	0	0
Total Non-Instructional Services	\$ 1,002,374	\$ 23,990	\$ 43,148	\$ 111,851	\$ (823,385)	\$ 0	\$ (823,385)
Total Governmental Activities	\$ 26,688,598	\$ 134,237	\$ 4,635,162	\$ 111,851	\$ (21,807,348)	\$ 0	\$ (21,807,348)
Business-Type Activities:							
Food Services	649,868	230,366	409,663	0	0	(9,839)	(9,839)
Total Primary Government	\$ 27,338,466	\$ 364,603	\$ 5,044,825	\$ 111,851	\$ (21,807,348)	\$ (9,839)	\$ (21,817,187)
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes, Net					\$ 10,301,151	\$ 0	\$ 10,301,151
Property Tax Relief					697,594	0	697,594
Other Taxes Levied for General Purposes, Net					3,226,149	0	3,226,149
Refunds of Prior Year Receipts					(71,932)	0	(71,932)
Refunds of Prior Year Expenditures					15,579	0	15,579
Grants, Subsidies & Contributions Not Restricted					4,118,483	0	4,118,483
Investment Earnings					167,768	37	167,805
Miscellaneous Income					34,396	0	34,396
Transfers					0	0	0
Total General Revenues and Transfers					\$ 18,489,188	\$ 37	\$ 18,489,225
Change in Net Position					\$ (3,318,160)	\$ (9,802)	\$ (3,327,962)
Net Position - Beginning of Year					\$ (11,946,765)	\$ 247,515	\$ (11,699,250)
Prior Period Adjustment (Note 17)					(3,352,063)	0	(3,352,063)
Net Position - Beginning of Year - Restated					\$ (15,298,828)	\$ 247,515	\$ (15,051,313)
Net Position - End of Year					\$ (18,616,988)	\$ 237,713	\$ (18,379,275)

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

NORTHGATE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2018

	<u>General</u>	Total Governmental <u>Funds</u>
ASSETS		
Cash and Cash Equivalents	\$ 11,521,149	\$ 11,521,149
Taxes Receivable:		
Property Taxes	5,374,833	5,374,833
Earned Income Taxes	194,322	194,322
Interfund Receivables	36,778	36,778
Intergovernmental Receivables	1,012,518	1,012,518
Other Receivables	<u>125,736</u>	<u>125,736</u>
TOTAL ASSETS	<u>\$ 18,265,336</u>	<u>\$ 18,265,336</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
LIABILITIES		
Accounts Payable	\$ 965,518	\$ 965,518
Accrued Salaries & Benefits	<u>1,621,469</u>	<u>1,621,469</u>
TOTAL LIABILITIES	<u>\$ 2,586,987</u>	<u>\$ 2,586,987</u>
 DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue - Property Taxes	<u>\$ 5,324,463</u>	<u>\$ 5,324,463</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 5,324,463</u>	<u>\$ 5,324,463</u>
 FUND BALANCE		
Non-Spendable:	\$ 0	\$ 0
Spendable:		
Assigned-Next Year Appropriations	2,763,174	2,763,174
Assigned-PSERS & Other Post-Employment Benefits	4,704,285	4,704,285
Assigned-PSERS Increases	803,702	803,702
Assigned-Capital Reserves	1,496,000	1,496,000
Unassigned	<u>586,725</u>	<u>586,725</u>
TOTAL FUND BALANCE	<u>\$ 10,353,886</u>	<u>\$ 10,353,886</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	 <u>\$ 18,265,336</u>	 <u>\$ 18,265,336</u>

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

NORTHGATE SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

JUNE 30, 2018

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS \$ 10,353,886

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

Capital assets used in governmental activities that are not financial resources and therefore are not reported as assets in governmental funds.

Add: Capital Assets	17,352,106
Deduct: Accumulated Depreciation	(12,163,143)

Certain tax revenues are recognized in the period for which levied rather than when "available." A portion of the certain deferred tax revenues are not available.

Add: Property Taxes	5,324,463
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Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in governmental funds

Deduct: Net Pension Liability	(35,757,000)
-------------------------------	--------------

Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in governmental funds

Add: Deferred Outflows of Resources Related to Pensions	\$	6,846,069
Add: Deferred Outflows of Resources Related to OPEB		381,340
Deduct: Deferred Inflows of Resources Related to OPEB		(268,145)
Deduct: Deferred Inflows of Resources Related to Pensions		<u>(865,000)</u>
		6,094,264

The government funds follow the purchase method of inventory; therefore, no inventory is reflected on the balance sheet. However, the Statement of Net Position uses the consumption method of inventory.

109,615

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

Deduct: Notes Payable	\$	(2,776,153)
Add: Unamortized Discount/Premium		(31,828)
Deduct: Accrued Interest on Debt		(3,181)
Deduct: Compensated Absences and Other Post-Employment Benefit		<u>(7,120,017)</u>
		<u>(9,931,179)</u>

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ (18,616,988)**

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

NORTHGATE SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED JUNE 30, 2018

	<u>General</u>	<u>Total Governmental Funds</u>
REVENUES		
Local Sources	\$ 13,949,197	\$ 13,949,197
State Sources	8,697,752	8,697,752
Federal Sources	<u>578,764</u>	<u>578,764</u>
TOTAL REVENUES	<u>\$ 23,225,713</u>	<u>\$ 23,225,713</u>
EXPENDITURES		
Instruction	\$ 14,471,319	\$ 14,471,319
Support Services	7,181,404	7,181,404
Non-Instructional Services	605,099	605,099
Capital Outlay	664,882	664,882
Debt Services	<u>744,386</u>	<u>744,386</u>
TOTAL EXPENDITURES	<u>\$ 23,667,090</u>	<u>\$ 23,667,090</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (441,377)</u>	<u>\$ (441,377)</u>
OTHER FINANCING SOURCES (USES)		
Refund of Prior Year Receipts	\$ (71,932)	\$ (71,932)
Refund of Prior Year Expenditures	15,579	15,579
Transfers Out	<u>0</u>	<u>0</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ (56,353)</u>	<u>\$ (56,353)</u>
NET CHANGE IN FUND BALANCE	\$ (497,730)	\$ (497,730)
FUND BALANCE - JUNE 30, 2017	<u>10,851,616</u>	<u>10,851,616</u>
FUND BALANCE - JUNE 30, 2018	<u>\$ 10,353,886</u>	<u>\$ 10,353,886</u>

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

**NORTHGATE SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

NET CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS \$ (497,730)

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 capital outlay exceeds depreciation in the period.

	Capital Outlays	\$ 701,001	
	Less: Depreciation Expense	<u>(489,509)</u>	
			211,492

Because some property and earned income taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues increased by this amount this year. 201,537

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

	District Pension Contributions	\$ 3,364,817	
	Less: Cost of Benefits Earned Net of Employee Contributions	<u>(3,652,417)</u>	
			(287,600)

The governmental funds use the purchase method of inventory, where all items purchased are charged as expenditures. However, the Statement of Activities is reflected on the consumption method of recording inventory items; therefore, this adjustment reflects the inventory difference. (14,394)

The governmental funds report proceeds from debt as an other financing source, while the repayment of debt principal is reported as an expenditure. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the Statement of Activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of bonds and leases is as follows:

	Accretion of Bonds	\$ (184,464)	
	Repayment of Bond Principal	728,640	
	Interest Expense	178	
	Amortization of Bond Premium/Discount	<u>2,767</u>	
			547,121

In the Statement of Activities, certain operating expenses-compensated absences and other post-employment 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 (essentially, the amounts actually paid). During this year, the total amount of the liability increased by this amount. (3,478,586)

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ (3,318,160)

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

NORTHGATE SCHOOL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUND TYPES

JUNE 30, 2018

	<u>Food Service</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 191,497
Intergovernmental Receivables	47,376
Accounts Receivable	9,585
Inventories	<u>21,097</u>
Total Current Assets	<u>\$ 269,555</u>
Noncurrent Assets:	
Building & Building Improvements (net)	\$ 5,979
Machinery & Equipment (net)	<u>27,077</u>
Total Noncurrent Assets	<u>\$ 33,056</u>
TOTAL ASSETS	<u>\$ 302,611</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 28,120
Due To Other Funds	<u>36,778</u>
Total Current Liabilities	<u>\$ 64,898</u>
TOTAL LIABILITIES	<u>\$ 64,898</u>
NET POSITION	
Net Investment in Capital Assets	\$ 33,056
Unrestricted	<u>204,657</u>
TOTAL NET POSITION	<u><u>\$ 237,713</u></u>

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

NORTHGATE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Food Service</u>
OPERATING REVENUES:	
Food Service Revenue	\$ 230,366
TOTAL OPERATING REVENUES	<u>\$ 230,366</u>
OPERATING EXPENSES:	
Purchased Professional and Technical Service	\$ 592,956
Supplies	41,404
Depreciation	<u>15,508</u>
TOTAL OPERATING EXPENSES	<u>\$ 649,868</u>
OPERATING INCOME (LOSS)	<u>\$ (419,502)</u>
NON-OPERATING REVENUES (EXPENSES)	
State Sources	\$ 18,574
Federal Sources	391,089
Interest	<u>37</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>\$ 409,700</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	\$ (9,802)
Operating Transfers In (Out)	<u>0</u>
CHANGE IN NET POSITION	\$ (9,802)
TOTAL NET POSITION - JUNE 30, 2017	<u>247,515</u>
TOTAL NET POSITION - JUNE 30, 2018	<u>\$ 237,713</u>

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

NORTHGATE SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Food Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Users	\$ 230,366
Cash Payments to Suppliers for Goods and Services	<u>(640,968)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (410,602)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State Sources	\$ 18,768
Federal Sources	<u>394,513</u>
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	<u>\$ 413,281</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	<u>\$ 37</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>\$ 37</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 2,716
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>188,781</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 191,497</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>	
Operating Income (Loss)	<u>\$ (419,502)</u>
Depreciation and Net Amortization	\$ 15,508
Change in Assets and Liabilities	
(Increase) Decrease in Inventories	(3,019)
(Increase) Decrease in Accounts Receivable	(159)
Increase (Decrease) in Accounts Payable	<u>(3,430)</u>
Total Adjustments	<u>\$ 8,900</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (410,602)</u>

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

NORTHGATE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

	Student Activities Fund	Scholarship Fund
ASSETS		
Cash and Cash Equivalents	\$ 10,684	\$ 153,254
TOTAL ASSETS	\$ 10,684	\$ 153,254
LIABILITIES		
Due to Student Groups	\$ 10,684	\$ 0
TOTAL LIABILITIES	\$ 10,684	\$ 0
TOTAL NET POSITION	\$ 0	\$ 153,254

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

NORTHGATE SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2018

	Scholarship Fund
ADDITIONS	
Donations	\$ 0
Interest	<u>1,893</u>
TOTAL ADDITIONS	<u>\$ 1,893</u>
DEDUCTIONS	
Scholarship & Awards	<u>\$ 1,000</u>
TOTAL DEDUCTIONS	<u>\$ 1,000</u>
CHANGE IN NET POSITION	<u>\$ 893</u>
TOTAL NET POSITION - June 30, 2017	<u>\$ 152,361</u>
TOTAL NET POSITION - June 30, 2018	<u><u>\$ 153,254</u></u>

