

CANON-MCMILLAN SCHOOL DISTRICT

CANONSBURG, PENNSYLVANIA

ANNUAL FINANCIAL REPORT

SCHOOL YEAR ENDED JUNE 30, 2018



Cypher & Cypher

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CANON-MCMILLAN SCHOOL DISTRICT

TABLE OF CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	
MANAGEMENT'S DISCUSSION AND ANALYSIS	i-xxiii
FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	1
STATEMENT OF ACTIVITIES	2
FUND FINANCIAL STATEMENTS	
BALANCE SHEET-GOVERNMENTAL FUNDS	3
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	4
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	5
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	6
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET VS ACTUAL – GENERAL FUND	7
STATEMENT OF NET POSITION – PROPRIETARY FUNDS	8
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION – PROPRIETARY FUNDS	9
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS	10
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS	11
NOTES TO THE FINANCIAL STATEMENTS	12-42

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY 43

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY 44

SUPPLEMENTARY INFORMATION

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES – AGENCY FUNDS 45

BALANCE SHEET – CAPITAL PROJECTS FUNDS 46

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – CAPITAL PROJECTS FUNDS 47

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 48-49

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE 50-51

SCHEDULE OF FINDINGS AND QUESTIONED COSTS 52-53

SCHEDULE OF EXPENDITURE OF AWARDS OF FEDERAL ASSISTANCE 54

NOTES TO THE SCHEDULE OF EXPENDITURE OF AWARDS OF FEDERAL ASSISTANCE 55



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Independent Auditor's Report

Canon-McMillan School District
Canonsburg, Pennsylvania

Ladies and Gentlemen:

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 Canon-McMillan 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 the 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 School District's preparation and fair presentation of the financial statements in order to design the audit procedures that are appropriate in the circumstances, but not for the

purpose of expressing an opinion on the effectiveness of the School District'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 Canon-McMillan 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of District's Proportionate Share of the Net Pension Liability, and the Schedule of the District's Proportionate Share of the Net OPEB Liability on Pages i through xxiii, 43, and 44 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 Canon-McMillan School District's basic financial statements. The statement of changes in assets and liabilities – agency funds, the balance sheet – capital projects funds, and the statement of revenues, expenditures, and changes in fund balances – capital projects funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The statement of changes in assets and liabilities – agency funds, the balance sheet – capital projects funds, the statement of revenues, expenditures, and changes in fund balances – capital projects funds, and the schedule of expenditure of awards of federal assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 statement of changes in assets and liabilities – agency funds, the balance sheet – capital projects funds, the statement of revenues, expenditures, and changes in fund balances – capital projects funds, and the schedule of expenditure of awards of federal assistance are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2018, on our consideration of Canon-McMillan 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 solely 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 effectiveness of Canon-McMillan School District's 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 Canon-McMillan School District's internal control over financial reporting and compliance.

CYPHER & CYPHER

Cypher & Cypher

CERTIFIED PUBLIC ACCOUNTANTS

Canonsburg, Pennsylvania
November 19, 2018

Management's Discussion and Analysis

**CANON–McMILLAN SCHOOL DISTRICT
CANONSBURG, PENNSYLVANIA**

**Management's Discussion and Analysis (MD&A)
June 30, 2018**

Our discussion and analysis of Canon–McMillan School District's financial performance provides an overview of the School District's financial activities for the fiscal year ending June 30, 2018. The MD&A should be read in conjunction with the financial statements and footnotes. This report was prepared by the School District's Business Office.

The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments issued June, 1999.

This report was prepared by the School District's Business Office. Responsibility for both the accuracy of the data presented and the completeness and fairness of presentation, including disclosures in the notes to general purpose financial statements, is the responsibility of the School District's management. We believe that the data is accurately presented in all material respects in a manner designed to fairly present the financial position and results of operations of the District as measured by the financial activity of the various funds and that all disclosures necessary to enable a reader to gain the maximum understanding of the School District's financial affairs have been included.

THE SCHOOL DISTRICT

Canon–McMillan School District is a School District of the Third Class, organized and existing under the laws of the Commonwealth of Pennsylvania (the "Commonwealth"). Canon–McMillan School District is an independent reporting entity as determined within the criteria established in accordance with Governmental Accounting Standards Board codification Section 2100. The application of this section provides comparability between governmental units, comprehensiveness of an individual report, and an indication of the responsibility and control function of the elected officials.

The criteria of Section 2100 have been examined as to the relationship of the School District with the Western Area Career and Technology Center. This entity was determined not to be a part of the reporting entity of the School District. The Center has been excluded due to lack of substantial control. The District appoints one member to the Joint Operating Committee of the Center. The District pays tuition for the students attending the center and would be responsible for any revenue shortfall and loan defaults.

The School District provides a comprehensive educational system from kindergarten through grade twelve, including regular instruction, special instruction, vocational education and necessary support services. The goal of the School District is to provide excellence in education by fostering high levels of student achievement through

collaboration with the community and amidst an ethical culture. We are proud of the efforts of a small group of caring community citizens to establish a foundation to serve the interests of the district. The Canon-McMillan Horizon Foundation is a non-profit organization designed to solicit tax-free donations to support all aspects of the school district including, but not limited to, educational programming and facilities upgrades.

The governing body of the School District consists of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District, headed by the Superintendent of Schools who is appointed by the Board of School Directors. The Superintendent functions as the Chief Executive Officer and works collaboratively with the Board of School Directors within a governance framework. The collaboration continues with and throughout the administrative team as teamwork is a cornerstone of our philosophy of success.

POSITIVE RESULTS OF OUR SCHOOL PROGRAM

Overall, the District is proud of the achievement of its students. We are proud to note that the Canon-McMillan School District boasts the honor of three National Blue Ribbon Schools: First Street Elementary (2007 and 2015) and Wylandville Elementary School (2010). In addition, the Canonsburg Middle School was a 2011 recipient of the Pennsylvania Don Eichhorn Award (one of 21 middle schools in Pennsylvania) and was designated as a National Schools to Watch Middle School, one of 250 schools in the United States to have achieved that special distinction. In 2014, the Canonsburg Middle School was re-designated as a Pennsylvania Don Eichhorn and National School to Watch Middle School and also boasts the 2012 Middle Level Principal of the Year designation. Also, in May 2014, Muse Elementary School and the Canon- McMillan Senior High School each received a Governor's Proclamation for outstanding continuous growth in student academic achievement. Cecil Intermediate, a Title 1 school from our district was recognized as a National Title I Distinguished School for the State of Pennsylvania in 2015 and in 2018.

As one of the fastest growing school districts in southwestern Pennsylvania, we are proud of the myriad of opportunities we offer our students. Our growth, in combination with the age of some of our facilities necessitated a multi-phase capital improvement plan which was initially presented in May, 2014. Ground breaking for the new Muse Elementary School occurred in the fall of 2015 and the opening date for the new school occurred on schedule in August, 2017. We created physical learning spaces that are conducive to learning appropriate for the 21st century, representative of financially sound decisions and indicative of the well-developed infrastructure our students and school community deserve. Our high school renovation/expansion project which began in 2017 is slated to be completed by December, 2018.

The Canon-McMillan School District meets the needs of its students on a variety of academic, emotional and social levels. The District embraces the PA Core Standards with the provision of differentiated instructional practices which build a foundation for student success. Tutoring is offered for at-risk students needing extra help. Enrichment opportunities also are provided and are augmented by programming that addresses the needs of identified gifted students. Canon-McMillan has engaged in Community

Partnerships providing students with hands-on project-based learning experiences in conjunction with their coursework. These experiences involve plant/factory field trips, round-table problem-solving discussions with engineers and CEO's and solutions-based projects paired with classroom instructional activities to solve for real-life problems identified by the respective company representatives. While our Community Partners list is growing, it includes partners such as Auma Actuators, Range Resources, Catalyst-Connections, All-Clad Metal Crafters, Universal Electric Corporation, Consol Energy and Mark-West Energy Partners.

Beginning in the 2017-2018 school year, Canon-McMillan School District became the first school district in the state of Pennsylvania to implement Code to the Future, a full immersion computer science curriculum, at our K-4 levels. Canon-McMillan administration understands that there is a growing concern, as indicated in recent US Department of Labor and industry reports, that there will be a significant person job gap in positions requiring skill sets in computer science. The district wants to do its part in addressing this concern by exposing students to such programming at the earliest levels of their educational experience.

As a testament to the positive results of our school programs, the award-winning Canon-McMillan School District has building level test scores within the range that the Pennsylvania Department of Education considers to be successful. With the release of current student performance data, it was indicated that none of our schools were identified by the state, or federal government, as needing additional support for success. Canon-McMillan continues to focus on student growth at each of our schools with the goal to continue to increase each individual school's overall performance.

FINANCIAL HIGHLIGHTS

Our financial statements provide these insights into the results of this year's operations:

Governmental funds including the general, capital projects, capital reserve, debt service and athletic reported a decreased combined fund balance of \$38.8M, which is down from 2016-17 of \$48.8M. The decrease represents projects in process moving towards completion. A combined net loss of (\$9.8M) was reported for 2017-2018.

Revenues: The School District's general fund received \$83.2 million during 2017-2018 compared with \$80.4 million for 2016-2017. Canon-McMillan received 71% of its funding from local sources, 28.1% from state sources, and 0.9% federal sources which was almost identical in 2016-2017 (71%, 28%, and 1% respectively). Real estate tax receipts continue to be the primary source of revenue for the general fund. The property assessments, from which real estate tax receipts are based, continue to increase. Without a significant increase in state funding, it is anticipated that future annual millage rate increases are likely, especially if the District continues to pursue Capital Projects.

Earned Income Tax (EIT) is the second most significant local revenue source funding general fund operations and it continued to increase despite appearing to plateau or level off a few years ago. The mandated countywide consolidation effort which began in

2012 made the receipt of these revenues more efficient. The District will continue to monitor this taxing effort as it will have both short and long term impacts to the Earned Income Tax collection. However, it is still anticipated that the School District is financially positioned very well as economic growth continues and the financial health of the local economy is not solely dependent on any one of several major employers. Another large local tax revenue source for the School District is the Realty Transfer Tax, which taxes one half percent on the sale of homes in our communities. The rates on both this tax and the Earned Income Tax rate are not able to be changed per state law. Homes in our communities range from starter homes which are attractive to young families, to expansive properties. Properties in our district are on the rise due to: recovering housing market, lower borrowing costs and looser mortgage qualifications.

Expenditures: Total general fund spending for 2017-2018 was \$79.5 million for the year compared with \$77.8 million for 2016-2017. Instructional programs expended \$41.7 million, or 52.4% of all general fund spending compared with \$39.7 million or 50.9% in 2016-2017.

It is anticipated the District will continue to perform better than many communities in terms of revenue streams. Additionally, there have been improvements and additions to the highways creating increased access to major markets and making the Canon–McMillan School District a location that businesses are sure to find attractive.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time increases and decreases in net position serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government'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 from some items that will result in cash flows in the future fiscal periods, such as uncollected taxes.

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes, state and federal subsidies (governmental activities) from other functions that are intended to recover a portion from user fees and

charges (business-type activities). The governmental activities include general costs of the District such as instruction, administration and community service. The largest major fund in governmental activity is the General Fund.

The General Fund, the Capital Projects Fund, and the Debt Service Fund are the three major funds under governmental activities.

The General Fund accounts for all transactions of the School District which are not required to be accounted for in another fund. The School Board is empowered by Article 5 Section 507 of the Public School Code to levy and collect necessary taxes in addition to the annual State appropriation in order to pay for any indebtedness that may be created and to enable it to establish, enlarge, equip, furnish, operate, and maintain the operations of the School District. All other funds are designated for specific purposes.

The Capital Bond Funds have activity restricted to capital improvements and the purchase of long-term equipment and are aggregated into a single presentation, Capital Projects Fund. The Debt Service Fund accounts for resources accumulated to provide for payment of general long-term debt principal and interest. The District has one non-major fund: a District Activity Fund, which is aggregated into a single presentation, Non-Major Funds.

The only other major fund is the Food Service Fund and it is a business-type activity fund which accounts for the cafeteria program in each of the District's eleven schools. The District contracted these services through an RFP process with Nutrition Inc. to provide food service management. The Retirement Obligations Fund is an internal service fund and accounts for the financial transactions related to the other post employment activities of the School District.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds - Most of the District's activities are reported in governmental funds which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which focuses on near-term inflows and outflows of readily available resources as well as balances of readily available resources at the end of the fiscal year. Such information is useful in evaluating a District's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide financial statements. By doing so, readers can understand the long-term impact of the government's near-term financing decisions. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of

Activities) and governmental funds is reconciled in the financial statements and can be noted on Pages 4 and 6 in the financial statements.

Proprietary Funds - Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. While the District maintains only one proprietary fund type, the Food Service Fund, it provides more detail and additional information than government-wide statements, such as cash flows.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the District's operations. The District maintains student funds as Agency Funds. The District acts as a custodian and administers this fund on behalf of the students and their organizations. Since these funds are custodial in nature, the District does not measure the results of operation. However, acting as a custodian of these funds, the Business Office had found areas of concern in regard to the internal controls and added further controls as a result.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table reflects the condensed Statement of Net Position:

Statement of Net Position As of June 30, 2018

	Governmental Activities		Business-Type Activities		Total	
	2017	2018	2017	2018	2017	2018
Current and Other Assets	\$ 60,584,743	\$ 52,242,215	\$ 5,797,955	\$ 5,805,011	\$ 66,382,698	\$ 58,047,226
Non Current Assets	97,107,400	109,325,424	501,887	458,244	97,609,287	109,783,668
Deferred Outflows	24,703,130	21,832,658			24,703,130	21,832,658
Total Assets and Deferred Outflow:	182,395,273	183,400,297	6,299,842	6,263,255	188,695,115	189,663,552
Current and Other Liabilities	15,769,207	17,703,909	83,173	139,563	15,852,380	17,843,472
Non Current Liabilities	258,056,140	259,436,479			258,056,140	259,436,479
Deferred Inflows	1,013,454	1,215,408	20,379	24,178	1,033,833	1,239,586
Total Liabilities and Deferred Inflow:	274,838,801	278,355,796	103,552	163,741	274,942,353	278,519,537
Invested in Capital Assets	(14,165,505)	(3,951,372)	501,887	458,244	(13,663,618)	(3,493,128)
Restricted	11,097,610	10,588,811	5,279,597	5,309,257	16,377,207	15,898,068
Unrestricted	(89,375,633)	(101,592,938)	414,806	332,013	(88,960,827)	(101,260,925)
Total Net Position	\$ (92,443,528)	\$ (94,955,499)	\$ 6,196,290	\$ 6,099,514	\$ (86,247,238)	\$ (88,855,985)

Assets, Liabilities & Net Position

The School District's total assets increased \$968 thousand during 2017-2018 to a total of \$189.6 million. 31% is comprised of current assets: cash and cash equivalents, investments, receivables (delinquent taxes), and other receivables from federal and state sources, insurance reimbursement, and other School District funds including Capital Projects. The remaining 69% assets are attributable to noncurrent assets comprised of long-term receivables and capital assets net of depreciation.

Total liabilities increased \$3,577,184 during 2017-2018 to a total of \$278.5 million. Beginning June 15, 2014 GASB #68 became effective and is reflective in the future statements presented in this report. This statement was made to address accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts and have certain characteristics. The application of this statement has resulted in the school district being required to include a proportionate share of the PSERS unfunded liability within its financial statements. It is important to note that the District is mandated to participate. Typically we would have only seen things like bonds payable, accounts payable, salaries and benefits payable and other post employment benefits payable represented in this section. This section traditionally and currently also reflects, accounts payable balances that are primarily the result of expenditures incurred prior to June 30, 2018 and paid subsequent to June 30, 2018. Accrued salaries and benefits are primarily the result of salaries earned by teachers as of June 30, 2018 and paid during the summer 2018.

The District's total net position increased \$2.6 million during 2017-2018. This reflects post GASB #68 activity, which was a main contributor to the large change from 2013-2014 to 2014-2015 but decreased in 2016-2017. The net position increase is comprised of: \$(3,493,128) in invested capital assets, net related debt and inclusive of long-term receivables; restricted funds comprised of capital projects, retirement obligations and designated purposes. Unrestricted funds are reflective of the inclusion of GASB #68 into the financials with (\$101,260,925).

RESULTS OF OPERATIONS

Fiscal year ended June 30, 2018

Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2018	2017	2018	2017	2018
Program Revenues:						
Charges for Services	\$ 1,343,249	\$ 1,257,603	\$ 1,339,576	\$ 1,377,186	\$ 2,682,825	\$ 2,634,789
Operating Grants and Contributions	14,891,815	13,840,857	937,228	980,461	15,829,043	14,821,318
General Revenues:						
Property Taxes	46,155,675	47,458,793			46,155,675	47,458,793
Other Taxes	8,393,712	8,579,053			8,393,712	8,579,053
Grants Subsidies and Contributions	12,357,089	12,532,356			12,357,089	12,532,356
Other	502,586	1,772,573	214,390	36,868	716,976	1,809,441
	83,644,126	85,441,235	2,491,194	2,394,515	86,135,320	87,835,750
Expenditures:						
Depreciation	1,755,969	1,882,505			1,755,969	1,882,505
Instruction	42,797,166	44,494,724			42,797,166	44,494,724
Instructional Student Support	5,710,366	6,041,088			5,710,366	6,041,088
Administrative and Financial Support	8,052,548	8,067,218			8,052,548	8,067,218
Operation and Maintenance of Plant	7,232,427	7,600,358			7,232,427	7,600,358
Pupil Transportation	6,019,350	5,963,927			6,019,350	5,963,927
Student Activities	1,749,282	1,865,720			1,749,282	1,865,720
Community Services	97,228	156,368			97,228	156,368
Debt Service	7,357,186	6,591,455			7,357,186	6,591,455
Food Service			2,491,911	2,491,291	2,491,911	2,491,291
	80,771,522	82,663,363	2,491,911	2,491,291	83,263,433	85,154,654
Change in Net Position	\$ 2,872,604	\$ 2,777,872	\$ (717)	\$ (96,776)	\$ 2,871,887	\$ 2,681,096

Revenues

Local taxes account for 71% of all revenue. The District currently receives approximately \$465,000 per each mill of real estate tax. This figure takes into account deducting for un-collected taxes (discount, collection rate, etc...). Reassessment took place in 2016. The District is still initiating and defending appeals from reassessment and projects this to be an annual on-going process moving forward. The remaining revenues are Federal and State subsidies which totaled 29% of additional revenue for fiscal 2018.

Expenditures and Other Financing Uses-Governmental Funds

Operating expenditures increased \$1,891,221 in 2017-18 to a total of \$85.1 million. Instructional services account for 52% of total expenditures. It is the most influential factor in the total expenditures from fiscal 2018 and a net increase of \$1,697,558 from 2017. The increase is mainly attributed to state mandated employer contribution increases along with new staff, salaries and other fringe benefits.

The following table shows the District's nine largest functions at total cost and net cost (total cost less revenues generated by the activity). 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 miscellaneous revenues.

Fiscal Year Ended June 30, 2018
Governmental Activities

Function/Program:	Total Cost		Percentage	Net Cost		Percentage
	2017	2018	Change 2017-2018	2017	2018	Change 2017-2018
Depreciation	\$ 1,755,969	\$ 1,882,505	7.2%	\$ 1,755,969	\$ 1,882,505	7.2%
Instruction	42,797,166	44,494,724	4.0%	33,825,163	34,838,297	3.0%
Instructional Student Support	5,710,366	6,041,088	5.8%	5,239,100	5,527,931	5.5%
Administrative and Financial Support	8,052,548	8,067,218	0.2%	7,454,554	7,435,781	-0.3%
Operation and Maintenance of Plan	7,232,427	7,600,358	5.1%	6,702,172	7,036,431	5.0%
Pupil Transportation	6,019,350	5,963,927	-0.9%	4,329,727	4,388,029	1.3%
Student Activities	1,749,282	1,865,720	6.7%	1,409,567	1,533,306	8.8%
Community Services	97,228	156,368	60.8%	95,303	113,734	19.3%
Long Term Debt Interest	7,357,186	6,591,455	-10.4%	3,724,903	4,808,889	29.1%
Total Governmental Activities	80,771,522	82,663,363	2.3%	64,536,458	67,564,903	4.7%
Less: Unrestricted Grants, Subsidies and Contributions				(12,357,089)	(12,532,356)	
Total Needs From Local Sources				\$ 52,179,369	\$ 55,032,547	5.47%

Explanation of Expenditure Category Content:

Depreciation – Depreciation expense is an application of the matching principle whereby the cost of fixed assets used up during a period is matched with the revenues generated by their use. While depreciation expense is not a use of cash, the underlying concept that depreciation expense should bear some relationship to principal debt payments is most important. In 2008-2009, we reflected the results of our outside appraisal of fixed assets and believed we were current in the cost of those assets. In subsequent years, we have added additional updates that were shared by our outside appraisal company. The district will be engaging in another appraisal of our fixed assets in conjunction with the capital improvement plan, in the meantime, annual updates will be provided.

Instruction - Activities designed to provide grades K-12 students with learning experiences to prepare them for activities as citizens, family members, and non-vocational workers as contrasted with programs designed to improve or overcome physical, mental, social and/or emotional handicaps.

Instructional support services include those activities associated with assisting, supporting and directing the instructional staff on providing learning experiences for students. Program areas included in this section are audiovisual services, computer services, library, curriculum development and staff development.

Administration services are those activities concerned with establishing and administering policy in connection with operating the School District. Program areas include board services, tax collection, personnel services, legal services, special legal counsel, superintendent services, community relations and office of the principal.

Financial services cover the Business Office operations, warehousing and distributing services and duplicating services. The cost reflects the increase in centralization of the maintenance cost of duplicating equipment. Audit preparation and fixed asset appraisal are also key components of this area. Accounting software and associated modules are an integral part of the business office.

Operation and maintenance services cover the activities concerned with keeping the physical plant, comfortable and safe for use and keeping the buildings and grounds in effective working condition and in a good state of repair. District-wide maintenance projects included roof installation, carpet replacement, ceiling tile replacement, fire and security system repairs, field repairs and playground improvements and roadway and parking lot improvements. Preventive maintenance programs include filter replacements with facility mechanical systems, power system upgrades, HVAC system renovations and high efficiency energy management through lighting conversions to low wattage T8 LEDs. Safety and security continually addressed with the latest installations involving door barricade systems for every classroom and additional interior and exterior security cameras. The District also contracts the services of police officers/school resource officers from our local municipalities.

Transportation in Canon–McMillan includes regular education students, special education students, parochial students, inter-district students attending agricultural and vocational-education students attending the Western Area Career and Technology Center and the Parkway West Career and Technology Center.

Student activities encompass those co-curricular programs which supplement the regular instruction program, including such activities as band and athletics.

Community services reflect those activities concerned with providing community services to students such as recreational activities and contributions to Canonsburg Public Library.

Debt services include interest payments on long-term debt obligations and refund of prior year receipts.

BUDGETING PROCESS

The fiscal 2018 General Fund Budget was approved by the Board of School Directors on June 28, 2018. The budget included proposed total expenditures of \$85,516,075 and proposed revenues of \$85,515,195. The expenditures were \$(880) more than revenues, that shortage will be offset utilizing unassigned fund balance. The designation of fund balance was set aside to anticipate things like last minute state budget changes or lack of state budget, OPEB contributions, class size monitoring, the unknown financial impact of future tax assessment appeals and emergency monies for building repair. For example: the stadium turf and track were deemed unsafe for play which resulted in a large unanticipated expense in 2014-2015 and 2015-2016. The budget plan continues to include technology improvements, like one to one device initiative, increased bandwidth and technology needed for the Code to the Future initiative, bus replacements, and deferred maintenance programming as outlined in the District's five-year planning. The anticipated unknown in the amount of funds available for the state funding formula and reduction in grants monies had some budgetary realignment impact. A big factor in the budgeting process continues to be tax assessments resulting from the county wide reassessment process (see Appendix B). Lastly, the budget also included monies for post-retirement healthcare benefits (GASB).

FUND BALANCE ANALYSIS—GOVERNMENTAL FUNDS

	General Fund	Capital Projects Fund*	Debt Service Fund	District Activities Fund
June 30, 2017	\$8,987,159	\$ 35,153,747	\$ 4,533,805	\$ 19,530
Increase (Decrease)	\$(4,251,173)	\$ (5,646,307)	\$ 41,090	\$ 11,475
June 30, 2018	<u>\$4,735,986</u>	<u>\$ 29,507,440</u>	<u>\$ 4,574,895</u>	<u>\$ 31,005</u>

*Capital Project Fund comprised of Construction Fund (Muse) \$25,024,529 and Capital Reserve Fund \$4,482,911 as of 6/30/2018.

The fund balance for the General Fund at June 30, 2018 included a deficit of \$(4,251,173). This decreased the total fund balances from \$9,130,380 to \$4,735,986. This decrease reflects the transfer of monies from the General Fund to the Capital Projects Fund. It is important to note that the balance sheet delineates the portions of these funds that are assigned, committed, restricted and unassigned. The designation may limit the spending of those funds without further actions. The most influencing factors were unanticipated interim taxes, increases to real estate beyond projections and the District halting spending early. These resulted in additional revenues not budgeted as the outcome was unknown until after the budget was set. In regard to fund balance, the fund balance policy was established in response to multiple years that the fund balance dipped to a deficit. A recommendation made by the Auditor General was to adopt a policy to prevent this from occurring along with tightened controls. The District complied with both recommendations and a positive fund balance is the result. As a result of budgeting challenges especially in regard to funding, tax appeals, mandated retirement contributions and limits on ability to tax, the District made

additional fund balance allocations and will be reviewing the Fund Balance Policy to include these areas. The District's unassigned fund had reached the optimal recommended % but has not dropped, which resulted from fund being committed to Capital Projects. The recommended minimum fund balance limit is between 8%-10%.

DEBT ADMINISTRATION

As of June 30, 2018, the District had long-term debt obligations totaling \$264,691,479 million. In 2017, this increased due to the borrowing for Capital Project: High School and Stadium Projects. This amount also increased by \$873,000 to record as per GASB the net pension liability and \$4,780,000 reported as per GASB 75 for Health Insurance Premium Liability. More detailed information relating to the District's long-term liabilities is included in the notes to the financial statements.

HISTORY AND FUTURE ECONOMIC FACTORS

The Canon-McMillan School District, encompassing a land area of 57 square miles, is located in western Washington County and extends north to the Allegheny County border. The Townships of Cecil, North Strabane and Canonsburg Borough comprise the School District. The U.S. Census Bureau had a 2009 total estimated population for the district of 30,211; this represents a 6.3% increase over the 2000 estimate total population of 28,420. The newest census was completed in 2010. Currently the population of the school district is 33,671. This represents an approximate 18.5% increase over the 2000 Census data.

Higher education at Canon-McMillan was initiated in the locale by the Rev. John McMillan in the log cabin that is now located on the front campus of the current Canonsburg Middle School. Since 1791, when Col. John Canon donated this lot and contributed money to provide for the Canonsburg Academy, there has been a secondary school on this site.

After 1800, the Canonsburg Academy was chartered as Jefferson College and later merged with Washington College to found the present Washington and Jefferson College in Washington. The Rev. McMillan's Log College is said to be the first school of higher learning west of the Allegheny Mountains. The Canon-McMillan School District was created in the 1950's following the jointure of the Canonsburg Borough, Cecil Township and North Strabane Township schools. On September 15, 1954, the name Canon-McMillan Joint School System was attached to the merger. With the creation of Canon-McMillan, the students from all three municipalities began attending a single Canon-McMillan High School. North Strabane provided the land for the new high school and ground was broken for construction of the school on December 16, 1957.

Canon-McMillan has graduated such athletic standouts as Mike Hull (Class of 2008), who currently plays as a linebacker for the Miami Dolphins; and the late Doug Kotar (Class of 1970), who played as a running back for the New York Giants football team, and William Schmidt (Class of 1965), who won a bronze medal in the javelin at the 1972 Olympics, and such international artists as twins Joseph and James Sulkowski (Class of 1969), who have displayed their works in all 50 states and abroad. Many of the

District's outstanding alumni have been, and continue to be, honored at the District's annual Hall of Honor award ceremony.

Cecil Township, which accounts for nearly 36% of the School District's land area, was once primarily rural and agricultural in character but now includes commercial, residential and industrial areas. A major development in this township was Southpointe which includes an eighteen-hole golf course, hotels, restaurants, recreation, office complexes, and two universities. A new four hundred acre development similar to "Southpointe" was previously approved by Washington County and boasts the following: offices, stores, restaurants, a nine-hole golf course and new housing developments. Southpointe II is under development with the anticipation of additional real estate projects. Even though the project was once stalled due to the poor economy, its progress is back on track. In 2014, Mylan Corporation opened a new 280,000 square foot corporate building in Southpointe II. Southpointe and Southpointe II are currently home to businesses such as: Consol Energy, Homewood Suites, NCO Financial Systems, Ansys Inc., Black Box, Range Resources, Mark-West, etc. Cecil Township also includes some of the highest paying taxpayers within the District. In addition to the new businesses commercial and industrial growth, new housing developments continue to expand within Cecil Township. The commercial, industrial and residential development will continue to also create many new jobs and increase real estate and earned income tax revenue for the School District.