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

NORTHGATE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>	<u>Budget to</u> <u>GAAP</u> <u>Difference</u>	<u>Actual</u> <u>Amounts</u> <u>GAAP Basis</u>
	<u>Original</u>	<u>Final</u>				
REVENUES						
Local Revenues	\$ 13,292,680	\$ 13,292,680	\$ 13,949,197	\$ 656,517	\$ 0	\$ 13,949,197
State Program Revenues	8,347,987	8,347,987	8,697,752	349,765	0	8,697,752
Federal Program Revenues	600,950	600,950	578,764	(22,186)	0	578,764
TOTAL REVENUES	<u>\$ 22,241,617</u>	<u>\$ 22,241,617</u>	<u>\$ 23,225,713</u>	<u>\$ 984,096</u>	<u>\$ 0</u>	<u>\$ 23,225,713</u>
EXPENDITURES						
Regular Programs	\$ 9,069,642	\$ 9,069,642	\$ 9,245,501	\$ (175,859)	\$ 0	\$ 9,245,501
Special Programs	3,041,931	3,041,931	3,212,975	(171,044)	0	3,212,975
Vocational Programs	928,848	928,848	943,338	(14,490)	0	943,338
Other Instructional Programs	870,844	870,844	869,111	1,733	0	869,111
Instructional Programs for Pre-Kindergarten	187,237	187,237	200,394	(13,157)	0	200,394
Pupil Personnel Services	920,023	920,023	938,423	(18,400)	0	938,423
Instructional Staff Services	578,535	578,535	788,315	(209,780)	0	788,315
Administrative Services	1,761,054	1,761,054	1,695,443	65,611	0	1,695,443
Pupil Health	349,047	349,047	341,767	7,280	0	341,767
Business Services	494,462	494,462	467,758	26,704	0	467,758
Operation & Maintenance of Plant Services	2,015,486	2,015,486	2,026,469	(10,983)	0	2,026,469
Student Transportation Services	612,000	612,000	617,287	(5,287)	0	617,287
Central & Other Support Services	303,019	303,019	305,942	(2,923)	0	305,942
Student Activities	491,997	491,997	462,569	29,428	0	462,569
Community Services	130,111	130,111	136,900	(6,789)	0	136,900
Scholarships & Awards	5,000	5,000	5,630	(630)	0	5,630
Facilities Acquisition and Construction	10,000	10,000	664,882	(654,882)	0	664,882
Debt Services	744,390	744,390	744,386	4	0	744,386
TOTAL EXPENDITURES	<u>\$ 22,513,626</u>	<u>\$ 22,513,626</u>	<u>\$ 23,667,090</u>	<u>\$ (1,153,464)</u>	<u>\$ 0</u>	<u>\$ 23,667,090</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (272,009)	\$ (272,009)	\$ (441,377)	\$ (169,368)	\$ 0	\$ (441,377)
OTHER FINANCING SOURCES (USES)						
Refund of Prior Year Receipts	\$ (112,000)	\$ (112,000)	\$ (71,932)	\$ 40,068	\$ 0	\$ (71,932)
Refund of Prior Year Expenditures	15,000	15,000	15,579	579	0	15,579
Proceeds of Refunding Bonds	0	0	0	0	0	0
Payment to Refunded Bond Escrow Agent	0	0	0	0	0	0
Bond Premiums	0	0	0	0	0	0
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ (97,000)</u>	<u>\$ (97,000)</u>	<u>\$ (56,353)</u>	<u>\$ 40,647</u>	<u>\$ 0</u>	<u>\$ (56,353)</u>
Net Change In Fund Balance	\$ (369,009)	\$ (369,009)	\$ (497,730)	\$ (128,721)	\$ 0	\$ (497,730)
FUND BALANCE - JUNE 30, 2017	<u>10,348,140</u>	<u>10,348,140</u>	<u>10,851,616</u>	<u>503,476</u>	<u>0</u>	<u>10,851,616</u>
FUND BALANCE - JUNE 30, 2018	<u>\$ 9,979,131</u>	<u>\$ 9,979,131</u>	<u>\$ 10,353,886</u>	<u>\$ 374,755</u>	<u>\$ 0</u>	<u>\$ 10,353,886</u>

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

NORTHGATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 1 – REPORTING ENTITY

The Northgate School District (“School District”) is organized under Title 24 of the Pennsylvania Statutes. The School District provides educational services as authorized by state statute and/or federal guidelines.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the Northgate School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization’s governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization or (2) the School District is legally entitled to or can otherwise access the organization’s resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The Northgate School District does not have any component units.

The Allegheny County Intermediate Unit and the A.W. Beattie Career Center were considered as possible component units but were excluded based on the above criteria.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Northgate School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 to its governmental and business-type activities and to its proprietary funds, provided they do not conflict with or contradict GASB pronouncements. The more significant accounting policies of the School District are described below.

A. Basis of Presentation

The School District’s basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide financial statements – The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are

NORTHGATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

considered business-type activities. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The statement of net position presents the financial condition of the governmental and business-type activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business activity or governmental function is self-financing or draws from the general revenues of the School District.

Fund financial statements – During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds, if applicable, are aggregated and presented in a single column. The fiduciary funds are reported by type.

B. Measurement Focus/Basis of Accounting

Fund Accounting

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement, arbitrage rebates, and post-employment healthcare benefits, are recorded only when payment is due. Property taxes and interest associated with past and current fiscal periods are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period if they are collected within 60 days of the end of the current fiscal period. All other property taxes associated with past and current fiscal periods are deferred in the Governmental fund financial statements.

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The School District reports the following major governmental funds:

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

Proprietary funds may be used to account for any activity for which a fee is charged to external users for goods or services. Proprietary funds are accounted for on a flow of economic resources 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 (i.e., revenues) and decreases (i.e., expenses) in net total assets. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities. All proprietary funds are shown on the government-wide statements as business type activities.

The School District reports the following major proprietary funds:

Food Service Fund accounts for the financial transactions related to the food service operations of the School District.

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, or other governments. The School District reports the Student Activity Fund, an agency fund, and the Scholarship Fund, a private-purpose trust fund, as Fiduciary Funds. Private-purpose trust funds account for resources, including both principal and earnings, which must be expended according to the provision of a trust agreement and are accounted for in essentially the same manner as proprietary funds. A statement of fiduciary net position and a statement of changes in fiduciary net position are presented for the Scholarship Fund. Agency Funds are purely custodial and thus do not involve measurement of results of operations. Accordingly, a statement of changes in net position is not required to be presented for the Student Activities Fund, and as such, has been excluded from this report.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

C. Budgetary Process

The School District passed an appropriated budget for the fiscal year ending June 30, 2018 with revenues totaling \$22,256,617 and expenditures totaling \$22,625,626. The budget was balanced with the prior year fund balance.

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The School District is required by state law to adopt an annual budget for the General Fund only. The budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles (GAAP). The state does not require any other funds to have an annual budget adopted; therefore, no budgetary comparisons schedules are shown except for the General Fund.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

Preliminary Budget: The preliminary budget for each year must be adopted (via Board vote) 90 days prior to the Primary Election, unless the School District adopts a Resolution indicating that it will not raise the rate of any tax by more than its index. The Resolution must be adopted 110 days prior to the Primary Election and the School District must adopt a Resolution that follows traditional budget guidelines.

A *proposed* version must be prepared at least 20 days before adoption; this work-in-progress budget, defined as the *proposed preliminary budget*, must be made available for public inspection no later than 110 days prior to the Primary Election. Public notice of the intent to adopt the preliminary budget must be published no later than 10 days before adoption of the preliminary budget (100 days before Primary Election).

Final Budget: The final budget for each year must be adopted (via Board vote) by June 30 of the preceding school fiscal year.

A *proposed* version must be prepared and adopted (via Board vote) no later than May 30 of the preceding school fiscal year (at least 30 days before adoption); this work-in-progress budget, defined as the *proposed final budget*, must be made available for public inspection no later than June 10 of the preceding school fiscal year (20 days before adoption on June 30). Public notice of the intent to adopt the final budget must be published no later than June 20 of the preceding school fiscal year (10 days before adoption on June 30).

Note: For the adopted preliminary budget to become the proposed final budget, the school board must take action.

Once the budget is approved, it can be amended at the Function and Fund level only by approval of a majority of the members of the Board of Directors. Amendments are presented to the Board at their regular meetings. Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board of Directors. All budget appropriations lapse at year-end unless the School District chooses to utilize encumbrance accounting. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. Cash, Cash Equivalents, and Investments

The School District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, including investments in the Pennsylvania School District Liquid Asset Fund (PSDLAF) and Pennsylvania Local Government Investment Trust (PLGIT).

The School District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists, which guarantees a higher value. The term "short-term" refers to investments that have a remaining term of one year or less at the time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

E. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are offset against each other in the governmental and business-type activities columns of the statement of net position, except for amounts due to/from other funds, which are not presented in the statement of net position.

F. Inventories

On government-wide statements, inventories are stated at cost using the purchase method. The purchase method means that food products, materials, and supplies are charged as expenses when acquired. Inventory on hand at the end of the year is then recorded as an asset by offsetting the appropriate expense account. The inventory for governmental activities at June 30, 2018 is \$109,615 and the inventory for business-type activities at June 30, 2018 is \$21,097.

On fund financial statements, inventories are stated at cost using the purchase method for proprietary funds. The inventory at June 30, 2018 is \$21,097. Inventories are not maintained in governmental funds for fund financial statement reporting.

G. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$1,500. Improvements

NORTHGATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Site Improvements	15-20 years	N/A
Buildings and Improvements	10-50 years	10-50 years
Furniture and Equipment	5-20 years	5-20 years

H. Compensated Absences/Retirement Incentives

Compensated Absences

The School District employees accrue sick leave and personal leave annually. The liability recorded in the government wide statement of net position is based on the employees' contract rate and accumulated days as of June 30, 2018. Compensated Absences for governmental activities at June 30, 2018 is \$34,932.

Retirement Incentives

Recently Issued and Adopted Accounting Pronouncements

The School District measured and recognized an "other post-employment benefit" (OPEB) liability in accordance with provisions of Governmental Accounting Standards Board (GASB) Statement 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* and GASB No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. These statements provide guidance on accounting and financial reporting for "other post-employment benefits" accounted for in financial statements of plan sponsors and employers. OPEB refer to non-pension benefits provided after the termination of employment. One example of this type of benefit is healthcare insurance premiums paid by employers on behalf of former employees. Governmental entities have traditionally accounted for OPEB on a pay-as-you-go basis. The guidance in these statements rests on the assumption that OPEB should be accrued as service is provided by employees. More information on these liabilities is included later in these notes.

The liabilities for the above items are reported on the government-wide financial statements. For governmental funds, the current portion of the liabilities is the amount that is normally expected to be paid using expendable financial resources. In proprietary funds, if applicable, the entire amount of the liabilities is reported as a fund liability.