North Strabane Township accounts for nearly 38% of the District's land area and is similar to Cecil with a mix of residential and commercial areas along with an industrial park, several motels and restaurants. North Strabane, like Cecil Township also includes some of the largest employers or taxpayers in the district. It is also home to some of the largest businesses: to mention only a few-- 84 Lumber, Pennsylvania Transformer Technology, and the Meadows Racetrack and Casino. The Meadows opened their temporary casino in 2007-2008 with plans to have their permanent casino facility ready by during the 2010-2011 school year. The facility actually opened in the spring of 2009. The district received interim monies for the permanent facility and in 2009-2010 the facility was fully on the tax books. The casino further expanded in 2011-2012 by building a parking facility. Resolution occurred during the 2012-2013 school year between the district, county, township and Meadows Casino in regard to past and future real estate taxes. The resolution resulted in a reduction in tax assessment for the property. Much like Cecil Township, North Strabane also had a number of new residential developments that will likely bring additional students and additional real estate and earned income tax revenue for the district.

Canonsburg Borough makes up the balance of the District and is typical of a small city. It has a downtown shopping area, restaurants, motels, some industrial areas and residential areas. Canonsburg Borough boasts the home of the famous, "Sarris Candy" business, which is also one of the largest businesses in Canonsburg. In 2009, ground breaking on a new larger public library was undertaken. The library opened in 2011 and has partnered with the school district. The library brings added benefit to the school district and the community. The community looks forward to the addition of the Washington Hospital Outpatient Center.

The Canon-McMillan School District is still experiencing both student growth and community economic development. The district has seen improvement in the economic conditions of our community. As evidenced in increased real estate, interim taxes and earned income growth since the prior year, the District is experiencing growth as a result of the new housing developments and local oil and gas industry job growth.

The School District is near the city of Washington, the county seat of Washington County. Part of the Pittsburgh Primary Metropolitan Statistical Area (PMSA), the School District is approximately 20 miles southwest from the City of Pittsburgh, the government seat of Allegheny County. Access to Pittsburgh is provided by US Route 19 and Interstate 79 which bisect the School District North to South. US Route 40 and Interstate 70 are near the School District from east to west. Currently, Washington County is developing two industrial parks located within 15 miles of the school district which will continue to increase the employment rate for District residents. The University of Pittsburgh Medical Center, located approximately 20 miles from the School District, provides extensive and exceptional health care for all surrounding counties. Additionally, acute-care service is provided by Canonsburg General Hospital (which is located within the School District) and Washington Hospital.

With the forward-thinking actions and initiatives of Canon–McMillan School District’s Board of Education, the provision of high-quality education of our students will continue through the 21st Century.

The District is prepared to meet the challenges of offering a high-quality education to all students while effecting cost savings whenever possible.

CAPITAL IMPROVEMENT PLAN

The School District continues to track residential growth and the potential enrollment growth that may result. Consequently, the school district had been exploring options to build a new school building and/or renovate and expand an existing structure. Capital improvements will continue as a focal point over the next five to ten years. The District engaged the services of Dr. Shelby Stewman, demographer, from Carnegie Mellon University, to study the population trends (past, present and future) so that precise planning could be put into place.

As a result, the Board of School Directors procured the services of HHSDR architectural firm to make recommendations in regard to facilities and future needs. In May, 2014, a Conceptual Facilities Plan was publicly presented to include the first project, an 800-student elementary school in Muse, which was completed in August 2017. During the 2016-2017 the district also started the High School renovation and Stadium projects. They are planned for completion in the 2019 school year. The initial demographic study, completed by Dr. Stewman, was utilized in conjunction with the recommendations of HHSDR to define a footprint for construction/renovation projects for the next three to 10 years. The district has determined to once again contract Dr. Stewman to update our demographics for the next phases of the facilities plan. An updated plan can be found on the district’s website under Board Doc’s.

Major capital projects have been funded through bond proceeds and school district reserves. Unless the School District budgets funds for these projects it is possible that these needs will result in the addition of debt. However, the School Board of Directors recognizes the importance of capital projects and began to fund the Capital Project Fund (Board Policy 620). Another key factor in capital projects is the District's borrowing ability. This is monitored and assessed annually by the Board Budget and Finance Committee. GASB 45 requires school districts to list all their post health care retirement benefits on the District financials, the District fulfilled the recommended amount from 2009 up thru the 2017. The latest report indicated the district is fully funded and future recommendations may be forthcoming. Regardless, the district will continue to consider this upon completion of future budgets, as well as continued reviews of our GASB 45 obligations to ensure the impact to the district's borrowing abilities is minimized.

PENNSYLVANIA SCHOOL EMPLOYEES RETIREMENT SYSTEM

The extended decline in the stock market resulted in prolonged negative returns on investment for the State retirement system. It is anticipated that the fund will require significantly increased contributions from all of the school systems within the Commonwealth. The rates are still in the collared time frame at incrementally higher contribution rates after which time, projections from the retirement system have indicated that the rate charged to school systems could be impacted by much higher contributions.

TECHNOLOGY

Canon-McMillan School District has invested several million dollars to acquire technology in the form of equipment, software, and infrastructure. Attempts to provide budgeted funds for replacement and upgrade of this technology in an effort to remain reasonably current have been modestly successful. It is anticipated that significantly higher levels of funding will be required in the near term to maintain the increase in technology. Additionally, prior to the closure of the grant, the school district had received funds for the Project 720 High School Reform Project as well as "Classrooms for the Future" technology programming to enhance student achievement via performance for 21st Century skills. Because these programs are no longer state funded, support for maintaining up-to-date technology has been needed.

The District has incorporated technology in all phases of operations. The District parents, students, administrators and others rely on the social media communication through the use of district-maintained accounts such as Facebook and Twitter for pertinent district data. The business office has used the website to provide transparency by displaying current budgetary, audit and other important financial data. District administrators are using the website to share information about their buildings or areas of responsibility. Teachers are using the District website as a communication channel for both students and parents. Parents are referencing the website regularly for updates regarding their children's academic progress, to monitor and make notations on their student lunch accounts and to communicate with teachers on a regular basis. Technology is also embedded in the daily learning experiences of our students. It augments already sound teaching methodology in a manner that aligns with and

highlights 21st Century learning skills and justifies yet another reason why the Canon-McMillan School District provides a premier learning experience for our students.

REVENUE

The stability of revenue to meet the operational needs of the School District is, in the immediate period, sound and stable considering the comparative tax burden on the School District's residents, as compared with other school districts in this region. This is mainly attributable to the residential and commercial growth that the district is still experiencing. However, the political environment in the Pennsylvania state legislature may result in changes to funding levels for this school district that could impact subsidy revenue, and simultaneously limit or eliminate the taxing power as well as receiving lower funding amounts. The federal government in recent years provided stimulus funding that, while providing an influx of monies to the district budget, has expired. Another very critical factor greatly impacting the District is the status of residential and commercial tax appeals.

CONTACTING THE SCHOOL BOARD'S FINANCIAL MANAGEMENT

Our financial report is designed to provide citizens, taxpayers, students, investors and creditors, and other interested parties with a general overview of the School Board's finances and to illustrate the School Board's accountability for funds it receives. Questions concerning this report or a request for additional information should be addressed to Joni Mansmann, Director of Business and Finance, Canon-McMillan School District, 1 North Jefferson Avenue, Canonsburg, PA 15317, telephone number (724) 746-2940.

**CANON-McMILLAN SCHOOL DISTRICT
CANONSBURG, PENNSYLVANIA**

**Management's Discussion and Analysis (MD&A)
June 30, 2018**

Appendix A: Regional and Economic Data

Appendix B: District Enrollment, Debt and Other Tax Data

APPENDIX A

**REGIONAL AND ECONOMIC DATA OF
CANON-McMILLAN SCHOOL DISTRICT
(Washington County, Pennsylvania)**

**REGIONAL AND ECONOMIC DATA OF
CANON-MCMILLAN SCHOOL DISTRICT
(Washington County, Pennsylvania)**

The School District is located in the northeastern part of Washington County, Pennsylvania and covers approximately 57 square miles. Canonsburg Borough, the geographical center of the School District, is located approximately 20 miles southwest of Pittsburgh and 9 miles northeast of the City of Washington, Pennsylvania. Participating municipalities within the School District include Canonsburg Borough, Cecil Township and North Strabane Township.

Higher Education

The School District has access to numerous college and universities that offer a variety of undergraduate, graduate and non-credit programs. Washington and Jefferson College is a private liberal arts college located south of the School District in the City of Washington, Pennsylvania. Waynesburg University is located to the south of the School District in the Borough of Waynesburg, the county seat of Greene County and Wheeling, West Liberty and Bethany Colleges are located in the neighboring state of West Virginia. Numerous institutions of higher education that are located in the City of Pittsburgh include the University of Pittsburgh, Carnegie-Mellon University, Duquesne University, Robert Morris University, Point Park University, Chatham University and Carlow University.

Medical Facilities

The University of Pittsburgh Medical Center, located approximately 20 miles from the School District, provides extensive and exceptional health care for all surrounding counties. Additionally, Washington Hospital, located in the City of Washington, is an acute-care general hospital. Canonsburg General Hospital, which is also a general acute-care facility, is located in nearby North Strabane Township. The West Virginia University Medical Center is located approximately thirty miles from the School District in Morgantown, West Virginia. The School District is also served by Mon Valley Hospital, St. Clair Memorial Hospital and a satellite Children's Hospital in Bridgeville..

Transportation Facilities

There is a variety of transportation in Washington County, including three Class 1 railroads and two short lines, as well as 19 trucking companies, three bus lines and three taxi companies based in the County.

Interstate Routes 70 and 79 and U.S. Routes 19, 40 and 43 traverse the School District and provide direct access to the City of Pittsburgh (approximate driving time is thirty minutes) as well as the city of Wheeling, West Virginia. Air service is provided by Pittsburgh International Airport.

Public Utilities

Electricity for the School District is provided by West Penn Power Company. Water service is obtained through the Western Pennsylvania Water Company. Sewage is presently processed by the Canonsburg-Houston Joint Sewer Authority and North Strabane Township Municipal Authority.

Public Safety

Police protection is provided in every municipality by either a local department or the Pennsylvania State Police. Fifty-two communities within the County have their own volunteer fire department and service and mutual-aid agreements provide fire protection to smaller communities.

Recreation

Washington County offers a variety of scenic attractions, historic sites, recreational areas and points of interest, making it a popular destination for vacationers and tourists. Fourteen sites in the County have been designated as National Historic Landmarks. A diversity of recreational facilities exist in Washington County including campgrounds, swimming pools, lakes, municipal parks and ball fields.

Major Employers

Major employers located within or near the School District are listed below:

Employer	Type of Business	Number of Employees
1. Washington Trotting Association	Casino/Racetrack	1,325
2. Crown Castle USA, Inc	Communications	1,248
3. Canon-McMillan School District	Education	764
4. Ansys Inc. & Subsidiaries	Communications	653
5. ARC Human Services	Human Services	637
6. Mylan Inc.	Pharmaceuticals	562
7. Perryman Company Partnership	Industrial	525
8. 84 Lumber Company	Industrial	470
9. Universal Electric Corporation	Industrial	423
10. FTS International Services LLC	Gas and Oil	368

SOURCE: School District Tax Collector.

Population Composition – 2000, 2010 and 2015 Estimates

	<u>2000</u>	<u>2010</u>	<u>2000 – 2010 % Change</u>	<u>2015 Estimates</u>
North Strabane Township	10,057	13,408	33.3%	13,932
Cecil Township	9,756	11,271	15.5%	11,706
Canonsburg Borough	<u>8,607</u>	<u>8,992</u>	4.5%	<u>8,944</u>
School District	28,420	33,671	18.48%	34,582
Washington County	202,897	207,820	2.43%	208,226
Pennsylvania	12,281,054	12,702,379	3.49%	12,779,559

SOURCE: United States Census Bureau and American Community Survey, 5 Year Estimates, 2011-2015

Population Concentration – 2010

	<u>2010</u>	<u>Square Miles (Land Only)</u>	<u>Persons Per Sq. Mile</u>
North Strabane Township	13,408	27.3	491.1
Cecil Township	11,271	26.3	428.6
Canonsburg Borough	8,992	2.3	3,909.6
School District	33,671	55.9	602.3
Washington County	207,820	857.1	242.5
Pennsylvania	12,702,379	44,819.6	283.4

SOURCE: United States Census Bureau.

Per Capita Income – 2000, 2010 and 2015 Estimates

	<u>2000</u>	<u>2010</u>	<u>2000-2010 % Change</u>	<u>2015 Estimate</u>
North Strabane Township	\$23,457	\$31,251	33.2%	\$38,342
Cecil Township	\$22,340	\$31,481	40.9%	\$36,740
Canonsburg Borough	\$17,469	\$22,286	27.6%	\$27,106
Washington County	\$19,935	\$26,041	30.6%	\$30,605
Pennsylvania	\$20,880	\$26,678	27.8%	\$29,291

SOURCE: United States Census Bureau, and American Community Survey, 5 Year Estimates, 2010-2015.

Family and Household Income – 2010 and 2015 Estimates

	<u>Household Income Median</u>		<u>Family Income Median</u>	
	<u>2010</u>	<u>2015</u>	<u>2010</u>	<u>2015</u>
North Strabane Township	\$65,602	\$77,087	\$79,181	\$92,130
Cecil Township	\$62,966	\$75,957	\$68,306	\$90,234
Canonsburg Borough	\$47,228	\$46,547	\$53,091	\$56,985
Washington County	\$47,615	\$56,450	\$62,397	\$72,149
Pennsylvania	\$49,737	\$53,599	\$62,520	\$68,158

SOURCE: United States Census Bureau, and American Community Survey, 5 Year Estimates, 2011-2015.

Population, Poverty and Education – 2015 Estimates

	<u>Population</u>		<u>Poverty Level</u>		<u>Education 25 years and Over</u>	
	<u>Total Persons</u>	<u>Total Family Households</u>	<u>Persons Below</u>	<u>Families Below</u>	<u>High School Graduate</u>	<u>College Graduate</u>
North Strabane Township	13,932	3,821	2.4%	1.0%	95.2%	43.9%
Cecil Township	11,706	3,275	3.0%	2.3%	94.1%	39.0%
Canonsburg Borough	8,944	2,285	11.2%	7.5%	90.7%	29.3%
Washington County	208,226	55,321	10.4%	7.2%	91.3%	27.4%
Pennsylvania	12,779,559	3,202,874	13.5%	9.3%	89.2%	28.6%

SOURCE: American Community Survey, 5 Year Estimates, 2011-2015.