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements; and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the enterprise fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Bonds and capital leases are recognized as a liability on the governmental fund financial statements when due.

J. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of cost of capital assets, net of accumulated depreciation reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net position is reported as unrestricted.

The School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Net Investment in Capital Assets – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds, that is directly attributable to the acquisition, construction, or improvement of these capital assets.

K. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

L. Bond Discount and Premium

Bond discounts and premiums are deferred and accreted over the term of the bonds. Bond discounts and premiums are presented as a reduction or addition to the face of amount of the bonds.

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

M. Fund Balance

The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), and it is effective for reporting periods after June 15, 2010. The intention of the GASB Statement is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the School District's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

GASB 54 provides for two major types of fund balances: non-spendable and spendable. Non-spendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items and inventories.

In addition to the non-spendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances based on a hierarchy of spending constraints.

Restricted - Fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.

Committed - Fund balances that contain self-imposed constraints of the government from its highest level of decision making authority, the Board of Directors, through board action to commit funds.

Assigned - Fund balances that contain self-imposed constraints of the government to be used for a particular purpose. The Board of Directors has given authorization to the Director of Finance and Operations to assign portions of the fund balance.

Unassigned - Fund balance of the general fund that is not constrained for any particular purpose.

The School District considers the use of funds in the order of the most restrictive to the least restrictive based on the fund balance hierarchy.

According to the School District policy, the School District will strive to maintain an unassigned general fund balance of not less than six percent and not more than eight percent of the budgeted expenditures for the fiscal year.

N. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District reported \$7,227,409 in the Governmental Activities as deferred outflows of resources related to pension and OPEB.

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

In addition to liabilities, the statement of net position and/or the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District reported \$1,133,145 in the Governmental Activities as deferred inflows of resources related to pension and OPEB. The District also had \$5,324,463 of deferred inflows of resources from unavailable property tax revenue reported on the balance sheet as of June 30, 2018.

O. Pensions

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

P. GASB Statement No. 68, Accounting and Financial Reporting for Pensions

GASB 68 establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements in which:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

NOTE 3 – CASH / INVESTMENTS

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District’s deposits may not be returned to it. As of June 30, 2018, the School District does not have a formal policy for custodial credit risk. As of June 30, 2018, \$774,910 of the School District’s bank balance of \$1,039,308 was exposed to custodial credit risk as:

Uninsured and uncollateralized	\$	0
Collateralized with securities held by the pledging financial institution	\$	0
Uninsured and collateral held by the pledging bank's trust department not in the School District's name	\$	774,910

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 3 – CASH / INVESTMENTS – CONTINUED

Other Deposits

As of June 30, 2018, the School District had the following other deposits in the Pennsylvania School District Liquid Asset Fund (PSDLAF) and the Pennsylvania Local Government Investment Trust (PLGIT), which were established as common law trusts organized under laws of the Commonwealth of Pennsylvania. Shares of the funds are offered to certain Pennsylvania school districts, intermediate units, area vocational-technical schools, and municipalities. The purpose of the funds is to enable such governmental units to pool their available funds for investments authorized by Section 440.1 of the Pennsylvania Public School Code of 1949 as amended. These funds have the characteristics of open-end mutual funds and are not subject to credit risk classification. PSDLAF and PLGIT are governed by an elected board of trustees who are responsible for the overall management of them. The trustees are elected from the several classes of local governments participating in them. Each fund is audited annually by independent auditors. The Funds operate in a manner consistent with the SEC's Rule 2(a)7 of the Investment Company Act of 1940. The funds use amortized cost to report net position to compute share prices. The Funds maintain a net asset value of \$1 per share. Accordingly, the fair value of the position in PSDLAF and PLGIT is the same as the value of PSDLAF and PLGIT shares.

Separate financial reports for PSDLAF and PLGIT are prepared in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, and GASB Statement No.79, *Certain External Investment Pools and Pool Participants*. Copies of these reports can be obtained by contacting PSDLAF or visiting www.psdlaf.com and contacting PLGIT or visiting www.plgit.com.

As of June 30, 2018, the School District had the following other deposits:

<u>Type</u>	<u>Fair Value</u>	<u>Standard & Poor's Rating</u>
PA School District Liquid Asset Fund	\$ 64,592	AAAm
PA Local Government Investment Trust	<u>10,820,299</u>	AAAm
Total	<u>\$ 10,884,891</u>	

Reconciliation to Financial Statements

Uninsured Amount Above	\$ 774,910
Insured Amount Above	264,398
Other Deposits Above	<u>10,884,891</u>
Carrying Amount - Bank Balances	\$ 11,924,199
Less: Outstanding Items	(47,615)
Less: Fiduciary Funds	<u>(163,938)</u>
Total	<u>\$ 11,712,646</u>

Interest Rate Risk

As of June 30, 2018, the School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 3 – CASH / INVESTMENTS – CONTINUED

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The School District has no investment subject to custodial credit risk.

Statutory Authority

School Districts are to adopt local investment policies. The local investment policy must be written; primarily emphasize the safety of principal and liquidity; and address investment diversification, yield, maturity and the quality and capability of investment management. Each School District should customize its policies to meet board and administrative objectives as defined. School Districts should review their investment policies and investment strategies annually.

According to Section 440.1(c) of the Pennsylvania School Code authorizes the types of investments school districts may have are as follows:

- United States Treasury bills
- Short-term obligations of the United States Government or its agencies or instrumentalities. (*Short-term obligations* usually refer to investments of less than 13 months)
- Deposits in savings accounts or time deposits or share accounts of institutions insured by:
 - The Federal Deposit Insurance Corporation (FDIC); or
 - The Federal Savings and Loan Insurance Corporation; or
 - The National Credit Union Share Insurance Fund to the extent that such accounts are so insured and for any amounts above maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository
- Obligations of 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, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities. *Full faith and credit* means the obligation is backed by the government's ability to levy taxes to repay debt. These investments include any bonds issued by the Commonwealth of Pennsylvania or any municipality or school district carrying the backing of the taxation powers of the governmental unit issuing the debt. Some investments of the Federal government do not have full faith and credit backing. Fannie-Mae (FNMA) and Freddy-Mac (FNMC) bonds do not. Ginnie-Mae (GNMA) bonds do have full faith and credit backing
- Shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933, provided that the following are met:
 - Only investments of that company are in the authorized investments for school district funds listed in the categories above and repurchase agreements fully collateralized by such investments
 - The investment company is managed so as to maintain its shares as a constant net asset value in accordance with 17 CFR 270 2a-7 (relating to money market funds)
 - The investment company is rated in the highest category by a nationally recognized rating agency. This classification includes pooled investments such as the Pennsylvania School District Liquid Asset Fund, Pennsylvania Local Government Investment Trust, and the Pennsylvania State Treasurer's Invest Program

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 4 – PROPERTY TAXES

Based upon assessed valuations provided by the County, the municipal tax collector bills and collects property taxes on behalf of the School District.

The schedule for property taxes levied for 2017-2018 is as follows:

July 1, 2017 - tax levy date
Through August 31, 2017 - 2% discount period
Through October 31, 2017 - face payment period
Beginning November 1, 2017 - 5% penalty period

The School District tax rate for all purposes in 2017-2018 was 24.7867 mills (\$24.7867 per \$1,000 assessed valuation). Collections for the 2017-2018 year were \$10,301,152.

As of June 30, 2018, property taxes receivable by the School District includes uncollected taxes assessed as of July 1, 2017 or earlier. It is estimated that 80% of all assessed taxes (including delinquencies plus accrued interest and penalties) will be collected; therefore, property taxes receivable reflect this estimate. Delinquent property tax receivable is recognized as revenue in the government-wide financial statements. Only the portion of property taxes receivable that meets the revenue recognition criteria is reported as revenue in the fund financial statements.

NOTE 5 – CONTINGENCIES

Litigation

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

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2018.

NOTE 6 – INCOME TAXES

The School District levies a voted continuing tax of 0.5% for general operations on the income of residents. Taxpayers are required to file an annual return. The collector makes periodic distributions to the School District after withholding amounts for administrative fees. Income tax receipts are credited to the general fund.

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 7 – CAPITAL ASSETS

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

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 821,234	\$ 0	\$ 0	\$ 821,234
Construction in Progress	<u>0</u>	<u>550,727</u>	<u>0</u>	<u>550,727</u>
Total Capital assets, not being depreciated	<u>\$ 821,234</u>	<u>\$ 550,727</u>	<u>\$ 0</u>	<u>\$ 1,371,961</u>
Capital assets, being depreciated:				
Site Improvements	\$ 1,266,956	\$ 18,586	\$ 0	\$ 1,285,542
Building and Building Improvements	9,483,456	0	0	9,483,456
Furniture and Equipment	<u>5,082,886</u>	<u>132,144</u>	<u>(3,883)</u>	<u>5,211,147</u>
Total capital assets, being depreciated	<u>\$ 15,833,298</u>	<u>\$ 150,730</u>	<u>\$ (3,883)</u>	<u>\$ 15,980,145</u>
Accumulated depreciation for:				
Site Improvements	\$ (1,104,816)	\$ (18,157)	\$ 0	\$ (1,122,973)
Building and Building Improvements	(7,141,005)	(208,462)	0	(7,349,467)
Furniture and Equipment	<u>(3,431,240)</u>	<u>(262,890)</u>	<u>3,427</u>	<u>(3,690,703)</u>
Total accumulated depreciation	<u>\$ (11,677,061)</u>	<u>\$ (489,509)</u>	<u>\$ 3,427</u>	<u>\$ (12,163,143)</u>
Total capital assets, being depreciated, net	<u>\$ 4,156,237</u>	<u>\$ (338,779)</u>	<u>\$ (456)</u>	<u>\$ 3,817,002</u>
Governmental activities capital assets, net:	<u>\$ 4,977,471</u>	<u>\$ 211,948</u>	<u>\$ (456)</u>	<u>\$ 5,188,963</u>
Business-Type activities:				
Capital assets, being depreciated:				
Building and Building Improvements	\$ 376,509	\$ 0	\$ 0	\$ 376,509
Furniture and Equipment	<u>285,453</u>	<u>0</u>	<u>0</u>	<u>285,453</u>
Total capital assets, being depreciated	<u>\$ 661,962</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 661,962</u>
Accumulated depreciation for:				
Building and Building Improvements	\$ (359,131)	\$ (11,399)	\$ 0	\$ (370,530)
Furniture and Equipment	<u>(254,267)</u>	<u>(4,109)</u>	<u>0</u>	<u>(258,376)</u>
Total accumulated depreciation	<u>\$ (613,398)</u>	<u>\$ (15,508)</u>	<u>\$ 0</u>	<u>\$ (628,906)</u>
Total capital assets, being depreciated, net	<u>\$ 48,564</u>	<u>\$ (15,508)</u>	<u>\$ 0</u>	<u>\$ 33,056</u>
Business-Type activities capital assets, net:	<u>\$ 48,564</u>	<u>\$ (15,508)</u>	<u>\$ 0</u>	<u>\$ 33,056</u>
Total Governmental & Business-Type activities, net	<u><u>\$ 5,026,035</u></u>	<u><u>\$ 196,440</u></u>	<u><u>\$ (456)</u></u>	<u><u>\$ 5,222,019</u></u>

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 7 – CAPITAL ASSETS – CONTINUED

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

Governmental Activities:

Instruction:	
Regular Instruction	\$ 172,206
Special Instruction	4,751
Vocational Instruction	559
Other Instructional Programs	3,343
Support Services:	
Pupil Personnel	0
Instructional Staff	121,681
Administration	3,194
Pupil Health	523
Business Services	736
Operation of Plant and Maintenance Services	64,717
Student Transportation Services	688
Central and Other Support Services	3,400
Non-Instructional Services:	
Student Activities	5,335
Food Services	212
Facilities Acquisition	<u>108,164</u>
Total Depreciation Expense, Governmental Activities:	<u>\$ 489,509</u>

Business-Type Activities:

Food Services	<u>\$ 15,508</u>
Total Depreciation Expense, Business-Type Activities:	<u>\$ 15,508</u>

Total Depreciation Expense, Governmental and Business-Type Activities:	<u>\$ 505,017</u>
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NOTE 8 – PENSION PLAN

Public School Employees' Retirement System (PSERS)

General Information about the Pension Plan

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

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 8 – PENSION PLAN – CONTINUED

Benefits Provided: PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service, (b) age 60 with 30 or more years of credited service, or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes: Membership Class T-E (Class T-E) and Members Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

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

Contributions

Member Contributions:

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

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

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

Members who joined the System after June 30, 2011 automatically contribute at the Membership Class T-E rate of 7.50% (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"

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 8 – PENSION PLAN – CONTINUED

provision in Act 120 of 2010 that in future fiscal 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 10.30% and 12.30%.

Employer Contributions:

The School District’s contractually required contribution rate for the year ended June 30, 2018 was 31.74% 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 School District were \$3,279,069 for the year ended June 30, 2018.

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

At June 30, 2018, the School District reported a liability of \$35,757,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016 to June 30, 2017. The School District’s proportion of the net pension liability was calculated utilizing the employer’s one-year reported covered payroll as it related to the total one-year reported covered payroll. At June 30, 2017, the School District’s proportion was 0.0724%, which was an increase of 0.0029% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School District recognized pension expense of \$3,652,417. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 373,000	\$ 216,000
Changes in assumptions	971,000	0
Net difference between projected and actual investment earnings	829,000	0
Changes in proportions	1,394,000	649,000
Difference between employer contributions and proportionate share of total contributions	0	0
District contributions subsequent to the measurement date	3,279,069	0
Total	<u>\$ 6,846,069</u>	<u>\$ 865,000</u>

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 8 – PENSION PLAN – CONTINUED

The School District reported \$3,279,069 as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expenses as follows:

Year ended June 30:

2018	\$ 274,000
2019	1,266,000
2020	1,014,000
2021	148,000

Actuarial assumptions: The total pension liability as of June 30, 2017 was determined by rolling forward the System’s total pension liability as of the June 30, 2016 actuarial valuation to June 30, 2017 using the following actuarial assumptions applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay.
- Investment return – 7.25%, includes inflation at 2.75%.
- Salary growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit and seniority increases.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females adjusted to reflect PSERS’ experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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.

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 8 – PENSION PLAN – CONTINUED

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	20.0%	5.1%
Fixed income	36.0%	2.6%
Commodities	8.0%	3.0%
Absolute return	10.0%	3.4%
Risk parity	10.0%	3.8%
Infrastructure/MLPs	8.0%	4.8%
Real estate	10.0%	3.6%
Alternative investments	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	-20.0%	1.1%
	100.0%	

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, 2017.

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 District’s proportionate share of the Net Pension Liability to changes in the discount rate: The following presents the School District’s proportionate share of the net pension liability, calculated using the discount rate of 7.25%, as well as what the School District’s proportionate share of 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:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1 % Increase 8.25%
School District's proportionate share of net pension liability	\$ 44,014,000	\$ 35,757,000	\$ 28,786,000

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 8 – PENSION PLAN – CONTINUED

Plan Fiduciary Net Position: Detailed information about the 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.

NOTE 9 – LONG-TERM DEBT

Long-term liabilities for the year ended June 30, 2018 is as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Bonds/Notes Payable:					
Bonds and notes	\$ 3,320,329	\$ 0	\$ (544,176)	\$ 2,776,153	\$ 722,800
Deferred amounts for bond premium/(discount)	<u>34,595</u>	<u>0</u>	<u>(2,767)</u>	<u>31,828</u>	<u>0</u>
Total bonds/notes payable, net	\$ 3,354,924	\$ 0	\$ (546,943)	\$ 2,807,981	\$ 722,800
Net pension liability	34,442,000	1,315,000	0	35,757,000	3,279,069
Compensated absences	50,698	0	(15,765)	34,933	0
Other post-employment benefit	<u>211,224</u>	<u>6,873,861</u>	<u>0</u>	<u>7,085,085</u>	<u>85,748</u>
Total governmental activity long term liabilities	<u>\$ 38,058,846</u>	<u>\$ 8,188,861</u>	<u>\$ (562,708)</u>	<u>\$ 45,684,999</u>	<u>\$ 4,087,617</u>

Payments on general obligation bonds are made by the General Fund.

The total interest and debt fees incurred and charged to expense for the year ended June 30, 2018 was \$569,663.

The annual requirements to amortize all general obligation bonds and notes outstanding as of June 30, 2018, including interest payments, are as follows:

General Obligation Bonds, Series of 2016

Year ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>			
2019	\$ 29,600	\$ 14,725	\$ 44,325
2020	31,040	13,357	44,397
2021	32,640	11,764	44,404
2022	34,240	10,093	44,333
2023	36,000	8,337	44,337
2024-2028	203,680	17,962	221,642
2029	<u>43,840</u>	<u>493</u>	<u>44,333</u>
Total	<u>\$ 411,040</u>	<u>\$ 76,731</u>	<u>\$ 487,771</u>

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 9 – LONG-TERM DEBT – CONTINUED

The annual requirements to amortize all general obligation capital appreciation bonds outstanding as of June 30, 2018, including interest payments are as follows:

General Obligation Refunding Bonds, Series of 1997

<u>Year Ending June 30</u>	<u>Maturity Value</u>	<u>Initial Stated Value</u>	<u>Accreted Value</u>
2019	700,000	132,503	560,697
2020	700,000	122,563	518,635
2021	700,000	113,372	479,743
2022	560,000	81,956	355,644
	<u>\$ 2,660,000</u>	<u>\$ 450,394</u>	<u>\$ 1,914,719</u>

General Obligation Bonds: General obligation bonds payable at June 30, 2018 with their outstanding balance are as follows:

\$472,480 2016 general obligation refinancing bonds, due in annual installments of \$44,237 to \$44,432, beginning October 15, 2016, through April 15, 2029, interest from 3.00 to 4.60%	\$ 411,040
\$1,811,456 1997 Series B general obligation refunding bonds, due in annual installments of \$5,000 to \$560,000 (Principal and Interest-for accretion), beginning August 15, 1997, through August 15, 2021, interest from 5.75% to 8.05%	<u>2,365,113</u>
	<u>\$ 2,776,153</u>

NOTE 10 – INTERFUND BALANCES

Receivables and Payables

Interfund balances at June 30, 2018 consisted of the following fund receivables and payables:

	<u>Receivables</u>	<u>Payables</u>
General Fund: Proprietary Fund	\$ 36,778	\$ 0
Proprietary Fund: General Fund	<u>0</u>	<u>36,778</u>
Totals	<u>\$ 36,778</u>	<u>\$ 36,778</u>

Balances resulted from a time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All the balances above are expected to be collected in the subsequent year.

NORTHGATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 11 – SUBSEQUENT EVENTS

The School District evaluated its June 30, 2018 financial statements for subsequent events through the date of the Independent Auditor's Report, the date the financial statements were available to be issued. The School District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

NOTE 12 – DISTRICT OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The School District provides post-retirement benefits for certain employees for current and future health, pharmacy, dental, and vision insurance benefit expenses through a single-employer defined benefit plan. An annual actuarial valuation is made to determine whether the contributions are sufficient to meet the plan obligations. The latest actuarial valuation was made July 1, 2017. The post-retirement plan does not issue stand-alone financial reports.

Benefits Provided

Any administrator or teacher who fully retires under the PSERS system prior to June 30, 2002 may opt to continue medical, prescription drug, dental, and vision insurance benefit coverages until the employee reaches Medicare eligibility. The School District pays the premium for these benefits; however, the retiree must reimburse the School District as follows:

Premium Sharing: The member pays the full premium for Vision. If the member has 30 or more years of PSERS service, the School District pays the full premium for medical, prescription drug, and dental for the member and spouse, less the \$100 PSERS supplement (if applicable). If the member has coverage for any other eligible dependents, he or she must pay any additional premium due to the coverage of the dependents. If the member elects the PPO plan, the member must pay the difference in premiums from the EPO plan. Upon death of the member, the spouse and any eligible dependents may continue similar coverage as described above.

Any administrator or teacher who full retires under the PSERS system after July 1, 2002, may opt to continue medical, prescription drug, dental, and vision insurance benefit coverages until the earlier of 7 years or the employee reaches Medicare eligibility for subsidized retirees or until Medicare eligibility for unsubsidized retirees. The School District pays the premium for these benefits; however, the retiree must reimburse the School District as follows:

Premium Sharing: The member pays the full premium for Vision. If the member has 30 or more years of PSERS service, the School District pays the full premium for medical, prescription drug and dental for the member and spouse for up to 7 years after the date of retirement, less the \$100 PSERS supplement (if applicable). If the member has coverage for any other eligible dependents, he or she must pay any additional premium due to the coverage of the dependents. If the member elects the PPO plan, the member must pay the difference in premiums from the EPO plan. After 7 years, if the member or spouse is under 65, the member or spouse can continue coverage by paying the full premium. Upon death of the member, the spouse and any eligible dependents may continue similar coverage as described above.

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 12 – DISTRICT OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

The current superintendent or custodians may continue coverage for themselves and their spouse and dependents in the employer’s group health plan until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purpose of COBRA.

Administrative clerical, secretaries, and teacher assistants who fully retire under the PSERS system may opt to continue medical, prescription drug, dental, and vision benefits until the employee reaches Medicare eligibility. The School District pays the premium for these benefits; however, the retiree must reimburse the School District as follows:

Premium Sharing: The member pays the full premium for vision. If the member reaches age 60 and 20 years of PSERS service, the District pays the full premium for medical, prescription drug, and dental coverage that the member is currently receiving at the time he or she retires, less the \$100 PSERS supplement (if applicable). If the member elects the PPO plan, the member must pay the difference in premiums from the EPO plan. Upon death of the member, the spouse and any eligible dependents may continue similar coverage as described above.