Housing Units – 2010 and 2015 Estimates

	<u>Number</u>		<u>Owner Occupied Median Value</u>		<u>Renter Occupied Median Rent</u>	
	<u>2010</u>	<u>2015</u>	<u>2010</u>	<u>2015</u>	<u>2010</u>	<u>2015</u>
North Strabane Township	5,689	5,997	\$183,600	\$202,400	\$739	\$1,021
Cecil Township	4,655	4,975	\$166,900	\$206,300	\$688	\$919
Canonsburg Borough	4,459	4,709	\$115,200	\$128,600	\$619	\$732
Washington County	93,032	93,643	\$140,600	\$152,400	\$556	\$675
Pennsylvania	5,481,676	5,585,611	\$152,300	\$166,000	\$716	\$840

SOURCE: United States Census Bureau: 2006-2010 and 2011-2015 American Community Survey 5-Year Estimates.

Unemployment Rates

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017⁽¹⁾</u>
Washington County						
Civilian Labor Force (000)	107.5	107.0	106.1	106.5	107.4	107.4
Employment (000)	99.7	99.5	100.0	100.8	100.7	101.4
Unemployment (000)	7.7	7.4	6.1	5.8	6.6	6.0
Unemployment Rate	7.2%	7.0%	5.8%	5.4%	6.2%	5.6%
Pennsylvania						
Civilian Labor Force (000)	6,487.0	6,460.0	6,391.0	6,424.0	6,472.0	6,531.0
Employment (000)	5,973.0	5,982.0	6,016.0	6,094.0	6,120.0	6,183.0
Unemployment (000)	513.0	478.0	376.0	330.0	352.0	348.0
Unemployment Rate	7.9%	7.4%	5.9%	5.1%	5.4%	5.3%
United States						
Civilian Labor Force (000)	154,975.0	155,389.0	155,922.0	157,130.0	159,187.0	161,911.0
Employment (000)	142,469.0	143,929.0	146,305.0	148,834.0	151,436.0	154,470.0
Unemployment (000)	12,506.0	11,460.0	9,616.0	8,296.0	7,751.0	7,441.0
Unemployment Rate	8.1%	7.4%	6.2%	5.3%	4.9%	4.6%

SOURCE: U.S. Department of Labor and Industry, Pennsylvania Bureau of Employment. Not seasonally adjusted.

(1) As of July, 2017.

APPENDIX B

OPERATING AND FINANCIAL DATA

Enrollment Data

<u>School Year Ending June 30,</u>	<u>Actual Enrollments</u>		<u>Total</u>
	<u>Elementary</u>	<u>Secondary</u>	
2010	2,639	2,197	4,836
2011	2,708	2,203	4,911
2012	2,686	2,246	4,932
2013	2,686	2,292	4,978
2014	2,728	2,315	5,043
2015	2,756	2,404	5,160
2016	2,779	2,439	5,218
2017	2,777	2,444	5,221
2018 ⁽¹⁾	2,855	2,487	5,342

<u>School Year Ending June 30,</u>	<u>Projected Enrollments*</u>		<u>Total</u>
	<u>Elementary</u>	<u>Secondary</u>	
2018	2,866	2,2481	5,347**
2019	2,879	2,534	5,413
2020	2,878	2,603	5,481
2021	2,901	2,629	5,530
2022	2,943	2,617	5,560
2023	2,896	2,716	5,612

SOURCE: School District Officials.

- (1) As of October, 2018.
- (2) * Projections taken directly from Table 15 of the Demographic Study – Scenario III
- (3) ** Mathematical adjustment made to 2018 projection

SCHEDULE OF DIRECT AND OVERLAPPING DEBT AND DEBT RATIOS

Shown below is a summary of the School District’s outstanding debt:

	<u>Gross</u>	<u>CARF</u>	<u>Project Reimb.</u>	<u>Local Share</u>
General Obligation Debt				
General Obligation Bonds, Series of 2017	\$24,065,000*	0.5157	0.0000	\$ 24,065,000
General Obligation Bonds, Series D of 2014	\$25,275,000	0.5157	0.0000	25,275,000
General Obligation Bonds, Series B of 2014	8,605,000	0.5157	0.0471	8,395,985
General Obligation Notes, Series C of 2014	23,780,000	0.5157	0.2104	21,199,870
General Obligation Notes, Series A of 2012	18,710,000	0.5157	0.2473	16,323,914
General Obligation Notes, Taxable Series B of 2012	1,285,000	0.5157	0.0000	1,285,000
General Obligation Bonds, Refunding Series of 2008	1,410,000	0.5157	0.2230	1,247,850
General Obligation Bonds, Series A of 2002 (CABs)	3,349,286	0.5157	0.2019	3,000,558
General Obligation Bonds, Series A of 2001 (CABs)	2,913,779	0.5157	0.2299	2,568,321
General Obligation Bonds, Series of 1999 (CABs)	<u>5,733,275</u>	0.5157	0.2736	<u>4,924,310</u>
TOTAL DIRECT DEBT	\$ 115,126,340			\$108,285,808
Overlapping Debt				
Canonsburg Borough ⁽¹⁾	\$1,414,167			\$1,414,167
Cecil Township ⁽¹⁾	17,997,257			17,997,257
North Strabane Township ⁽¹⁾	26,390,000			26,390,000
Washington County ⁽²⁾	<u>10,377,897</u>			<u>10,377,897</u>
TOTAL OVERLAPPING DEBT	\$ 56,179,321			\$56,179,321
TOTAL DIRECT AND OVERLAPPING DEBT	\$171,305,661			\$164,465,129

SOURCE: Local Government Official, District Financial Advisor and Pennsylvania Department of Community and Economic Development.

⁽¹⁾ 100% overlapping.

⁽²⁾ As of September 1, 2018. 25.867% overlapping. Proportionate share ratio is determined by dividing the assessed value of the municipalities that compose the School District by the assessed value of the County, and multiplying that ration by the outstanding debt of the County, in the total amount of \$40,120,220.

Debt Ratio Calculations (including issuance of the Bonds)

	<u>Gross Outstanding</u>	<u>Local Share</u>
Net Direct Debt Per Capita	\$3,419.15	\$3,216.00
Net Direct Debt to Market Value	3.393%	3.192%
Net Direct and Overlapping Debt Per Capita	\$5,087.63	\$4,884.47
Net Direct and Overlapping Debt to Market Value	5.049%	4.848%

Population (2010 census):

33,671

2017 Market Value (Pennsylvania State Tax Equalization Board):

\$3,392,589,161

Note: As per Financial Advisor – “The local effort debt is calculated using the DOE convention for rounding which results in a slightly different number than using the full percentage values for each project. The difference is \$96.00”

Future Financing

The School District and the School Board of Directors are considering the issuance of long-term debt for Capital Projects within the next five years to finance its current Facilities Plan that began in 2014 and is projected to continue thru 2024. The School District will also consider capital contributions from its Capital Reserve to aid in funding the projects associated with the Facilities Plan. The School District will also consider undertaking long-term debt to refund current issues if market conditions are appropriate.

Real Estate Tax Collection Data

<u>Year</u>	<u>Market Valuation</u>	<u>Assessed Valuation</u>	<u>Millage</u>	<u>Current Levy</u>	<u>Current Collections</u>	<u>Current Collections as a % of Levy</u>	<u>Total Collections</u>	<u>Total Collections as a % of Levy</u>
2009-10	2,083,896,060	344,884,798	101.85	35,126,517	32,665,199	93.0	33,858,338	96.4
2010-11	2,192,024,008	349,343,836	105.41	36,824,334	34,596,614	94.0	35,811,665	97.3
2011-12	2,267,104,587	355,431,031	105.41	37,465,850	35,168,761	93.9	36,154,545	96.5
2012-13	2,192,024,008	363,222,315	107.00	38,864,788	37,230,412	95.8	37,446,268	96.4
2013-14	2,267,104,587	360,916,145	107.00	38,618,028	35,166,761	91.6	37,864,176	98.1
2014-15	2,458,647,372	376,361,906	108.00	40,647,086	38,529,423	97.0	38,529,423	97.0
2015-16	2,537,698,391	396,806,108	108.00	42,855,060	40,671,692	93.0	40,671,692	97.0
2016-17	2,738,166,629	423,999,990	110.00	46,639,999	41,788,793	94.0	45,093,111	97.0
2017-18*	2,891,567,333	4,258,889,885	11.09	47,231,089	43,765,978	96.0	46,770,786 ⁽¹⁾	97.0

SOURCE: School District Officials and Pennsylvania State Tax Equalization Board.

* Country Wide Property Reassessment* (1) Includes homestead/farmstead exclusions in the amount of \$928,247

Real Property Taxes, Appeals and Reassessment

The number of tax appeals received by the School District had been on a decline but rose significantly this past year due to a countywide reassessment. The last reassessment took place in the late 1970's with a base year set at January 1981. This meant that the valuation date of all new construction thereafter, and for the past thirty years was January 1, 1981. Now as a result of the reassessment all properties (approximately 120,000 countrywide) will now have an assessment based on what their property was worth on July 1, 2015. Washington County property reassessment was scheduled to take place in 2016 with the values to become effective in 2017. As an anticipated result, the District faced a higher than the most recent norm in terms of tax appeals. Since the School District did anticipate a rise in tax assessment appeals, they hired legal representation specifically for these appeals and meet monthly with their real estate attorney and board committee to remain apprised of the status of ongoing appeals. The School Board of Directors also partnered with the largest municipality (North Strabane) to defray legal costs of appeals initiated against the district and municipality.

District Administration by working closely with Real Estate Council and the Chief Assessor were able to manage and budget for the approximately the 180 tax appeals the school district faced due to reassessment. It is important to note that even though it was a rise in tax assessment appeals it represented less than 1% of all taxable properties (approximately 17,816) within the boundaries of the Canon-McMillan School District.

SOURCE: School District Administrative Officials, Peacock Keller and Chief Assessor.

Tax Anticipation Borrowing

The School District has not issued Tax and Revenue Anticipation Bonds in over a decade. The School Board of Directors revised their fund balance policy in 2010 to ensure monies were set aside for emergencies and unplanned events. This planning has helped the district avoid issuing short term debt. 2015-2016 when the Commonwealth was faced with a budget impasse that was not resolved until well into the following year, the District did not require short term borrowing. In the current fiscal year there is no plan to issue short term.

Basic Financial Statements

CANON-MCMILLAN SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 3,261,234	\$ 462,481	\$ 3,723,715
Investments	42,317,557	5,664,797	47,982,354
Taxes Receivable (net)	2,543,665		2,543,665
Internal Balances	573,799	(573,799)	
State Revenue Receivable	2,724,057	8,816	2,732,873
Federal Revenue Receivable	115,824	97,699	213,523
Due from Other Governments	35,895		35,895
Other Receivables	559,388	120,839	680,227
Inventories	94,672	24,178	118,850
Prepaid Expenses/Expenditures	16,124		16,124
Long Term Receivables	13,415,107		13,415,107
Capital Assets (net)	95,910,317	458,244	96,368,561
TOTAL ASSETS	\$ 161,567,639	\$ 6,263,255	\$ 167,830,894
DEFERRED OUTFLOWS OF RESOURCES			
Pension and OPEB Related	21,832,658		21,832,658
Total Deferred Inflows of Resources	21,832,658		21,832,658
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 183,400,297	\$ 6,263,255	\$ 189,663,552
LIABILITIES			
Intergovernmental Payables	\$ 1,973	\$ -	\$ 1,973
Accounts Payable	3,794,529	24,572	3,819,101
Accrued Salaries and Benefits	8,365,707		8,365,707
Payroll Deductions and Withholdings			-
Interest Payable	249,799		249,799
Other Current Liabilities	36,901	114,991	151,892
Long-Term Liabilities:			
Portions Due or Payable Within One Year:			
Bonds Payable	4,870,000		4,870,000
Notes Payable	385,000		385,000
Portions Due or Payable After One Year:			
Bonds Payable - Net of Related Premiums/Discounts	113,789,842		113,789,842
Notes Payable - Net of Related Premiums/Discounts	19,256,483		19,256,483
Net Pension Liability	115,883,000		115,883,000
OPEB - Health Insurance Premium Share Liability	4,780,000		4,780,000
Long-term Portion of Compensated Absences	1,196,222		1,196,222
OPEB Obligation	4,530,932		4,530,932
Total Liabilities	277,140,388	139,563	277,279,951
DEFERRED INFLOWS OF RESOURCES			
Pension and OPEB Related	1,171,631		1,171,631
Unearned Revenue	43,777	24,178	67,955
Total Deferred Inflows of Resources	1,215,408	24,178	1,239,586
NET POSITION			
Net Investment in Capital Assets	(3,951,372)	458,244	(3,493,128)
Restricted for:			
Capital Projects	4,482,911		4,482,911
Retirement Obligations	1,500,000	5,309,257	6,809,257
Designated Purposes	4,605,900		4,605,900
Unrestricted	(101,592,938)	332,013	(101,260,925)
TOTAL NET POSITION	(94,955,499)	6,099,514	(88,855,985)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 183,400,297	\$ 6,263,255	\$ 189,663,552

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CANON-MCMILLAN SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental Activities						
Depreciation - Unallocated	\$ 1,882,505	\$ -	\$ -	\$ (1,882,505)	\$ -	\$ (1,882,505)
Instruction	44,494,724	993,886	8,662,541	(34,838,297)	-	(34,838,297)
Instructional Student Support	6,041,088	-	513,157	(5,527,931)	-	(5,527,931)
Administrative and Financial Support	8,067,218	-	631,437	(7,435,781)	-	(7,435,781)
Operation and Maintenance of Plant	7,600,358	65,644	498,283	(7,036,431)	-	(7,036,431)
Pupil Transportation	5,963,927	-	1,575,898	(4,388,029)	-	(4,388,029)
Student Activities	1,865,720	156,765	175,649	(1,533,306)	-	(1,533,306)
Community Services	156,368	41,308	1,326	(113,734)	-	(113,734)
Interest on Long-Term Debt	6,591,455	-	1,782,566	(4,808,889)	-	(4,808,889)
Total Governmental Activities	82,663,363	1,257,603	13,840,857	(67,564,903)		(67,564,903)
Business Type Activities						
Food Service	2,490,556	1,377,186	980,461	(132,909)	(132,909)	(132,909)
Retirement Obligations	735	-	-	(735)	-	(735)
Total Business Type Activities	2,491,291	1,377,186	980,461	(133,644)		(133,644)
Total Government	85,154,654	2,634,789	14,821,318	(67,564,903)		(67,698,547)
General Revenues, Special and Extraordinary Items and Transfers						
Taxes						
Property Taxes				47,458,793		47,458,793
Other Taxes				8,579,053		8,579,053
Grants, Subsidies and Contributions, Unrestricted				12,532,356		12,532,356
Investment Earnings				649,727	36,868	686,595
Miscellaneous Income				1,122,846		1,122,846
Total General Revenues, Special and Extraordinary Items and Transfers				70,342,775	36,868	70,379,643
Change in Net Position				2,777,872	(96,776)	2,681,096
Net Position - Beginning - Restated				(97,590,150)	6,196,290	(91,393,860)
Prior Period Adjustment				(143,221)		(143,221)
Net Position - Ending				\$ (94,955,499)	\$ 6,099,514	\$ (88,855,985)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CANON-MCMILLAN SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018