Membership in the plan consisted of the following at July 1, 2017, the date of the last actuarial valuation:

Retirees and beneficiaries receiving benefits	19
Active plan members	<u>163</u>
Total	<u><u>182</u></u>

The OPEB Liability is calculated as follows:

	Total OPEB
	<u>Liability</u>
Balance at 6/30/2017	<u>\$ 1,841,735</u>
Changes for the year:	
Service cost	\$ 94,868
Interest	44,787
Changes of benefit terms	3,820,890
Differences between expected and actual experience	0
Changes of assumptions or other inputs	(210,288)
Benefit payments	<u>(254,614)</u>
Net changes	<u>\$ 3,495,643</u>
Balance at 6/30/2018	<u><u>\$ 5,337,378</u></u>

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

The following is the total OPEB liability to the District as well as the total OPEB liability using a discount rate that is 1-percentage-point lower and 1-percentage-point higher than the current discount rate:

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 12 – DISTRICT OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

	1% Decrease (2.13%)	Discount Rate (3.13%)	1% Increase (4.13%)
Total OPEB Liability	\$ 5,814,055	\$ 5,337,378	\$ 4,888,359

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

The following is the total OPEB liability to the District as well as the total OPEB liability using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Trend Rate	1% Increase
Total OPEB Liability	\$ 4,611,638	\$ 5,337,378	\$ 6,202,195

Actuarial assumptions used were as follows:

- Cost Method:** Entry age normal
- Mortality:** Separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.
- Discount Rate:** 3.13%-Based on S&P Municipal Bond 20 Year High Grade Rate
- Salary Increases:** 2.5% cost of living; 1.0% real wage growth; and for teachers and administrators a merit increase which varies by age from 2.75% to 0.0%

Health Care Trend:	Time Period*	Trend
	2017	6.00%
	2018-2023	5.50%
	2024	5.40%
	2075 and later**	3.90%

*Rates are based on the Society of Actuaries Long-Run Medical Cost Trend Model.

**Rates gradually decrease from 2024 to 2075

The changes of assumptions includes:

1. The discount rate changed from 2.49% to 3.13%.
2. The trend assumption was updated.
3. Assumptions for salary, mortality, withdrawal and retirement were updated based on new PSERS assumptions.

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 12 – DISTRICT OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

The changes of benefit terms include:

1. Previously, teachers who retired after 7/1/2014 could only qualify for Act 110/43 coverage. Now, teachers who retire after 7/1/2014 qualify for a 7 year subsidy.

For the year ended June 30, 2018, the School District recognized OPEB expense of \$3,943,021, comprised of the following:

	Amount
Service cost	\$ 94,868
Interest	44,787
Changes of benefit terms	3,820,890
Amortization of deferred inflows	(17,524)
OPEB Expense	\$ 3,943,021

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 0	\$ 0
Changes of assumptions or other inputs	0	192,764
Benefit payments subsequent to the measurement date	218,872	0
	\$ 218,872	\$ 192,764

The amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30		
2019	\$	(17,524)
2020		(17,524)
2021		(17,524)
2022		(17,524)
2023		(17,524)
Thereafter		(105,144)

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 13 – PSERS OTHER POST-EMPLOYMENT BENEFITS

1. Summary of Significant Accounting Policies

Other Postemployment Benefits

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB 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 are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Health Insurance Premium Assistance Program

Health Insurance Premium Assistance Program

The System provides Premium Assistance which, is a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2017 there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria

Retirees of the System can participate in the Premium Assistance program if they satisfy the following criteria:

- Have 24 ½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the HOP or employer-sponsored health insurance program.

Pension Plan description

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

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 13 – PSERS OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

Benefits provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2017 there were no assumed future benefit increases to participating eligible retirees

Employer Contributions:

The school districts' contractually required contribution rate for the fiscal year ended June 30, 2017 was 0.83% 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 OPEB plan from the District were \$80,000 for the year ended June 30, 2017.

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

At June 30, 2018, the District reported a liability of \$1,475,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District's proportion was 0.0724% percent, which was an increase of 0.0029% from its proportion measured as of June 30, 2017.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 0	\$ 0
Changes in assumptions	0	69,000
Net difference between projected and actual investment earnings	2,000	0
Changes in proportion	53,000	0
Difference between employer contributions and proportionate share of total contributions	0	0
Contributions subsequent to the measurement date	85,748	0
	\$ 140,748	\$ 69,000

NORTHGATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 13 – PSERS OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

\$85,748 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:		
2018	\$	(2,000)
2019	\$	(2,000)
2020	\$	(2,000)
2021	\$	(2,000)
2022	\$	(3,000)
Thereafter	\$	(3,000)

3. Actuarial Assumptions

The Total OPEB Liability as of June 30, 2017, was determined by rolling forward the System’s Total OPEB Liability as of June 30, 2016 to June 30, 2017 using the following actuarial assumptions applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 3.13% - S&P 20 Year Municipal Bond Rate.
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS’ experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Participation rate:
 - Eligible retirees will elect to participate Pre age 65 at 50%
 - Eligible retirees will elect to participate Post age 65 at 70%

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015 determined the employer contribution rate for fiscal year 2017.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set

NORTHGATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 13 – PSERS OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

Investments consist primarily of short term assets designed to protect the principal of the plan assets. The expected rate of return on OPEB plan investments was determined using the OPEB asset allocation policy and best estimates of geometric real rates of return for each asset class.

The OPEB plan’s policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Under the program, as defined in the retirement code employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

<u>OPEB-Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	76.4%	0.6%
Fixed Income	23.6%	1.5%
	<u>100.0%</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, 2017.

Discount rate

The discount rate used to measure the Total OPEB Liability was 3.13%. Under the plan’s funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short term funding policy, the OPEB plan’s fiduciary net position was not projected to be sufficient to meet projected future benefit payments; therefore, the plan is considered a “pay-as-you-go” plan. A discount rate of 3.13%, which represents the S&P 20 year Municipal Bond Rate at June 30, 2017, was applied to all projected benefit payments to measure the total OPEB liability.

Sensitivity of the System Net OPEB Liability to Change in Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2017, retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2016, 91,797 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2016, 1,354 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving

NORTHGATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 13 – PSERS OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on Healthcare Cost Trends as depicted below.

The following presents the System net OPEB liability for June 30, 2017, calculated using current Healthcare cost trends as well as what the System net OPEB liability would be if it health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	Dollar Amounts in Thousands		
	1% Decrease	Current Trend Rate	1% Increase
System net OPEB liability	\$ 1,475,000	\$ 1,475,000	\$ 1,475,000

Sensitivity of the District’s proportionate share of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability, calculated using the discount rate of 3.13%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.13%) or 1-percentage-point higher (4.13%) than the current rate:

	1% Decrease 2.13%	Current Discount Rate 3.13%	1% Increase 4.13%
District's proportionate share of the net OPEB liability	\$ 1,677,000	\$ 1,475,000	\$ 1,308,000

OPEB 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.

NOTE 14 – RISK MANAGEMENT

Northgate School District is a member of the Allegheny County Health Consortium (The Consortium) for Health Insurance. This Consortium was formed in 1987 in order to purchase health benefits on behalf of participating public school districts in Allegheny County, Pennsylvania. The School District pays an annual premium to the Consortium for its health and medical insurance coverage. The formation agreement of the Consortium provides that the Consortium will be self-sustaining through annually determined member premiums and will reinsure through commercial companies for excess claims of amounts as defined in the insurance contract. Additionally, during fiscal year 2005, the Consortium designated a portion of the net assets for rate stabilization and catastrophic claims. The Consortium’s net assets designated for rate stabilization was \$25,034,000 as of June 30, 2018, while the net assets designated for catastrophic claims was \$18,775,000.

The School District’s agreement permits withdrawal from the Consortium only as of the last day of a fiscal year and after having given all participating entities and the Trustees written notice by April 30th of such fiscal year. If Northgate School District were to withdraw, the School District would

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 14 – RISK MANAGEMENT– CONTINUED

be entitled to receive a pro rata share of the net assets or would be required to reimburse the Consortium for their pro rata share of any deficiency in net assets.

The Consortium net assets attributable to Northgate School District was \$593,350 as of June 30, 2018 and at this time Northgate School District has no plans on withdrawing from the Consortium. The financial statements of the Consortium for the year ended June 30, 2018 are on file with the Northgate School District.

NOTE 15 – FUTURE GASB PRONOUNCEMENTS

GASB Statement No. 83, *Certain Asset Retirement Obligations*, which is effective fiscal 2019. GASB 83 determines the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (ARO).

GASB Statement No. 84, *Fiduciary Activities*, which is effective fiscal 2020. GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments whether a government is controlling the assets of the fiduciary activity and who are the beneficiaries with whom a fiduciary relationship exists.

GASB Statement No. 87, *Leases*, is effective for reporting periods beginning after December 15, 2019. The objective of GASB 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, is effective for reporting periods beginning after June 15, 2018. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, is effective for reporting period beginning after December 15, 2019. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, is effective for reporting periods beginning after December 15, 2018. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.

The effects of implementing GASB Statements No. 83-84 and 87-90 on the District's financial statements have not yet been determined.

NORTHGATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 16 – RETIREMENT INCENTIVE OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The School District provides retirement incentive post-retirement benefits for certain employees through a single-employer defined benefit plan. An annual actuarial valuation is made to determine whether the contributions are sufficient to meet the plan obligations. The latest actuarial valuation was made July 1, 2017. The post-retirement plan does not issue stand-alone financial reports.

Benefits Provided

Administrators

Upon retirement through PSERS, each administrator is eligible for two different benefits that are payable over a period of three years. The first benefit is calculated based on the members years of service with the School District. The member will receive a total of \$1,000 for each year of service with the School District up to 30 years of service at which point the benefit is \$35,000. The total benefit is paid to the member in three equal annual installments starting at the time of retirement. The second benefit begins at the time that the retirement is announced. The member will receive payments over three years. The annual payment over each of those three years will be equal to 10% of the total benefit calculated above.

Teachers

Upon retirement through PSERS with over ten years of service, each teacher will receive a one-time payment at the time of retirement based on the member's years of service with the School District according to the following table:

Years of Service	Payment
10 - 14 years	\$ 3,000
15 - 19 years	\$ 4,000
20 - 24 years	\$ 5,000
25+ years	\$ 6,000

Secretaries and Teacher Aides

Upon retirement through PSERS with over ten years of service, each Secretary and Teacher Aide will receive a one-time payment at the time of retirement based on the member's years of service with the School District according to the following table:

Years of Service	Payment
10 - 14 years	\$ 1,500
15 - 19 years	\$ 1,750
20+ years	\$ 2,000

Custodial

Upon retirement through PSERS, each Custodial will receive a one-time payment at the time of retirement of \$2,500.