	Governmental Funds					Totals
	General Fund	Capital Projects Fund	Debt Service Fund	Non-Major Funds		
ASSETS						
Cash and Cash Equivalents	\$ 2,117,818	\$ 21	\$ 1,112,236	\$ 31,157	\$	3,261,232
Investments (At Fair Value)	8,460,100	30,394,798	3,462,659			42,317,557
Taxes Receivable (Net)	1,393,665					1,393,665
Due From Other Funds	573,799	2,000,000		23		2,573,822
State Revenue Receivable	2,724,057					2,724,057
Federal Revenue Receivable	115,824					115,824
Intergovernmental Receivables	35,895					35,895
Other Receivables (Net)	528,263	31,125				559,388
Inventories	94,672					94,672
Prepaid Expenditures	16,124					16,124
Total Assets	\$ 16,060,217	\$ 32,425,944	\$ 4,574,895	\$ 31,180	\$	53,092,236
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities:						
Due to Other Funds	\$ 2,000,023	\$ -	\$ -	\$ -	\$	2,000,023
Intergovernmental Payables		1,973				1,973
Accounts Payable	877,823	2,916,531		175		3,794,529
Accrued Salaries and Benefits	8,365,707					8,365,707
Other Current Liabilities	36,901					36,901
Total Liabilities	11,280,454	2,918,504		175		14,199,133
Deferred Inflows of Resources:						
Unearned Revenue	43,777					43,777
Total Deferred Inflows of Resources	43,777					43,777
Fund Balances:						
Nonspendable:						
Inventory	94,672					94,672
Prepaid Expenditures	16,124					16,124
Committed to:						
Debt Service			4,574,895			4,574,895
Capital Projects		29,507,440				29,507,440
PSERS	1,500,000			31,005		1,500,000
Designated Purposes						
Assigned to:						
Athletics	153,758					153,758
Budget Deficit	880					880
Unassigned:	2,970,552					2,970,552
Total Fund Balances	4,735,986	29,507,440	4,574,895	31,005		38,849,326
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 16,060,217	\$ 32,425,944	\$ 4,574,895	\$ 31,180	\$	53,092,236

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CANON–MCMILLAN SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

Total Fund Balances - Governmental Funds	\$	38,849,326
Capital assets used in governmental activities are not financial resources and are not reported as assets in governmental funds. The cost of the assets is \$144,360,502 and the accumulated depreciation is \$48,450,185.		95,910,317
Long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds.		(118,659,842)
Long-term state subsidies receivable on future principal debt payments on long-term bonds payable are not assets in the funds.		13,415,107
Accrued interest expense on long-term debt is not due and payable in the current period and is not reported as a liability in the funds.		(249,799)
Delinquent property taxes receivable will be collected, but are not available soon enough to pay for the current period's expenditure, and therefore are deferred in the funds.		1,150,000
Net Pension Obligations are not due and payable in the current period and,		(115,883,000)
Deferred outflows and inflows of resources related to pensions and OPEB are		
Deferred outflows of resources.		21,832,658
Deferred inflows of resources related to pensions		(1,171,631)
Extended Term Financing, including notes payable, are not due and payable in the current period and are not reported as liabilities in the funds.		(19,641,483)
Long-term portion of retirement obligations and compensated absences.		<u>(10,507,152)</u>
Total Net Position - Governmental Activities	\$	<u>(94,955,499)</u>

CANON-MCMILLAN SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2018

	Governmental Funds				Totals
	General	Capital Projects Fund	Debt Service Fund	Non-Major Funds	
Revenues					
Local Sources					
Taxes	\$ 56,237,846	\$ -	\$ -	\$ -	\$ 56,237,846
Other Local Revenues	2,909,891	305,370	41,090	113,442	3,369,793
State Sources	23,394,510				23,394,510
Federal Sources	669,864				669,864
Total Revenues	83,212,111	305,370	41,090	113,442	83,672,013
Expenditures					
Instruction	41,726,757				41,726,757
Support Services	25,913,111				25,913,111
Operation Of Non-Instructional Services	1,867,033			101,967	1,969,000
Capital Outlay	564,583	14,503,242			15,067,825
Debt Service					
Principal and Interest	9,485,365				9,485,365
Refund of Prior Year Receipts	21,382				21,382
Total Expenditures	79,578,231	14,503,242		101,967	94,183,440
Excess (Deficiency) of Revenues Over Expenditures	3,633,880	(14,197,872)	41,090	11,475	(10,511,427)
Other Financing Sources (Uses)					
Sale of Fixed Assets	666,512				666,512
Interfund Transfers In		8,551,565			8,551,565
Interfund Transfers (Out)	(8,551,565)				(8,551,565)
Total Other Financing Sources & (Uses)	(7,885,053)	8,551,565			666,512
Net Change in Fund Balances	(4,251,173)	(5,646,307)	41,090	11,475	(9,844,915)
Fund Balances - July 1, 2017	9,130,380	35,153,747	4,533,805	19,530	48,837,462
Prior Period Adjustment	(143,221)				(143,221)
Fund Balances - June 30, 2018	\$ 4,735,986	\$ 29,507,440	\$ 4,574,895	\$ 31,005	\$ 38,849,326

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CANON-MCMILLAN SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Net Change in Fund Balances - Governmental Funds		\$ (9,844,915)
Depreciation Expense		(2,925,692)
Capital outlays are reported governmental funds as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		15,236,904
Long-term receivable adjustment for amounts received from the state in debt service subsidies that are applicable to principal payments made.		1,327,447
Bond and note premium and discount amortization		24,800
Loss on Disposal of Fixed Assets		(24,738)
Some delinquent property taxes will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Unearned tax revenues increased by this amount this year.		(200,000)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest recognized as the interest accrues regardless of when it is due. The additional interest reported in the statement of activities is the result of accrued interest payable and the accretement of interest on capital appreciation bonds.		(2,116,167)
In the statement of activities, compensated absences and other post employment benefits are measured by the amounts earned during the year. In the governmental funds, these items are measured by the amounts paid.		(81,011)
Bond Premium and Discount		
Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the statement of net position.		5,175,000
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	194,870	
Cost of benefits earned net of employee contributions	(3,988,626)	(3,793,756)
Change in Net Position - Governmental Activities		<u>\$ 2,777,872</u>

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

	Original Budget	Final Budget	Actual (budgetary basis)	Over (Under) Budget - Final
Revenues				
Local Sources				
Taxes	\$ 56,426,395	\$ 56,426,395	\$ 56,237,846	\$ (188,549)
Other Local Revenues	1,850,000	1,850,000	2,909,891	1,059,891
State Sources	23,684,931	23,684,931	23,394,510	(290,421)
Federal Sources	558,154	558,154	669,864	111,710
Total Revenues	<u>82,519,480</u>	<u>82,519,480</u>	<u>83,212,111</u>	<u>692,631</u>
Expenditures				
Instruction				
Regular Programs	28,845,279	28,523,250	28,415,497	(107,753)
Special Programs	10,044,646	10,024,646	10,766,744	742,098
Vocational Education	2,351,513	2,346,713	2,155,293	(191,420)
Other Instructional Programs	345,152	345,152	373,681	28,529
Nonpublic School Programs			15,542	15,542
Total Instruction	<u>41,586,590</u>	<u>41,239,761</u>	<u>41,726,757</u>	<u>486,996</u>
Support Services				
Pupil Personnel	2,379,377	2,693,941	2,560,401	(133,540)
Instructional Staff	1,343,644	1,490,366	1,446,136	(44,230)
Administration	4,984,818	4,982,090	4,382,311	(599,779)
Pupil Health	1,924,058	1,924,668	1,661,196	(263,472)
Business	891,655	891,655	776,162	(115,493)
Operation & Maintenance of Plant Services	6,973,771	7,012,781	6,768,705	(244,076)
Student Transportation Services	6,718,905	6,718,905	5,889,535	(829,370)
Central	1,630,287	1,656,587	1,492,432	(164,155)
Other Support Services	827,000	827,000	936,233	109,233
Total Support Services	<u>27,673,515</u>	<u>28,197,993</u>	<u>25,913,111</u>	<u>(2,284,882)</u>
Operation of Non-Instructional Services				
Student Activities	1,813,022	1,832,801	1,712,711	(120,090)
Community Services	146,192	146,192	154,322	8,130
Total Non-Instructional Services	<u>1,959,214</u>	<u>1,978,993</u>	<u>1,867,033</u>	<u>(111,960)</u>
Capital Outlay	550,000	596,200	564,583	(31,617)
Debt Service				
Principal and Interest	10,145,365	9,485,365	9,485,365	
Refund of Prior Year Receipts		660,000	21,382	(638,618)
Total Expenditures	<u>81,914,684</u>	<u>82,158,312</u>	<u>79,578,231</u>	<u>(2,580,081)</u>
Excess (Deficiency) of Revenues Over Expenditures	604,796	361,168	3,633,880	3,272,712
Other Financing Sources (Uses)				
Sales of Fixed Assets	10,000	10,000	666,512	656,512
Interfund Transfers In				
Interfund Transfers (Out)	(139,650)	(139,650)	(8,551,565)	(8,411,915)
Budgetary Reserve	(475,000)	(231,372)		231,372
Total Other Financing Sources & (Uses)	<u>(604,650)</u>	<u>(361,022)</u>	<u>(7,885,053)</u>	<u>(7,524,031)</u>
Net Change in Fund Balances	146	146	(4,251,173)	(4,251,319)
Fund Balance - July 1, 2017	9,130,380	9,130,380	9,130,380	
Prior Period Adjustment			(143,221)	(143,221)
Fund Balance - June 30, 2018	<u>\$ 9,130,526</u>	<u>\$ 9,130,526</u>	<u>\$ 4,735,986</u>	<u>\$ (4,394,540)</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CANON-MCMILLAN SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2018

	Food Service Fund	Retirement Obligations Fund
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 462,480	\$ -
Investments	355,541	5,309,257
State Revenue Receivable	8,816	
Federal Revenue Receivable	97,699	
Other Receivables	120,839	
Inventories	24,178	
Total Current Assets	1,069,553	5,309,257
Noncurrent Assets:		
Food Service Equipment (Net of Depreciation)	458,244	
Total Noncurrent Assets	458,244	
TOTAL ASSETS	1,527,797	5,309,257
LIABILITIES		
Current Liabilities:		
Due to Other Funds	\$ 573,799	\$ -
Accounts Payable	24,572	
Other Current Liabilities	114,991	
Total Current Liabilities	713,362	
DEFERRED INFLOWS OF RESOURCES		
Unearned Revenue	24,178	
Total Deferred Inflows of Resources	24,178	
NET POSITION		
Net Investment in Capital Assets	458,244	
Restricted for:		
Retirement Obligations		5,309,257
Unrestricted	332,013	
Total Net Position	790,257	5,309,257
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 1,527,797	\$ 5,309,257

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CANON–MCMILLAN SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Food Service	Retirement Obligations Fund
Operating Revenues		
Food Service Revenue	\$ 1,365,431	\$ -
Other Operating Revenue	11,755	
	1,377,186	
Operating Expenses		
Personal Services - Salaries	652,867	
Personal Services - Benefits	459,239	
Purchased Property Services	3,975	
Other Purchased Services	1,171,370	
Supplies	151,763	
Other Objects	3,999	735
Depreciation Expense	47,343	
	2,490,556	735
Total Operating Expenses		
Operating Income (Loss)	(1,113,370)	(735)
Nonoperating Revenues (Expenses)		
Donations from Private Sources		
Operating Subsidies		
State Subsidies	185,352	
Federal Subsidies		
Lunch and Breakfast Subsidies	657,866	
Value of Donated Commodities Received	137,243	
Earnings on Investments	6,473	30,395
	986,934	30,395
Total Nonoperating Revenue and Expense		
Change in Net Position	(126,436)	29,660
Net Position - July 1, 2017	916,693	5,279,597
Net Position - June 30, 2018	\$ 790,257	\$ 5,309,257

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CANON-MCMILLAN SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2018

	Food Service	Retirement Obligations Fund
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 1,324,007	\$
Cash Payments to Employees for Services	(500,232)	
Cash Paid to Suppliers for Goods and Services	(1,137,474)	(735)
Net Cash Provided (Used) by Operating Activities	(313,699)	(735)
Cash Flows from Noncapital Financing Activities:		
Grants and Subsidies Received for Non-Operating Activities		
State Subsidies	183,872	
Federal Subsidies	642,477	
Net Cash Provided (Used) by Noncapital Financing Activities	826,349	
Cash Flows from Capital and Related Financing Activities:		
Purchase of Equipment	(3,700)	
Net Cash Provided (Used) by Capital and Related Financing Activities	(3,700)	
Cash Flows from Investing Activities:		
Earnings on Investments	6,473	30,395
Withdrawals (Purchases of) from Investment Pools	(258,663)	(29,660)
Net Cash Provided (Used) by Investing Activities	(252,190)	735
Net Increase (Decrease) in Cash and Equivalents	256,760	
Cash and Cash Equivalents, Beginning of Year	205,720	
Cash and Cash Equivalents, End of Year	\$ 462,480	\$
Reconciliation of Operating Income (Loss) to Net Cash Used By Operating Activities		
Operating Income (Loss)	\$ (1,113,370)	\$ (735)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used by Operating Activities:		
Depreciation	47,343	
Donated Commodities Used	137,243	
Changes in Assets and Liabilities:		
Accounts Receivable	(53,179)	
Inventories	(3,799)	
Due to/Due From Other Funds	611,874	
Accounts Payable	4,174	
Other Liabilities	52,216	
Unearned Revenues	3,799	
Total Adjustments	799,671	
Net Cash Provided (Used) by Operating Activities	\$ (313,699)	\$ (735)

Noncash Noncapital Financing Activities:

During the year, the District received \$141,042 of food commodities from the U.S. Department of Agriculture.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CANON-MCMILLAN SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2018

	Agency Funds	
	Student Activities	School Store
ASSETS		
Cash and Cash Equivalents	\$ 174,614	\$ 19,944
Due from Other Funds	764	
TOTAL ASSETS	<u>\$ 175,378</u>	<u>\$ 19,944</u>
LIABILITIES		
Due to Other Funds	\$ -	\$ 764
Accounts Payable		63
Other Current Liabilities	175,378	19,117
Total Liabilities	<u>175,378</u>	<u>19,944</u>
NET POSITION		
Held in Trust for Pension Benefits and Other Purposes		
Total Net Position		
TOTAL LIABILITIES AND NET POSITION	<u>\$ 175,378</u>	<u>\$ 19,944</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

Canon–McMillan School District

Notes to the Financial Statements

June 30, 2018

Note 1 – Summary of Significant Accounting Policies

The Canon–McMillan School District (the “School District”) provides public education to residents of North Strabane Township, Cecil Township and the Borough of Canonsburg.