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 16 – RETIREMENT INCENTIVE OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

Membership in the plan consisted of the following at July 1, 2017, the date of the last actuarial valuation:

Retirees and beneficiaries receiving benefits	0
Active plan members	<u>163</u>
Total	<u>163</u>

The OPEB Liability is calculated as follows:

	Total OPEB Liability
Balance at 6/30/2017	<u>\$ 217,639</u>
Changes for the year:	
Service cost	\$ 13,447
Interest	5,545
Changes of benefit terms	58,476
Differences between expected and actual experience	0
Changes of assumptions or other inputs	(6,913)
Benefit payments	<u>(15,487)</u>
Net changes	<u>\$ 55,068</u>
Balance at 6/30/2018	<u>\$ 272,707</u>

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

The following is the total OPEB liability to the District, as well as the total OPEB liability using a discount rate that is 1-percentage-point lower and 1-percentage-point higher than the current discount rate:

	1% Decrease (2.13%)	Discount Rate (3.13%)	1% Increase (4.13%)
Total OPEB Liability	\$ 285,274	\$ 272,707	\$ 260,150

Actuarial assumptions used were as follows:

- Cost Method:** Entry age normal
- Mortality:** Separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.
- Discount Rate:** 3.13%-Based on S&P Municipal Bond 20 Year High Grade Rate

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 16 – RETIREMENT INCENTIVE OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

The changes of assumptions includes:

1. The discount rate changed from 2.49% to 3.13%.
2. The trend assumption was updated.
3. Assumptions for salary, mortality, withdrawal and retirement were updated based on new PSERS assumptions.

The changes of benefit terms include:

1. None.

For the year ended June 30, 2018, the School District recognized OPEB expense of \$76,936, comprised of the following:

	Amount
Service cost	\$ 13,447
Interest	5,545
Changes of benefit terms	58,476
Amortization of deferred inflows	(532)
OPEB Expense	\$ 76,936

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 0	\$ 0
Changes of assumptions or other inputs	0	6,381
Benefit payments subsequent to the measurement date	21,720	0
	\$ 21,720	\$ 6,381

The amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30		
2019	\$	(532)
2020		(532)
2021		(532)
2022		(532)
2023		(532)
Thereafter		(3,721)

NORTHGATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2018

NOTE 17 – PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2018, the School District implemented GASB 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*, and GASB No 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Reporting under the above GASB standards, which requires new reporting requirement for state and local governments that provide their employees with postemployment benefits other than pensions, were not reflected in the Governmental Activities for the year ended June 30, 2017. The net position at June 30, 2017 has been restated to include the implementation of GASB No. 75 as follows:

	Governmental Activities
Net Position at June 30, 2017	\$ (11,946,765)
Less GASB No. 73 Implementation	(171,802)
Less GASB No. 75 Implementation	(3,180,261)
Restated Net Position at June 30, 2017	\$ (15,298,828)

REQUIRED SUPPLEMENTARY INFORMATION

NORTHGATE SCHOOL DISTRICT

**SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL
OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB)
LIABILITY AND RELATED RATIOS**

YEAR ENDING JUNE 30, 2018

The schedule below reports the change in the District's OPEB:

		<u>2018</u>
Service cost	\$	94,868
Interest		44,787
Changes of benefit terms		3,820,890
Differences between expected and actual experience		0
Changes of assumptions		(210,288)
Benefit payments		<u>(254,614)</u>
Net Change in total OPEB Liability	\$	3,495,643
Total OPEB liability - beginning of year		<u>1,841,735</u>
Total OPEB liability - end of year	\$	<u><u>5,337,378</u></u>
Covered - employee payroll	\$	9,663,643
Total OPEB liability as a percentage of Covered - employee payroll		55.23%

The schedule below reports the change in the Retirement Incentives' OPEB:

		<u>2018</u>
Service cost	\$	13,447
Interest		5,545
Changes of benefit terms		58,476
Differences between expected and actual experience		0
Changes of assumptions		(6,913)
Benefit payments		<u>(15,487)</u>
Net Change in total OPEB Liability	\$	55,068
Total OPEB liability - beginning of year		<u>217,639</u>
Total OPEB liability - end of year	\$	<u><u>272,707</u></u>
Covered - employee payroll	\$	9,663,643
Total OPEB liability as a percentage of Covered - employee payroll		2.82%

Statement No. 73 and 75 of the GASB requires that a 10-year schedule of the changes in the District's Total OPEB Liability be disclosed. Note that only the years where this information is known is required until 10 years of information is compiled.

NORTHGATE SCHOOL DISTRICT

**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (PSERS)
NET PENSION LIABILITY**

YEAR ENDING JUNE 30, 2018

The schedule below reports the School District's proportionate share of the net pension liability.

The Public School Employees' Retirement System Last 10 Fiscal Years (As of years ended 6/30)				
	2018	2017	2016	2015
District's Proportion of the Net Pension Liability (Asset)	0.0724%	0.0695%	0.0682%	0.0682%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 35,757,000	\$ 34,442,000	\$ 29,541,000	\$ 26,994,000
District's Covered-Employee Payroll	\$ 9,642,680	\$ 9,005,802	\$ 8,773,224	\$ 8,698,500
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	370.82%	382.44%	336.72%	310.33%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	51.84%	50.14%	54.36%	57.24%

The amounts presented for each fiscal year are determined as of the calendar year-end that occurred within the fiscal year. This schedule is presented to illustrate the requirement to disclose information for 10 years; however, until a full 10-year trend is compiled, governments are required to present information for those years for which information is available.

NORTHGATE SCHOOL DISTRICT

**SCHEDULE OF DISTRICT'S CONTRIBUTIONS TO THE
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (PSERS)
NET PENSION LIABILITY**

YEAR ENDING JUNE 30, 2018

The schedule below reports the School District's annual contributions to the Public School Employees' Retirement System as of the June 30 year end.

Schedule of District Contributions
The Public School Employees' Retirement System
Last 10 Fiscal Years (As of years ended 6/30)

	2018	2017	2016	2015
Contractually Required Contribution	\$ 3,279,069	\$ 2,923,417	\$ 2,355,877	\$ 1,913,898
Contributions in Relation to				
Contractually Required Contribution	(3,279,069)	(2,923,417)	(2,355,877)	(1,913,898)
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0
District's Covered Employee Payroll	\$ 9,642,680	\$ 9,005,802	\$ 8,773,224	\$ 8,698,500
Contribution as a Percentage				
of Covered Employee Payroll	34.01%	32.46%	26.85%	22.00%

This schedule is presented to illustrate the requirement to disclose information for 10 years; however, until a full 10-year trend is compiled, governments are required to present information for those years for which information is available.

NORTHGATE SCHOOL DISTRICT

**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (PSERS)
NET OPEB LIABILITY**

YEAR ENDING JUNE 30, 2018

	<u>2018</u>
District's Proportion of the PSERS' Net OPEB Liability (Asset)	0.0724%
District's Proportionate Share of the PSERS' Net OPEB Liability (Asset)	\$ 1,475,000
District's Covered-Employee Payroll	\$ 9,642,680
District's Proportionate Share of the PSERS' Net OPEB Liability (Asset) as a Percentage of its Covered-Employee Payroll	15.30%
PSERS' Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	5.73%

The amounts presented for each fiscal year were determined as of the measurement date, which is June 30 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the School District is presenting information for those years only for which information is available.

NORTHGATE SCHOOL DISTRICT

**SCHEDULE OF DISTRICT'S CONTRIBUTIONS TO THE
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (PSERS)
PREMIUM ASSISTANCE**

YEAR ENDING JUNE 30, 2018

	<u>2018</u>
Contractually Required Contribution	\$ 85,748
Contributions in Relation to Contractually Required Contribution	<u>(85,748)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>
District's Covered Employee Payroll	\$ 9,642,680
Contribution as a Percentage of Covered Employee Payroll	0.89%

The amounts presented for each fiscal year were determined as of the fiscal year-end date. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the School District is presenting information for those years only for which information is available.

NORTHGATE SCHOOL DISTRICT

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDING JUNE 30, 2018

NOTE 1 – FACTORS AND TRENDS USED IN THE ACTUARIAL VALUATIONS

A. District’s Other Postemployment Benefits Other Than Pension Benefits (OPEBs)

Changes in Benefit Terms

1. Previously, teachers who retired after 7/1/2014 could only qualify for Act 110/43 coverage. Now, teachers who retire after 7/1/2014 qualify for a 7 year subsidy.

Changes in assumptions and other inputs used in the measurement of the District’s Total OPEB Liability

1. The discount rate changed from 2.49% to 3.13%.
2. The trend assumption was updated.
3. Assumptions for salary, mortality, withdrawal and retirement were updated based on new PSERS assumptions.

B. PSERS Pension Benefits

Changes in Benefit Terms

With the passage of Act 5 class T-E & T-F members are now permitted to elect a lump sum payment of member contributions upon retirement.

Changes in benefit assumptions used in measurement of the Total Pension Liability beginning June 30, 2017

None.

Changes in benefit 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 3.00% to 2.75%.

Salary growth changed from an effective average of 5.50%; which 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 and seniority increases.

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 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 disables annuitants the RP-2000 Combined Disables 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 MP-2015 Mortality Improvement Scale.

NORTHGATE SCHOOL DISTRICT

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDING JUNE 30, 2018

Method and assumptions used in calculations of actuarially determined contributions

The actuarially determined contributions are calculated as of the June 30 preceding the fiscal year in which the contributions are made. That is, the contributions calculated as of the June 30, 2016 actuarial valuation will be made during the fiscal year ended June 30, 2018. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

- Investment return – 7.25%, includes inflation at 2.75% and the real rate of return 4.50%.
- Salary growth – Effective average of 5.00%, which reflects an allowance for inflation of 2.75%, real wage growth, and merit or seniority of 2.25%.
- Benefit payments – no postretirement benefit increases assumed in the future.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

C. PSERS Postemployment Benefits Other Than Pension Benefits (OPEBs)

Changes in Benefit Terms

None.

Changes in assumptions used in measurement of the Total OPEB Liability beginning June 30, 2017

The Discount Rate increased from 2.71% to 3.13%

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

Salary growth changed from an effective average of 5.50%, which 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 and seniority increases.

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 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 disables annuitants the RP-2000 Combined Disables 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 MP-2015 Mortality Improvement Scale.

Method and assumptions used in calculations of actuarially determined contributions

The actuarially determined contributions are calculated as of the June 30 preceding the fiscal year in which the contributions are made. That is, the contributions calculated as of the June 30, 2016 actuarial valuation will be made during the fiscal year ended June 30, 2018. The following

NORTHGATE SCHOOL DISTRICT

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDING JUNE 30, 2018

actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

- Investment return – 3.13% - 20 year S&P Municipal Bond Rate.
- Salary growth – Effective average of 5.00%, which reflects an allowance for inflation of 2.75%, real wage growth, and merit or seniority of 2.25.
- Benefit payments – no postretirement benefit increases assumed in the future.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.

D. Retirement Incentives Other Postemployment Benefits Other Than Pension Benefits (OPEBs)

Changes in Benefit Terms

1. None.

Changes in assumptions and other inputs used in the measurement of the District's Total OPEB Liability

1. The discount rate changed from 2.49% to 3.13%.
2. The trend assumption was updated.
3. Assumptions for salary, mortality, withdrawal, and retirement were updated based on new PSERS assumptions.