A. Reporting Entity

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

In evaluating the School District as a primary government in accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, “The Financial Reporting Entity,” management has addressed all potential component units. Consistent with this Statement, the criteria used by the School District to evaluate possible inclusion of related entities within its reporting entity are financial accountability and the nature and significance of the relationship. Upon review of this criteria, the School District determined that there were no potential component units that met the criteria for inclusion in the reporting entity.

The School District is however a participant in a jointly governed organization: Western Area Career & Technology Center. The Center is not considered part of the reporting entity, as the School District is not financially accountable for the school. See Note 9 for details on operating information about this entity.

B. Basis of Presentation

The financial statements of Canon–McMillan School District have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Following are the more significant of the School District’s accounting policies.

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 that provide a more detailed level of financial information.

1. 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. Eliminations have been made to minimize the double-counting of internal activities. The statements distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances are eliminated.

2. Fund Financial Statements

The fund financial statements provide information about the School District's funds, including the fiduciary funds. Separate statement for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund 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. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

C. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal 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.

1. Governmental Funds

Governmental funds are those through which most governmental functions of the School District are financed. Governmental fund reporting focuses on the sources, uses and balances of current

financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The General Fund, Capital Projects Fund, and the Debt Service Fund are the School District's major governmental funds:

General Fund - The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund. Normal debt service payments for general long-term debt are recorded in the General Fund by the School District.

Capital Projects Fund – The Capital Projects Fund includes the School District's capital projects and capital reserve funds. The capital projects fund accounts for funds which are typically borrowed or transferred from the general fund and used for major capital improvements. The capital reserve fund is a Section 1432 capital reserve fund set up in accordance with the Pennsylvania School Code. The purpose of the fund is to set aside excess monies available in the General Fund for future use in the area of capital outlay and improvements.

Debt Service Fund – The Debt Service Fund accounts for resources accumulated to provide for payment of general long-term debt principal and interest.

The Other Governmental Funds of the School District account for other resources, including the district activities fund whose use is restricted to a particular purpose.

District Activities Fund – The District Activities Fund accounts for specific activities within the District and is restricted for particular purposes.

2. Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The following are the School District's proprietary funds:

Enterprise Fund

The Enterprise Fund may be used to account for any activity for which a fee is charged to external users for goods or services.

Food Service

The Food Service Fund accounts for the financial transactions related to the food service operations of the School District. This fund is the School District's only enterprise fund and it is reported as a major fund.

Internal Service Fund

Retirement Obligations

The Retirement Obligations Fund accounts for the financial transactions related to the other post employment activities of the School District. This fund is used to set aside funds accumulated to pay for the School District's Other Post Employment Obligations.

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

3. Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for various student-managed activities.

Agency Funds

Student Activity Fund - This fund is utilized to account for monies authorized by Section 511 of the Public School Code of 1949 for student activities, publications and organizations.

School Store Fund – This fund accounts for operations of the School District's school store that is maintained by the students.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. These organizations exist with the explicit approval of and are subject to revocation by the Board.

D. Measurement Focus, Basis of Accounting

1. Government-wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary, and fiduciary fund financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the School District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

2. Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. The statement of revenues, expenditures and changes in fund balances reflects the sources (i.e. revenues and other financing sources) and uses (i.e. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

3. Revenues - Exchange and Nonexchange Transactions

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the period in which the income is earned. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: property taxes available as an advance, income taxes, grants, interest, tuition and student fees.

4. Unearned Revenues

Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2018, but which were levied to finance fiscal year 2019 operations, are recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as unearned revenue.

On governmental fund financial statements, receivables that will not be collected within the available period are reported as unearned revenue.

5. Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Process

Generally accepted accounting principles serve as the budgetary basis of accounting. In accordance with state law, an annual budget prepared by function and object is formally adopted for the General Fund. The School District does not formally adopt budgets for other funds.

The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the budget when the original appropriations were adopted.

The appropriation resolution is subject to budget transfer amendments between functions, as allowed by the Public School Code, throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts in the budgetary financial statement reflect the first appropriation resolution for the general fund that covered the entire fiscal year. The amounts reported as the final budgeted amounts represent the final appropriation that includes budget transfer amendments as passed by the Board during the fiscal year. The measurement level of control over expenditures for all budgeted funds is the surplus or deficit of the fund as a whole.

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

- ◆ - Prior to May of the preceding fiscal year, the School District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
- ◆ - A meeting of the Board of School Directors is then called for the purpose of adopting the proposed budget. The meeting may only be held after 30 days of public notification.
- ◆ - Prior to July 1, the Board of School Directors legally enacts the budget through passage of a resolution.
- ◆ - The budget must be filed with the Pennsylvania Department of Education by July 31 of the fiscal year.

F. Encumbrances

Encumbrances at year-end are reported in the fund financial statements as reservations of fund balance since they do not constitute expenditures or liabilities, but serve as authorization for expenditures in the subsequent year. As of June 30, 2018 the School District has no encumbrances.

G. Cash and Investments

For purposes of the statement of cash flows, the proprietary fund considers all highly liquid investments with maturity of three months or less when purchased and pooled funds of investments subject to daily withdrawal to be cash equivalents.

Deposits

Below is a summary of the School District's deposits which are insured by the Federal Depository Insurance Corporation, and those which are not insured or collateralized in the School District's name, but collateralized in accordance with Act 72 of the Pennsylvania State Legislature which requires the financial institution to pool collateral for all government deposits and have the collateral held by an approved custodian in the institution's name.

	FDIC Insured	Pooled Collateral	Bank Balance	Carrying Amount
Cash and Deposits	<u>\$ 850,347</u>	<u>\$ 4,413,189</u>	<u>\$ 5,263,536</u>	<u>\$ 3,918,273</u>

Investments

The District's investments at June 30, 2018 consist of:

	Cost	Fair Value
Pennsylvania Local Government Investment Trust	<u>\$ 105,852</u>	<u>\$ 105,852</u>
Pennsylvania School District Liquid Asset Fund	<u>42,549,347</u>	<u>42,549,347</u>
Certificates of Deposit	<u>5,327,155</u>	<u>5,327,155</u>
Total	<u>\$ 47,982,354</u>	<u>\$ 47,982,354</u>

The Pennsylvania School District Liquid Asset Fund and the Pennsylvania Local Government Investment Trust are investment pools. The fair value of the investment pool is the same as the value of the pool shares owned. Although the pools seek to maintain the net position value of \$1 per share, there can be no guarantee that the net asset values will not vary from this price.

For PSDLAF, internal oversight resides with a Board of Trustees consisting of local school board members, school business officials and the Executive Directors of PASBO and PSBA. For outside oversight, the Fund is monitored on a weekly basis by Standard & Poor's, which has rated PSDLAF AAAM, the highest rating available for a money market fund.

For PLGIT, regulatory oversight resides with the Board of Trustees and Trust Administration. The participants of the trust annually select an independent auditing firm to examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The Trust is not registered with the Securities and Exchange Commission. Contacts with prospective investors relating to the shares of the pool are conducted through the Investment Adviser's wholly owned subsidiary, PFMAM, Inc., member NASD.

When applicable, the School District measures investments at fair value. The fair value measurement guidelines, set forth by generally accepted accounting principals, recognize a three-tiered fair value hierarchy as follows:

- **Level 1 inputs:** Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets. A quoted price for an identical asset or liability in an active market (e.g., an equity security traded on a major exchange) provides the most reliable fair value measurement and, if available, should be used to measure the fair value in that particular market.
- **Level 2 inputs:** The categorization of an asset/liability as Level 1 requires that it is traded in an active market. If an instrument is not traded in an active market, it may fall to Level 2. Level 2 inputs are inputs that are observable, either directly or indirectly, but do not qualify as Level 1.
- **Level 3 inputs:** Reporting entities may use unobservable inputs to measure fair value if relevant observable inputs are not available, thereby allowing for situations in which there is little, if any market activity for the asset or liability at the measurement date. These unobservable inputs are considered Level 3.

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Investment Risks

Custodial Credit Risk - Custodial credit risk is the risk of loss resulting from the failure of the custodian such that the custodian would not be able to recover the value of its investments or collateral securities in the possession of the custodian. The School District is permitted to invest funds consistent with sound business practices in the following types of investments, certain money market mutual funds, and deposit accounts:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Act 20, a Pennsylvania law enacted in June of 1995, expands the allowable investment vehicles to include certain money market mutual funds rated as "AAA" whose investments are limited to those mentioned in the previous paragraph.

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a fixed income investment. 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.

Concentration of Credit Risk – Credit risk concentration is the risk of loss attributed to investments (other than those issued or guaranteed by the U.S. Government) in any one organization that represented 5 percent or more of the plan’s net position. The School District places no limit on the amount it may invest in any one issue.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment.

H. Taxes Receivable

Taxes receivable consist of delinquent real estate taxes due at June 30, 2018, less an allowance for the amount of these delinquencies not expected to be collected within the next fiscal year.

I. Interfund Receivables/Payables

During the course of operations, transactions sometime occur between individual funds for goods provided or services rendered. These receivables and payables, to the extent they exist, are classified as “Due from Other Funds” or “Due to Other Funds” on the balance sheet.

J. Inventories

On government-wide financial statements, inventories are presented at cost on a first-in, first-out basis, and are expensed when used.

Inventories in governmental funds are stated at cost by the first-in, first-out method. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, an estimated value of inventories is reported as an asset in the General Fund. The inventories in the General Fund are equally offset by a fund balance reserve, which indicates they do not constitute “available spendable resources” even though they are a component of net current assets. The General Fund did not have a material inventory balance as of June 30, 2018.

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2018. The inventory consisted of government donated commodities (valued using USDA values) using the first-in, first-out (FIFO) method. Any unused commodities donated by the federal government at June 30, 2018 are reported as unearned revenue.

K. Capital Assets

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

established. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

All capital assets, except land, 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>Estimated Lives</u>
Land Improvements	10 - 15 years
Buildings and Building Improvements	20 - 50 years
Vehicles	6 - 10 years
Machinery and Equipment	6 - 10 years

L. Long-Term Liabilities

In the government-wide financial statements and proprietary funds in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

M. Estimates

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

N. Fund Balances

In accordance with Governmental Accounting Standards Board Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the School District classifies governmental fund balances as follows:

- Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. All amounts reported as nonspendable at June 30, 2018 by the School District are nonspendable in form.
- Restricted – includes amounts that are restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

- Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to resolutions passed by the Board of School Directors, the District’s highest level of decision making authority. Commitments may be modified or rescinded only through resolutions approved by the Board of School Directors.
- Assigned – includes amounts that the School District intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Under the School District’s established policy, amounts may be assigned by the Director of Business and Finance of the School District.
- Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the School District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of School Directors has provided otherwise in its commitment or assignment actions.

Fund balances in the School District’s general fund totals \$4,735,986 consisting of \$110,796 that is nonspendable for inventory and prepaid expenditures, \$1,500,000 that is committed for PSERS liabilities, \$153,758 that is assigned for athletics, \$880 that is assigned for the 18/19 budget deficit, and \$2,970,552 that is unassigned. In addition, \$29,507,440 is a committed fund balance in the capital projects fund and \$4,574,895 is committed in the debt service fund.

Fund balances in the School District’s non-major funds include \$31,005 for the District Activities Fund.

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. Neither of these types of transactions occurred during the fiscal year.

P. Subsequent Events

The School District evaluated subsequent events for recognition and disclosure through November 19, 2018, the date the financial statements were available to be issued. No subsequent events were identified requiring recognition or disclosure.

Note 2 – Real Estate and Unearned Revenue

Property taxes attach as an enforceable lien on property as of July 1st of the year following levy. Taxes are levied on July 1. The School District bills and collects its own property taxes through locally elected tax collectors. Collection of delinquent property taxes is contracted to a private collection agency. The tax levy for fiscal 2018 was based on assessed values on January 1, 2017 of \$4.258 billion. The School District tax rate for the year ended June 30, 2018 was 11.09 mills as levied by the School Board.

Taxes may be paid at a 2% discount until September 30th, at face until November 30th, and at a 10% penalty until the lien date.

The School District, in accordance with GAAP, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes as determined by the administration. A portion of the net amount estimated to be collectible, which was measurable and available within 60 days, was recognized as revenue and the balance deferred in the fund financial statements. This balance, net of allowances, is \$1,393,665.

Note 3 – Changes in Capital Assets

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

	Beginning Balance (Restated)	Additions	Retirements	Ending Balance
Governmental Activities				
Non-depreciable assets:				
Land	\$ 555,441		\$ -	\$ 555,441
Construction in progress	27,437,889	13,979,211		41,417,100
Depreciable assets				
Land Improvements	5,737,639	286,342	(144,626)	5,879,355
Buildings	88,402,335		(246,000)	88,156,335
Equipment	9,183,898	971,351	(1,802,978)	8,352,271
Totals at historical cost	<u>131,317,202</u>	<u>15,236,904</u>	<u>(2,193,604)</u>	<u>144,360,502</u>
Less accumulated depreciation for:				
Land Improvements	(3,567,521)	(238,654)	123,552	(3,682,623)
Buildings	(37,146,928)	(1,868,113)	246,000	(38,769,041)
Equipment	(6,978,910)	(818,925)	1,799,314	(5,998,521)
Total accumulated depreciation	<u>(47,693,359)</u>	<u>(2,925,692)</u>	<u>2,168,866</u>	<u>(48,450,185)</u>
Governmental activities capital assets, net	<u>\$ 83,623,843</u>	<u>\$ 12,311,212</u>	<u>\$ (24,738)</u>	<u>\$ 95,910,317</u>
Business-type Activities				
Depreciable assets:				
Equipment	\$ 2,010,609	\$ 3,700	\$ -	\$ 2,014,309
Totals at historical cost	<u>2,010,609</u>	<u>3,700</u>	<u>-</u>	<u>2,014,309</u>
Less accumulated depreciation for:				
Equipment	(1,508,722)	(47,343)		(1,556,065)
Total accumulated depreciation	<u>(1,508,722)</u>	<u>(47,343)</u>	<u>-</u>	<u>(1,556,065)</u>
Business-type activities capital asset, net	<u>\$ 501,887</u>	<u>\$ (43,643)</u>	<u>\$ -</u>	<u>\$ 458,244</u>
Depreciation expense was charged to governmental functions as follows:				
Instruction				\$ 555,383
Support				159,499
Transportation				328,305
Unallocated-governmental funds				1,882,505
Total depreciation expense				<u>\$ 2,925,692</u>

In the 2017-2018 school year, building construction and renovations and equipment purchases (net of retirements) added \$13,043,300 to the historical cost of governmental activities and \$3,700 to the historical cost of business activities. Depreciation expense for that same time period was a net \$756,826 and \$47,343 for the governmental activities and business activities, resulting in a net book value increase of \$12,286,474 and a decrease of \$43,643 for the governmental activities and business activities respectively.