SINGLE AUDIT SUPPLEMENTARY REPORTS

NORTHGATE SCHOOL DISTRICT

LIST OF REPORT DISTRIBUTION

1 copy	Bureau of Commonwealth Audits Special Audit Services Division 555 Walnut Street – 9th Floor Harrisburg, PA 17101 Online Submission
1 copy	Federal Audit Clearinghouse Bureau of Census Online Submission Included Data Collection Form
1 copy	Allegheny County Prothonotary City County Building 414 Grant Street, First Floor Pittsburgh, PA 15219
25 copies	Northgate School District 591 Union Avenue Pittsburgh, Pennsylvania 15202
1 copy	Cottrill, Arbutina & Associates, P.C. 525 Third Street Beaver, PA 15009

NORTHGATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Source Code	Federal CFDA Number	Pass Through Grantor's Number	Grant Period From--To	Program or Award Amount	Total Received For Year	Accrued (Deferred) Revenue @ 6/30/17	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue @ 6/30/18	Passed Through to Subrecipients
U.S. Department of Education:											
Passed through the PA Department of Education:											
Title I Grants to Local Educational Agencies	1	84.010	013-180303	07/01/17-09/30/18	\$ 409,398	\$ 355,939	\$ 0	\$ 409,398	\$ 409,398	\$ 53,459	\$ 0
Title I Grants to Local Educational Agencies	1	84.010	013-170303	07/01/16-09/30/17	408,897	106,851	106,851	0	0	0	0
Total CFDA 84.010						<u>\$ 462,790</u>	<u>\$ 106,851</u>	<u>\$ 409,398</u>	<u>\$ 409,398</u>	<u>\$ 53,459</u>	<u>\$ 0</u>
Striving Readers Comprehensive Literacy	1	84.371	143-160303	10/01/16-09/30/17	\$ 463,052	\$ 115,763	\$ 115,763	\$ 0	\$ 0	\$ 0	\$ 0
Striving Readers Comprehensive Literacy	1	84.371	143-150303	10/01/15-09/30/16	761,946	256,492	256,492	0	0	0	0
Total CFDA 84.371						<u>\$ 372,255</u>	<u>\$ 372,255</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Improving Teacher Quality State Grants	1	84.367	020-180303	07/01/17-09/30/18	\$ 63,863	\$ 63,863	\$ 0	\$ 63,863	\$ 63,863	\$ 0	\$ 0
Improving Teacher Quality State Grants	1	84.367	020-170303	07/01/16-09/30/17	71,320	14,181	14,181	0	0	0	0
Total CFDA 84.367						<u>\$ 78,044</u>	<u>\$ 14,181</u>	<u>\$ 63,863</u>	<u>\$ 63,863</u>	<u>\$ 0</u>	<u>\$ 0</u>
Title IV Student Support & Academic Enrichment	1	84.424	144-180303	07/01/17-06/30/18	\$ 10,287	\$ 6,858	\$ 0	\$ 10,287	\$ 10,287	\$ 3,429	\$ 0
Total CFDA 84.424						<u>\$ 6,858</u>	<u>\$ 0</u>	<u>\$ 10,287</u>	<u>\$ 10,287</u>	<u>\$ 3,429</u>	<u>\$ 0</u>
Total PA Department of Education						<u>\$ 919,947</u>	<u>\$ 493,287</u>	<u>\$ 483,548</u>	<u>\$ 483,548</u>	<u>\$ 56,888</u>	<u>\$ 0</u>
Passed through the Allegheny Intermediate Unit:											
Special Education - Grants to States - IDEA	1	84.027	062-18-0-003	07/01/17-06/30/18	\$ 268,950	\$ 194,815	\$ 0	\$ 268,950	\$ 268,950	* \$ 74,135	\$ 0
Special Education - Grants to States - IDEA	1	84.027	062-17-0-003	07/01/16-06/30/17	269,930	91,576	91,576	0	0	* 0	0
Total CFDA 84.027						<u>\$ 286,391</u>	<u>\$ 91,576</u>	<u>\$ 268,950</u>	<u>\$ 268,950</u>	<u>\$ 74,135</u>	<u>\$ 0</u>
Special Education - Preschool Grants - IDEA	1	84.173	131-17-0-003	07/01/17-06/30/18	\$ 2,304	\$ 2,304	\$ 0	\$ 2,304	\$ 2,304	* \$ 0	\$ 0
Total CFDA 84.173						<u>\$ 2,304</u>	<u>\$ 0</u>	<u>\$ 2,304</u>	<u>\$ 2,304</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Special Education Cluster (IDEA)						<u>\$ 288,695</u>	<u>\$ 91,576</u>	<u>\$ 271,254</u>	<u>\$ 271,254</u>	<u>\$ 74,135</u>	<u>\$ 0</u>
Total Allegheny Intermediate Unit						<u>\$ 288,695</u>	<u>\$ 91,576</u>	<u>\$ 271,254</u>	<u>\$ 271,254</u>	<u>\$ 74,135</u>	<u>\$ 0</u>
Total U.S. Department of Education						<u>\$ 1,208,642</u>	<u>\$ 584,863</u>	<u>\$ 754,802</u>	<u>\$ 754,802</u>	<u>\$ 131,023</u>	<u>\$ 0</u>
U.S. Department of Agriculture:											
Passed through the PA Department of Education:											
School Breakfast Program	1	10.553	N/A	07/01/17-06/30/18	N/A	\$ 58,501	\$ 0	\$ 67,140	\$ 67,140	* \$ 8,639	\$ 0
School Breakfast Program	1	10.553	N/A	07/01/16-06/30/17	N/A	10,131	10,131	0	0	* 0	0
Total CFDA 10.553						<u>\$ 68,632</u>	<u>\$ 10,131</u>	<u>\$ 67,140</u>	<u>\$ 67,140</u>	<u>\$ 8,639</u>	<u>\$ 0</u>
National School Lunch Program	1	10.555	N/A	07/01/17-06/30/18	N/A	\$ 247,644	\$ 0	\$ 284,002	\$ 284,002	* \$ 36,358	\$ 0
National School Lunch Program	1	10.555	N/A	07/01/16-06/30/17	N/A	38,290	38,290	0	0	* 0	0
Passed through the PA Department of Agriculture:											
National School Lunch Program: Value of Donated Commodities	1	10.555	N/A	07/01/17-06/30/18	N/A	39,947	0	39,947	39,947	* c 0	d 0
Total CFDA 10.555						<u>\$ 325,881</u>	<u>\$ 38,290</u>	<u>\$ 323,949</u>	<u>\$ 323,949</u>	<u>\$ 36,358</u>	<u>\$ 0</u>
Total Child Nutrition Cluster						<u>\$ 394,513</u>	<u>\$ 48,421</u>	<u>\$ 391,089</u>	<u>\$ 391,089</u>	<u>\$ 44,997</u>	<u>\$ 0</u>
Total U.S. Department of Agriculture						<u>\$ 394,513</u>	<u>\$ 48,421</u>	<u>\$ 391,089</u>	<u>\$ 391,089</u>	<u>\$ 44,997</u>	<u>\$ 0</u>
Total Federal Assistance						<u>\$ 1,603,155</u>	<u>\$ 633,284</u>	<u>\$ 1,145,891</u>	<u>\$ 1,145,891</u>	<u>\$ 176,020</u>	<u>\$ 0</u>

See Accompanying Notes to Financial Statements

NORTHGATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Source Codes:
 I=Indirect Funding

Footnotes:
 a) Total amount of commodities received from Department of Agriculture
 b) Beginning inventory at July 1
 c) Total amount of commodities used
 d) Ending inventory at June 30
 * Selected for testing

Test of 40% rule:

Federal Programs Tested			
Child Nutrition Cluster	\$	391,089	
Special Education Cluster		<u>271,254</u>	
Total Federal Expenditures Tested	\$	<u>662,343</u>	
Total Federal Expenditures	\$	<u>1,145,891</u>	= 57.80% (high-risk auditee 40% required)

See Accompanying Notes to Financial Statements

NORTHGATE SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Northgate School District under programs of the federal government for the year ended June 30, 2018. 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 Guidance). Because the schedule presents only a selected portion of the operations of Northgate School District, it is not intended to and does not present the financial position or changes in net position of Northgate School District.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE 3 – FEDERAL EXPENDITURES BY FUND

Federal expenditures are reported as revenue in the following funds in the financial statements:

General Fund	\$	754,802
Cafeteria Fund		<u>391,089</u>
Total Federal Expenditures	\$	<u><u>1,145,891</u></u>

NOTE 4 – DE MINIMIS INDIRECT COST RATE

Northgate School District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 5 – BUDGETARY DATA

The Northgate School District passed and had approved by the appropriate agency, budgets for the fiscal year ending June 30, 2018 for all federal programs.

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

To the Board of Directors
Northgate School District
591 Union Avenue
Pittsburgh, Pennsylvania 15202

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Northgate School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Northgate School District's basic financial statements and have issued our report thereon dated January 25, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northgate 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northgate School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Northgate School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider items 2018-001, 2018-002, and 2018-003 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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. We consider item 2018-004, described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northgate School District's financial statements are free from material misstatement, we 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 our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Northgate School District's Response to Findings

Northgate School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Northgate School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Cottrill, Arbutina and Assoc.

Beaver, PA 15009
January 25, 2019

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

To the Board of Directors
Northgate School District
591 Union Avenue
Pittsburgh, Pennsylvania 15202

Report on Compliance for Each Major Federal Program

We have audited Northgate 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 Northgate School District's major federal programs for the year ended June 30, 2018. Northgate School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Northgate School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our 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 we 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 Northgate School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Northgate School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance.

Report on Internal Control Over Compliance

Management of the Northgate 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 our audit of compliance, we considered the Northgate School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Northgate 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.

Our 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Cottrill, Arbutina and Assoc.

Beaver, PA 15009
January 25, 2019

NORTHGATE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2018

A. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued: Unmodified
 Internal control over financial reporting:
 Material weakness identified: Yes No
 Significant deficiencies identified that are not considered
 to be material weakness(es): Yes No
 Noncompliance material to financial statement noted? Yes No

Federal Awards

Internal control over major programs:
 Material weakness identified: Yes No
 Significant deficiencies identified that are not considered
 to be material weakness(es): Yes No
 Type of auditor's report issued on compliance for the major
 programs: Unmodified
 Any audit findings disclosed that are required
 to be reported in accordance with 2 CFR section 200.516(a)? Yes No
 Identification of the major programs:

CFDA Number(s)	Name of Federal Program
10.553	Child Nutrition Cluster:
10.555	School Breakfast Program
	National School Lunch Program
84.027	Special Education Cluster
84.173	Grants to States - IDEA
	Preschool Grants - IDEA

Dollar threshold used to distinguish between Type A and Type
 B programs: \$ 750,000
 Auditee qualified as low-risk auditee? Yes No

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

Material Weaknesses

2018-001 Limited Staff

Criteria: The small size of the School District’s office staff limits the extent of separation of duties. The basic premise in an ideal accounting office is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. Some examples of lack of segregation of duties at the School District are as follows:

NORTHGATE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2018

2018-001 Limited Staff – Continued

One person is responsible for, or has access to, the handling and recording of cash disbursements and cash receipts in the activity and athletic funds.

Personnel in the payables function are not completely independent of functions such as general ledger functions and other accounting functions.

Personnel preparing the payroll are not independent of other payroll duties (e.g., timekeeping, printing of checks, and editing the employee master file).

Condition: The School District has a limited staff responsible for or access to:

- | | |
|----------------------------------|----------------------|
| a. receipts | d. payroll records |
| b. check writing | e. inventory records |
| c. posting to the general ledger | f. invoice approval |

Because of limited staff, we realize segregation of the above duties is not practical, if not impossible. Because of this internal control situation, the responsibility of the Director of Finance and Operations is greatly increased because the Board must rely on the Director of Finance and Operations' knowledge of the everyday operations to discover any material changes in the School District's financial position.

Cause: The School District does not have the number of employees necessary in the business office to properly segregate all duties.

Effect: A lack in separation of duties makes the School District more susceptible to misappropriation of School District assets.

Recommendation: Ideally, the School District would hire the number of staff necessary to segregate all duties. However, we realize segregation of duties is not practical, if not impossible. Because of this internal control situation, the responsibility of the Director of Finance and Operations is greatly increased because the Board must rely on the Director of Finance and Operations' knowledge of the everyday operation to discover any material changes in the School District's financial position.

Views of Responsible Official and Planned Corrective Action: See corrective action plan included in this report package.

2018-002 Preparation of Financial Statements

Criteria: The School District's annual financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The School District relies on Cottrill, Arbutina & Associates, P.C., as its auditors, to prepare its annual financial statements in order to conform to accounting principles generally accepted in the United States of America. We realize that additional staffing costs would be needed to acquire the internal expertise to perform this function, which could significantly outweigh the benefits. We, as your auditors, can propose adjustments and assist the School District in assembling or drafting of the financial statements;

NORTHGATE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2018

2018-002 Preparation of Financial Statements – Continued

however, we cannot establish or maintain the School District's controls over preventing or detecting material misstatements in the preparation of financial statements. We proposed and you approved 61 various adjusting journal entries to properly report on the modified accrual basis of accounting and 22 journal entries to convert School District books from modified accrual to full accrual in order to properly report in accordance with GASB 34. All of these journal entries were presented to the School District along with the letter of representation in which you took responsibility and approved each of these entries.

Condition: During the audit, the School District did not present financial statements reported in compliance with accounting principles generally accepted in the United States of America.

Cause: The School District relies on Cottrill, Arbutina & Associates, P.C. to prepare the financial statements and financial statement notes.

Effect: The School District financial statements could be materially misstated according to accounting principles generally accepted in the United States of America.

Recommendation: We realize that additional staffing costs would be needed to acquire the internal expertise to perform this function, which could significantly outweigh the benefits derived. We, as your auditors, can propose adjustments and assist the School District in assembling or drafting the financial statements; however, we cannot establish or maintain the School District's controls over preventing or detecting material misstatements in the preparation of financial statements. Therefore, we recommend the School District carefully review the financial statements, ensuring they agree to the School District's internal records and the School District fully understands and accepts responsibility for the financial statements and notes.

Views of Responsible Official and Planned Corrective Action: See corrective action plan included in this report package.

2018-003 Service Organization Control Report

Criteria: The American Institute of CPAs recently released a new series of reporting options, called SERVICE ORGANIZATION CONTROL REPORTSSM (SOC), that enables CPAs to provide assurance on internal controls over subject matter other than financial reporting while filling the marketplace's need to demonstrate reliability and mitigation of risk.

Condition: The School District was not able to obtain a Service Organization Report from their financial software provider.

Cause: The financial software did not have a SOC report performed during the fiscal year.

Effect: Poor internal controls could result in an increased risk of material misstatements and/or a misappropriation of School District assets.

NORTHGATE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2018

2018-003 Service Organization Control Report – Continued

Recommendation: The financial software provider should have the necessary procedures performed over their internal controls in order to obtain a SOC report.

Views of Responsible Official and Planned Corrective Action: See corrective action plan included in this report package.

Significant Deficiency

2018-004 Compensating Controls Over Fixed Assets

Criteria: The Fixed Asset Clerk submits purchase requests, receives incoming material, issues equipment to the floor, and records related transactions, including deleting transactions in the fixed asset system. The risks to the School District include errors, unintentional losses, and misappropriation of assets.

Condition: During the audit, we noted that one person is responsible for, or has access to, the handling, recording, and maintaining the fixed assets.

Cause: The School District does not have the number of employees necessary in the business office to properly segregate all duties.

Effect: Misappropriation of School District fixed assets could occur and go undetected.

Recommendation: The School District does not have sufficient employee resources to ensure adequate segregation of duties over the fixed assets function. The Fixed Asset Clerk submits purchase requests, receives incoming material, issues equipment to the floor, and records related transactions, including deleting transactions in the fixed asset system. The risks to the School District include errors, unintentional losses, and misappropriation of assets. We recommend that the School District implement the following compensating controls to provide reasonable assurance that assets are physically accounted for, transactions are recorded properly, and fixed assets balance:

- Fixed assets should be periodically spot-checked, both at regular intervals and at unannounced times

Views of Responsible Official and Planned Corrective Action: See corrective action plan included in this report package.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD AUDIT

None.

NORTHGATE SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2018

A. PRIOR YEAR FINDINGS – FINANCIAL STATEMENTS AUDIT

Material Weaknesses

2017-001 Limited Staff

Condition: The School District has a limited staff responsible for or access to:

- | | |
|----------------------------------|----------------------|
| a. receipts | d. payroll records |
| b. check writing | e. inventory records |
| c. posting to the general ledger | f. invoice approval |

Because of limited staff, we realize segregation of the above duties is not practical, if not impossible. Because of this internal control situation, the responsibility of the Director of Finance and Operations is greatly increased because the Board must rely on the Director of Finance and Operations' knowledge of the everyday operations to discover any material changes in the School District's financial position.

Recommendation: Ideally, the School District would hire the number of staff necessary to segregate all duties. However, we realize segregation of duties is not practical, if not impossible. Because of this internal control situation, the responsibility of the Director of Finance and Operations is greatly increased because the Board must rely on Director of Finance and Operations' knowledge of the everyday operation to discover any material changes in the School District's financial position.

Current Status: Improvements were made during the fiscal year, but this finding continues at the School District.

2017-002 Preparation of Financial Statements

Condition: During the audit, the School District did not present financial statements reported in compliance with accounting principles generally accepted in the United States of America.

Recommendation: We realize that additional staffing costs would be needed to acquire the internal expertise to perform this function, which could significantly outweigh the benefits derived. We, as your auditors, can propose adjustments and assist the School District in assembling or drafting the financial statements; however, we cannot establish or maintain the School District's controls over preventing or detecting material misstatements in the preparation of financial statements. Therefore, we recommend the School District carefully review the financial statements, ensuring they agree to the School District's internal records and the School District fully understands and accepts responsibility for the financial statements and notes.

Current Status: This finding continues at the School District.

2017-003 Service Organization Control Report

Condition: The School District was not able to obtain a Service Organization Report from their financial software provider.

NORTHGATE SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2018

2017-003 Service Organization Control Report – Continued

Recommendation: The financial software provider should have the necessary procedures performed over their internal controls in order to obtain a SOC report.

Current Status: This finding continues at the School District.

Significant Deficiency

2017-004 Compensating Controls Over Fixed Assets

Condition: During the audit, we noted that one person is responsible for, or has access to, the handling, recording, and maintaining the fixed assets.

Recommendation: The School District does not have sufficient employee resources to ensure adequate segregation of duties over the fixed assets function. The Fixed Asset Clerk submits purchase requests, receives incoming material, issues equipment to the floor, and records related transactions, including deleting transactions in the fixed asset system. The risks to the School District include errors, unintentional losses, and misappropriation of assets. We recommend that the School District implement the following compensating controls to provide reasonable assurance that assets are physically accounted for, transactions are recorded properly, and fixed assets balance:

- Fixed assets should be periodically spot-checked, both at regular intervals and at unannounced times.

Current Status: Improvements were made during the fiscal year, but this finding continues at the School District.

B. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD AUDIT

None.



NORTHGATE SCHOOL DISTRICT

ADMINISTRATIVE CENTER • 591 UNION AVENUE • PITTSBURGH, PA 15202-2958
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CAROLINE JOHNS
SUPERINTENDENT

CORRECTIVE ACTION PLAN

Department of Education:

The Northgate School District respectfully submits the following corrective action plan for the year ended June 30, 2018.

Name and address of the independent public accounting firm:

Cottrill, Arbutina and Associates, P.C.
525 Third Street
Beaver, PA 15009

Audit period: June 30, 2018

The findings for the year ended June 30, 2018 schedule of findings are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

SECTION B – FINANCIAL STATEMENT FINDINGS

2018-001 Limited Staff

Recommendation: Ideally, the School District would hire the number of staff necessary to segregate all duties. However, we realize segregation of duties is not practical, if not impossible. Because of this internal control situation, the responsibility of the Director of Finance and Operations is greatly increased because the Board must rely on the Director of Finance and Operations' knowledge of the everyday operation to discover any material changes in the School District's financial position.

Management's Response: The School District recognizes the limited staff in the Business Office makes segregating duties virtually impossible. The Board relies on the Director of Finance and Operations to keep them updated on the financial state of the School District and, due to financial constraints, does not intend to increase staffing at this time.

2018-002 Preparation of Financial Statements

Recommendation: We realize that additional staffing costs would be needed to acquire the internal expertise to perform this function, which could significantly outweigh the benefits derived. We, as your auditors, can propose adjustments and assist the School District in assembling or drafting the financial statements; however, we cannot establish or maintain the School District's controls over preventing or detecting material misstatements in the preparation of financial statements. Therefore, we recommend the School District carefully review the financial statements, ensuring they agree to the School District's internal records and the School District fully understands and accepts responsibility for the financial statements and notes.

2018-002 Preparation of Financial Statements – Continued

Management's Response: The School District recognizes that the financial statements are not prepared by the Director of Finance and Operations but by our auditing firm, Cottrill, Arbutina & Associates, P.C. The Director of Finance and Operations is not a certified public accountant, and the School District believes that the auditing firm is more qualified to prepare the statements under the direction, and with the approval, of the Director of Finance and Operations. The School District does not intend to change this procedure at this time.

2018-003 Service Organization Control Report

Recommendation: The financial software provider should have the necessary procedures performed over their internal controls in order to obtain a SOC report.

Management's Response: The School District will obtain a SOC report from their financial software provider annually as available.

2018-004 Compensating Controls Over Fixed Assets

Recommendation: The School District does not have sufficient employee resources to ensure adequate segregation of duties over the fixed assets function. The Fixed Asset Clerk submits purchase requests, receives incoming material, issues equipment to the floor, and records related transactions, including deleting transactions in the fixed asset system. The risks to the School District include errors, unintentional losses, and misappropriation of assets. We recommend that the School District implement the following compensating controls to provide reasonable assurance that assets are physically accounted for, transactions are recorded properly, and fixed assets balance:

- Fixed assets should be periodically spot-checked, both at regular intervals and at unannounced times

Management's Response: The School District is currently reviewing and updating fixed asset internal controls.

If the Pennsylvania Department of Education has questions regarding this plan, please call Northgate School District's Director of Finance and Operations at 412-732-3300 x2126.