Note 4 – General Long-Term Debt

Changes in the School District's long-term obligations during fiscal year 2018 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Bonds, loans & leases payable					
Capital improvement bonds	\$ 120,190,217	\$ 2,118,748	\$ (4,805,000)	\$ 117,503,965	\$ 4,870,000
General obligation notes	20,365,000		(370,000)	19,995,000	385,000
	<u>140,555,217</u>	<u>2,118,748</u>	<u>(5,175,000)</u>	<u>137,498,965</u>	<u>5,255,000</u>
Add: Bond and Note Premiums	1,654,201		(91,963)	1,562,238	
Less: Bond and Note Discounts	<u>(827,041)</u>		<u>67,163</u>	<u>(759,878)</u>	
Total bonds, loans and leases payable	141,382,377	2,118,748	(5,199,800)	138,301,325	5,255,000
Other liabilities:					
Compensated absences	1,032,962	230,612	(67,352)	1,196,222	
Health Insurance Premium Share (OPEB)	4,997,000	265,000	(482,000)	4,780,000	
Pension Liability	115,010,000	14,053,000	(13,180,000)	115,883,000	
OPEB Obligation	<u>4,559,526</u>	<u>377,758</u>	<u>(406,352)</u>	<u>4,530,932</u>	
Total other liabilities	<u>125,599,488</u>	<u>14,926,370</u>	<u>(14,135,704)</u>	<u>126,390,154</u>	
Governmental activities long-term liabilities	<u>\$ 266,981,865</u>	<u>\$ 17,045,118</u>	<u>\$ (19,335,504)</u>	<u>\$ 264,691,479</u>	<u>\$ 5,255,000</u>

General Obligation Bonds

Capital Appreciation Bonds, Series of 1999, stated maturity amount of \$23,975,000, with yield to maturity ranging from 5.95% to 6.10% with final payment due in 2024.

Capital Appreciation Bonds, Series A of 2001, stated maturity amount of \$13,610,000, with yields to maturity ranging from 4.75% to 5.96% with final payment due in 2029.

Capital Appreciation Bonds, Series A of 2002, stated maturity amount on \$22,635,000, with yields to maturity ranging from 2.30% to 5.98% with final payment due in 2034. These bonds were partially refunded in 2013/2014 with the issuance of the General Obligation Bonds, Series B of 2014.

General Obligation Bonds, Refunding Series of 2008, issuance amount of \$4,510,000, variable rates from 1.50% to 4.05%, with final payment due in 2028.

General Obligation Bonds, Series B of 2014, issuance amount of \$9,865,000, variable rates from 0.530% to 4.270%, with final payment due in 2028.

General Obligation Bonds, Series C of 2014, issuance amount of \$23,780,000, variable rates from 4.270% to 4.730%, with final payment due in 2033.

General Obligation Bonds, Series D of 2014, issuance amount of \$25,350,000, variable rates from 0.70% to 5.00%, with final payment due in 2039.

General Obligation Bonds, Series of 2017, issuance amount of \$24,825,000, variable rates from 0.95% to 5.00%, with final payment due in 2041.

The balances remaining on the remaining five series at June 30, 2018 are:

Current Interest Bonds

2008 General Obligation Bonds	\$ 1,410,000
2014 General Obligation Bonds, Series B	8,605,000
2014 General Obligation Bonds, Series C	23,780,000
2014 General Obligation Bonds, Series D	25,275,000
2017 General Obligation Bonds	24,065,000
	<hr/>
Total Current Interest Bonds	<u>\$ 83,135,000</u>

<u>Zero Coupon Bonds</u>	<u>Stated Maturity</u>	<u>Value at Issuance</u>	<u>Compound Accreted Value at June 30, 2018</u>
1999 General Obligation Bonds	\$23,975,000	\$ 6,963,515	\$ 17,262,380
2001 General Obligation Bonds, Series A	13,610,000	3,048,628	8,073,830
2002 General Obligation Bonds, Series A	22,635,000	8,251,635	9,032,755
Total Zero Coupon Bonds			<u>\$ 34,368,965</u>
Total All Bonds			<u>\$ 117,503,965</u>

The amounts necessary to amortize outstanding bonds for the next five years and to maturity are:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 4,870,000	\$ 3,655,538	\$ 8,525,538
2020	4,895,000	3,628,881	8,523,881
2021	4,920,000	3,601,668	8,521,668
2022	4,945,000	3,573,740	8,518,740
2023	4,980,000	3,542,643	8,522,643
2024-2028	25,615,000	17,195,088	42,810,088
2029-2033	28,040,000	14,072,632	42,112,632
2034-2038	21,895,000	9,794,434	31,689,434
2039-2041	31,375,000	2,878,750	34,253,750
Total	<u>\$ 131,535,000</u>	<u>\$ 61,943,374</u>	<u>\$ 193,478,374</u>

The General Fund is used to liquidate the liability for long-term debt. Interest expense disclosed in the government wide financial statements includes interest paid on long term debt obligations, refund of prior year revenues and unamortized costs related to refunding of debt.

General Obligation Notes

General Obligation Notes – Series of 2012A, issuance amount of \$18,785,000, interest at the rate of 0.45% - 3.25% with final payment due in 2035.

General Obligation Notes – Series of 2012B, issuance amount of \$2,655,000, interest at the rate of 0.862% - 3.295% with final payment due in 2021.

The amounts necessary to amortize outstanding notes for the next five years and to maturity are:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 385,000	\$ 615,472	\$ 1,000,472
2020	395,000	605,557	1,000,557
2021	405,000	594,069	999,069
2022	455,000	582,201	1,037,201
2023	490,000	570,700	1,060,700
2024-2028	1,775,000	2,709,328	4,484,328
2029-2033	2,760,000	2,389,794	5,149,794
2034-2036	13,330,000	848,413	14,178,413
Total	<u>\$ 19,995,000</u>	<u>\$ 8,915,534</u>	<u>\$ 28,910,534</u>

Note 5 - Pension Plan

1. Summary of Significant Accounting Policies

Pensions

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

General Information about the Pension Plan

Plan Description

PSERS is a governmental cost sharing 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.

Benefits Provided

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

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

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

Contributions

Member Contributions:

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

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

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

Members who joined the System after June 30, 2011 automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011 who elect Class T-F membership contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership class T-E contribution rate to fluctuate between 7.5% and 9.5% and membership class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions:

The School District's contractually required contribution rate for fiscal 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 District were \$9,762,372 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$115,883,000 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 District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District's proportion

was 0.2346 percent, which was a decrease of 0.0026 from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, the District recognized pension expense of \$13,791,000. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 1,209,000	\$ 700,000
Changes in Assumptions	3,148,000	
Net difference between projected and actual investment earnings	2,685,000	
Changes in proportions	4,720,000	
Contributions subsequent to the measurement date	9,762,372	
	<u>\$ 21,524,372</u>	<u>\$ 700,000</u>

\$9,762,372 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2018	\$ 3,322,000
2019	4,765,000
2020	3,113,000
2021	(138,000)

Actuarial assumptions

The total pension liability as of June 30, 2017 was determined by rolling forward the System's total pension liability as of 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 – 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 or 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 a 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.

<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%
Alternate investments	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	-20.0%	1.1%
	<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 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 project future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	1% Decrease 6.25%	Current Discount rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	\$ 142,620,000	\$ 115,865,000	\$ 93,277,000

Pension plan fiduciary net position

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

Schedule of Employer Contributions

	2017	2016	2015	2014
Actuarially Determined Contribution	\$ 8,973,234	\$ 8,213,505	\$ 7,325,973	\$ 6,420,773
Contributions in relation to the actuarially determined contribution	8,973,234	7,380,936	5,750,368	4,312,862
Contribution Deficiency	-	832,569	1,575,605	2,107,911
Covered Payroll	31,238,673	30,046,850	28,655,402	27,629,124
Contribution as a percentage of covered payroll	28.72%	24.56%	20.07%	15.61%

Note 6 – OPEB Liability – Health Insurance Premium Share

OPEB Plan

1. Summary of Significant Account 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
- Area 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.

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 \$259,000 for the year ended June 30, 2017.

1. 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 \$4,780,000 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 0.2346%, which was a decrease of 0.0026% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, the District recognized OPEB expenses of \$212,000. At June 30, 2018, the 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
Changes in Assumptions	\$ -	\$ 222,000
Net difference between projected and actual investment earnings	5,000	
Changes in proportions	48,000	
Contributions subsequent to the measurement date	255,286	
	\$ 308,286	\$ 222,000

\$255,286 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	\$ (28,000)
2019	(28,000)
2020	(28,000)
2021	(28,000)
2022	(29,000)
Thereafter	(198,000)

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 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 pension 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 reserve 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, retiree 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 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 health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
System net OPEB Liability (in thousands)	\$ 2,315,996	\$ 2,037,412	\$ 1,805,991

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	\$ 5,433,000	\$ 4,780,000	\$ 4,237,000

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.

Schedule of Employer Premium Assistance Contributions

	2017	2016
Actuarially Determined Contribution	\$ 294,878	\$ 300,426
Contributions in relation to the actuarially determined contributoion	259,369	261,132
Contribution Deficiency	35,509	39,294
Covered Payroll	31,238,673	30,046,850
Contribution as a percentage of covered payroll	0.83%	0.87%

Note 7 – Compensated Absences & Other Post-Employment Benefits

The School District has made early retirement benefits available to certain employees. The benefit is (1) payment for unused sick days at retirement and (2) a retirement incentive payable. The payable for declared retirements is recorded as a current liability in the General Fund at the time of retirement. With respect to other employees that do not meet the criteria established by the School District for early retirement, these employees are not eligible to receive payment for their unused sick days at retirement. The General Fund has been used to liquidate the accumulated liability for retirement benefits. The dollar amounts of the benefits are as follows:

	<u>Sick Day Liability</u>	<u>Retirement Incentives</u>	<u>Total</u>
June 30, 2017 Balance	\$ 1,011,874	\$ 21,088	\$ 1,032,962
Increases	230,612		230,612
Decreases	(56,807)	(10,545)	(67,352)
June 30, 2018 Balance	<u>\$ 1,185,679</u>	<u>\$ 10,543</u>	<u>\$ 1,196,222</u>

Note 8 – Other Post-Employment Benefits

The District maintains a single-employer defined benefit healthcare plan. The plan provides health insurance for eligible retirees and their spouses through the District's health insurance plan.

Funding Policy. The contribution requirements of plan members and the District are established and may be amended by the Board of School Directors. The Annual Required Contribution for the year ended June 30, 2018 was not made by the District.

Funded Status and Funding Progress. As of June 30, 2018, the actuarial accrued liability for benefits was \$4,530,932, all of which was unfunded.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized expense of \$209,417. At June 30, 2018 the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 249,631
	<u>\$ -</u>	<u>\$ 249,631</u>

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

Year Ended June 30,	
2019	\$ (23,387)
2020	(23,387)
2021	(23,387)
2022	(23,387)
2023	(23,387)
Thereafter	(132,696)

Sensitivity of the Total OPEB liability to changes in the discount rate

The following presents the net OPEB liability to the District, calculated using the discount rate of 3.87%, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87 percent) or 1-percentage-point higher (4.87 percent) than the current rate:

	1% Decrease <u>2.87%</u>	Current Discount Rate <u>3.87%</u>	1% Increase <u>4.87%</u>
Net OPEB Liability	\$ 5,020,183	\$ 4,530,932	\$ 4,093,797

Sensitivity of the Total OPEB liability to Changes in the Medical Inflation Rate

The following presents the net OPEB liability to the District, calculated using the current medical inflation rate as well as what the District's net OPEB liability would be if it were calculated using an inflation rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Medical Inflation Rate	1% Increase
Net OPEB Liability	\$ 3,907,191	\$ 4,530,932	\$ 5,287,183

Schedule of Changes in the Total OPEB Liability and Related Ratios

	<u>2018</u>
Service Cost	\$ 209,417
Interest	168,341
Changes of Benefit Terms	-
Difference between expected and actual	(273,018)
Changes of assumptions or other inputs	
Benefit Payments	<u>(133,334)</u>
Net Change in total OPEB Liability	<u>(28,594)</u>
Total OPEB liability - beginning of year	<u>4,559,526</u>
Total OPEB liability - end of year	\$ 4,530,932
Covered-employee payroll	\$27,129,853
Total OPEB liability as a percentage of covered- employee payroll	16.70%

➤ GASB 75 was implemented beginning with the fiscal year ended June 30, 2017.

The following assumptions were also made:

Actuarial Cost Method – Entry Age normal Percentage of Pay

Medical Inflation Rate – 10% increase in the first year, decreasing by 0.5% per year to an ultimate rate of 6.0%.

Asset Valuation Method – Market value

Inflation – 2.6%

Wage inflation – 3%

Salary Increases – 3.00%, average, including inflation.

Long-term investment rate of return – 3.87% (6/30/2018 Bond Buyer Index AA)

Retirement Age – Immediate upon first eligibility

Mortality – RP-2000 Combined Healthy with Scale BB

Note 9 – Jointly Governed Organizations

The School District is one of eight member school districts of the Western Area Career & Technology Center. The Center is controlled and governed by the Joint Committee, which is composed of one member from each school board of the member districts. Direct oversight of the Center's operations is the responsibility of the Joint Committee. The School District's share of annual operating and capital costs for the Center fluctuates based on the percentage enrollment in the school and is reflected as intergovernmental expenditures of the General Fund. The audit report may be obtained by calling the business office of the School District.

Note 10 – Commitments and Contingencies

The Canon–McMillan School District participates in a number of state and federally assisted grant programs. The programs are subject to program compliance audits by the grantor agencies or their representatives. The audits of some of these programs for and including the year ended June 30, 2018 have not yet been conducted. Accordingly, the School District's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts to be immaterial.

Note 11 – Interfund Balances

Individual fund interfund receivable and payable balances at June 30, 2017 were:

<u>Interfund Receivable</u>		<u>Interfund Payable</u>	
Capital Projects Fund	\$ 2,000,000	General Fund	\$ 2,000,023
General Fund	573,799	Cafeteria Fund	573,799
Student Activities	764	School Store	764
District Activities Fund	23		
	<u>\$ 2,574,586</u>		<u>\$ 2,574,586</u>

The general fund's payable is principally the result of amounts being transferred to the Capital Projects Fund as part of the District's fund balance policy.

During the fiscal year ended June 30, 2018, the following fund level transfers were made:

<u>Transfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
Capital Projects Fund	\$ 8,551,565	General Fund	\$ 8,551,565
	<u>\$ 8,551,565</u>		<u>\$ 8,551,565</u>

The above transfer to the Capital Projects Fund represents amounts that are being set aside for future capital improvements. Portions of these amounts were included in the previous year as committed fund balances in the general fund.

Note 12 – Risk Management

General Risk – The School District is exposed to various risks of loss related to certain torts, thefts, damages, catastrophic loss of assets, errors and omissions, injury to employees and natural disasters. Canon–McMillan School District manages most of its risk through the general fund with the purchase of commercial insurance coverage.

The District estimates that the amount of actual or potential claims against the District as of June 30, 2018 will not materially affect the financial condition of the District and will be covered under the present insurance coverage.

Note 13 – Health Care Consortium

The School District is a subscribing member of the Intermediate Unit 1 Health Care Consortium Trust Agreement. The Trust's general objectives are to formulate, develop and administer, on behalf of its subscribers, a program of insurance, to obtain lower costs for the coverage, to reward subscribers for lower usage of the coverage, to establish a continuing voice with insurance providers, and to manage the Trust's healthcare dollar most effectively. Benefits available include medical, prescription, dental and vision insurance coverage.

Note 14 – New Accounting Pronouncement

GASB Statement #75 was implemented in the 2017/2018 year. This statement addresses accounting and financial reporting for post-employment benefits other than pensions. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows, deferred inflows, and expenditures. The beginning balance of the School District's long term net position was restated as of July 1, 2017 to comply with this Statement. The application of this Statement has resulted in the School District including the total unfunded post retirement liability within its financial statements. The beginning balance of the School District's net position was restated to comply with this Statement.

Note 15 – Prior Period Adjustments

A prior period adjustment totaling \$143,221 was made in the General Fund in order to correct a liability account from the prior year. The beginning balance of the District's fixed asset accumulated depreciation balance was restated to comply with the District's revised appraisal.

Required Supplementary Information

CANON-MCMILLAN SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>	<u>6/30/2013</u>
District's Proportion of the Net Pension Liability	0.2346%	0.2320%	0.2227%	0.2165%	0.2133%
District's Proportionate Share of the Net Pension Liability	\$ 115,883,000	\$ 115,010,000	\$ 96,496,000	\$ 85,692,000	\$ 87,317,000
District's Covered-employee Payroll	\$ 31,238,673	\$ 30,046,850	\$ 28,655,402	\$ 27,629,124	\$ 27,373,371
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-employee Payroll	370.96%	382.77%	336.75%	310.15%	318.99%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	51.84%	50.14%	54.36%	57.24%	54.49%

CANON-MCMILLAN SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

	<u>6/30/2017</u>	<u>6/30/2016</u>
District's Proportion of the Net OPEB Liability	0.2346%	0.2320%
District's Proportionate Share of the Net OPEB Liability	\$ 4,780,000	\$ 4,997,000
District's Covered-employee Payroll	\$ 31,238,673	\$ 30,046,850
District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-employee Payroll	15.30%	16.63%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	5.73%	5.47%

Supplementary Information

CANON-MCMILLAN SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

Student Activity Fund

	June 30, 2017	Additions	Reductions	June 30, 2018
Assets				
Cash and Cash Equivalents	\$ 148,043	\$ 445,680	\$ 419,109	\$ 174,614
Other Assets		764		764
Total Assets	\$ 148,043	\$ 446,444	\$ 419,109	\$ 175,378
Liabilities				
Accounts Payable	\$ 6,000	\$	\$ 6,000	\$
Other Liabilities	142,043	446,444	413,109	175,378
Total Liabilities	\$ 148,043	\$ 446,444	\$ 419,109	\$ 175,378

School Store Fund

	June 30, 2017	Additions	Reductions	June 30, 2018
Assets				
Cash and Cash Equivalents	\$ -	\$ 39,961	\$ 20,017	\$ 19,944
Total Assets	\$ -	\$ 39,961	\$ 20,017	\$ 19,944
Liabilities				
Accounts Payable	\$	\$ 63	\$	\$ 63
Other Liabilities	-	39,898	20,017	19,881
Total Liabilities	\$ -	\$ 39,961	\$ 20,017	\$ 19,944

CANON MCMILLAN SCHOOL DISTRICT
BALANCE SHEET - CAPITAL PROJECTS FUNDS
JUNE 30, 2018

	<u>Capital Reserve Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Assets			
Cash	\$ 21	\$ -	\$ 21
Investments	4,453,738	25,941,060	30,394,798
Other Receivables	31,125		31,125
Due from Other Funds		<u>2,000,000</u>	<u>2,000,000</u>
Total Assets	<u><u>4,484,884</u></u>	<u><u>27,941,060</u></u>	<u><u>32,425,944</u></u>
Liabilities			
Accounts Payable	\$ -	\$ 2,916,531	\$ 2,916,531
Due to Other Governments	<u>1,973</u>		<u>1,973</u>
Total Liabilities	<u>1,973</u>	<u>2,916,531</u>	<u>2,918,504</u>
Fund Balances			
Committed to:			
Capital Projects	<u>4,482,911</u>	<u>25,024,529</u>	<u>29,507,440</u>
Total Fund Balances	<u>4,482,911</u>	<u>25,024,529</u>	<u>29,507,440</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 4,484,884</u></u>	<u><u>\$ 27,941,060</u></u>	<u><u>\$ 32,425,944</u></u>

CANON MCMILLAN SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Capital Reserve Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Revenues			
Local Sources	\$ 49,920	\$ 255,450	\$ 305,370
Total Revenues	49,920	255,450	305,370
Expenditures			
Capital Outlay	611,284	13,891,958	14,503,242
Total Expenditures	611,284	13,891,958	14,503,242
Excess (Deficiency) of Revenues Over Expenditures	(561,364)	(13,636,508)	(14,197,872)
Other Financing Sources (Uses)			
Interfund Transfers (Out)			
Interfund Transfers In		8,551,565	8,551,565
Total Other Financing Sources & (Uses)		8,551,565	8,551,565
Net Change in Fund Balances	(561,364)	(5,084,943)	(5,646,307)
Fund Balances - July 1, 2017	5,044,275	30,109,472	35,153,747
Fund Balances - June 30, 2018	<u>\$ 4,482,911</u>	<u>\$ 25,024,529</u>	<u>\$ 29,507,440</u>



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Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed
In Accordance with *Government Auditing Standards*

Canon-McMillan School District
Canonsburg, Pennsylvania

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 Canon-McMillan School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Canon-McMillan School District's basic financial statements, and have issued our report thereon dated November 19, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Canon-McMillan 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 Canon-McMillan School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Canon-McMillan School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Canon-McMillan 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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CYPHER & CYPHER

Cypher & Cypher

CERTIFIED PUBLIC ACCOUNTANTS

Canonsburg, Pennsylvania
November 19, 2018



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Independent Auditor's Report on Compliance for Each Major Program And on Internal Control Over Compliance Required by the Uniform Guidance

Canon-McMillan School District
Canonsburg, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Canon-McMillan 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 Canon-McMillan School District's major federal programs for the year ended June 30, 2018. Canon-McMillan 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 Canon-McMillan 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 Canon-McMillan 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 Canon-McMillan School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Canon-McMillan 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.

Report on Internal Control over Compliance

Management of Canon-McMillan 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 Canon-McMillan 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 Canon-McMillan 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.

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CERTIFIED PUBLIC ACCOUNTANTS

Canonsburg, Pennsylvania
November 19, 2018

Canon–McMillan School District
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2018

Section 1 – Summary of Auditor’s Results

Financial Statements:		
i.	Type of auditor’s report issued	Unmodified
ii.	Internal control over financial reporting:	
	Material weakness(es) identified?	No
	Significant deficiencies identified?	None reported
iii.	Noncompliance material to financial statements noted?	No

Federal Awards:		
iv.	Internal control over major programs:	
	Material weakness(es) identified?	No
	Significant deficiencies identified?	None reported
v.	Type of auditor’s report issued on compliance for major programs:	Unmodified
vi.	Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
vii.	Major programs:	
	CFDA Number(s)	Name of Federal Program or Cluster
	84.027 84.173	Special Education Cluster (IDEA)
	10.553 10.555 10.559	Child Nutrition Cluster
viii.	Dollar threshold used to distinguish between Type A and	\$750,000

	Type B programs:	
ix.	Auditee qualify as low-risk auditee?	No

Section 2 – Findings Related to Financial Statements Required to Be Reported Under GAGAS

None.

Section 3 – Findings and Questioned Costs for Federal Awards

None.

Section 4 – Summary of Prior Audit Findings

None.

CANON-MCMILLAN SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF AWARDS OF FEDERAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2018

Funding Source	Federal CFDA #	Pass Through Grantor #	Program Years	Program Grant Award	Cash Received In 17/18	Accrued/Deferred Revenue 7/1/17	Revenues Recognized 17/18	Expenditures Recognized 17/18	Accrued/Deferred Revenue 6/30/18	Carryover To 18/19	
Department of Education Title I, Part A	84-010	013-180060	17/18	\$ 411,899.00	\$ 302,411.67	\$	\$ 389,580.25	\$ 389,580.25	\$ 87,168.58	\$ 22,278.75	
			16/17	408,173.00	129,766.30	27,328.47	102,437.83	102,437.83			
			15/16	387,239.00	49,770.67	49,770.67					
				\$ 820,022.00	\$ 481,179.97	\$ 27,328.47	\$ 492,018.08	\$ 492,018.08	\$ 87,168.58	\$ 22,278.75	
Total Title I, Part A Cluster											
Special Education Cluster (IDEA) Department of Education Passed From Intermediate Unit #1 IDEA, Part B	84-027		17/18	\$ 864,555.00	\$ 864,555.00	\$	\$ 864,555.00	\$ 864,555.00	\$	\$	
			17/18	5,640.00	5,640.00		5,640.00	5,640.00			
			17/18	870,195.00	870,195.00		870,195.00	870,195.00			
Total Special Education Cluster (IDEA)											
Child Nutrition Cluster Department of Agriculture Passed From Pennsylvania Department of Education School Breakfast Program	10-553		17/18	\$ 86,962.45	\$ 73,436.90	\$ 10,149.87	\$ 86,962.45	\$ 86,962.45	\$ 13,525.55	\$	
			16/17	75,621.39	10,149.87						
			17/18	24,386.58	20,491.43	5,145.75	24,386.58	24,386.58	3,895.15		
			16/17	42,555.43	5,445.75						
				229,525.85	109,223.95	15,295.62	111,349.03	111,349.03	17,420.70		
Subtotal CFDA #10-553											
Passed From Pennsylvania Department of Education National School Lunch Program	10-555		17/18	\$ 540,388.17	\$ 460,882.44	\$ 63,492.40	\$ 540,388.17	\$ 540,388.17	\$ 75,505.73		
			16/17	512,573.80	63,492.40						
			17/18	141,041.65	141,041.65		116,863.97	116,863.97	(24,177.68) d	24,177.68	
			16/17	128,550.45	655,416.49	43,113.80	20,378.60	20,378.60			
				1,322,554.07	655,416.49	43,113.80	677,630.74	677,630.74	55,328.05	24,177.68	
Subtotal CFDA #10-555											
Passed From Pennsylvania Department of Education Summer Food Program	10-559		17/18	\$ 5,973.44	\$ 5,200.71	\$ 3,572.07	\$ 5,973.44	\$ 5,973.44	\$ 772.73		
			16/17	6,581.74	3,572.07						
			17/18	1,564,635.10	783,363.22	61,931.49	794,953.21	794,953.21	73,521.48	24,177.68	
Total Child Nutrition Cluster											
Department of Health and Human Services Passed From Pennsylvania Department of Public Welfare Medical Assistance - Access Time Study	93-778	140078	17/18	\$ 9,167.54	\$ 3,335.89	\$ 2,266.42	\$ 9,167.54	\$ 9,167.54	\$ 5,831.65	\$	
			16/17	5,356.23	2,266.42						
			17/18	14,523.77	5,602.31	2,266.42	9,167.54	9,167.54	5,831.65		
Total Department of Health and Human Services											
Department of Education Passed From Pennsylvania Department of Education Title II - Improving Teacher Quality	84-367	020-180060	17/18	\$ 104,044.00	\$ 41,664.45	\$	\$ 61,203.53	\$ 61,203.53	\$ 19,539.08	\$ 42,890.47	
			16/17	129,950.00	69,029.49	25,958.44	43,071.05	43,071.05			
			16/17	233,984.00	110,693.94	25,958.44	104,274.58	104,274.58	19,539.08	42,890.47	
Subtotal CFDA #84-367											
Title IV-Student Support and Academic Enrichment Program	84-424	144-180060	17/18	\$ 10,235.00	\$ 6,836.70	\$	\$ 10,121.87	\$ 10,121.87	\$ 3,885.17	\$ 133.13	
			17/18	244,239.00	117,530.64	25,958.44	114,386.45	114,386.45	22,824.25	42,963.60	
			17/18	3,513,624.87	2,208,869.14	117,484.82	2,280,730.28	2,280,730.28	189,345.96	89,420.03	
Grand Total											

Footnotes:
(a) Total amount of Commodities received from Dept of Agriculture
(b) Beginning inventory at July 1
(c) Total amount of Commodities Used
(d) Ending inventory at June 30

Canon–McMillan School District
Notes to Schedule of Expenditure of Awards of Federal Assistance
For the Year Ended June 30, 2018

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes federal award activity of Canon-McMillan School District (the “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 Canon-McMillan School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of Canon-McMillan School District.

Note 2 – Summary of Significant Accounting Policies

- (1) 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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.
- (2) Pass-through entity identifying numbers are presented where available.

Note 3 – Food Distribution

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2018, the District had food commodities totaling \$24,178 in inventory.

Note 4 – Indirect Cost Rates

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