

STEELTON-HIGHSPIRE SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2018

STEELTON-HIGHSPIRE SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2018

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Independent Auditors' Report

Board of School Directors
Steelton-Highspire School District
Steelton, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the fiduciary funds and the remaining fund information of Steelton-Highspire School District (the District) as of and for the year ended June 30, 2018 and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Auditors' 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 auditors' 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 auditors consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the 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, the fiduciary funds and the remaining fund information of Steelton-Highspire School District as of June 30, 2018 and where applicable, the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 19 to the financial statements, effective July 1, 2017, the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedules of pension information, schedules of other postemployment benefits and schedules of other postemployment benefits (HIPAP) 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Steelton-Highspire School District's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Steelton-Highspire School District's internal control over financial reporting and compliance.

Brown Schultz Steindler & Fritz

Camp Hill, Pennsylvania
January 21, 2019

STEELTON-HIGHSPIRE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEAR ENDED JUNE 30, 2018

The discussion and analysis of Steelton-Highspire School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the financial statements to enhance their understanding of the District's financial performance.

The Management's 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. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

The District's governmental activities' liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at the close of the fiscal year by \$(26,603,269) (net deficit); which includes an unrestricted deficit of \$(30,290,366).

As of June 30, 2018, the District's fund balance for the General Fund was \$(2,124,772). This negative fund balance is attributed to prior years' deficits, as well as the continued increase in delinquent tax collection. The District is exploring areas in which expenditures can be decreased or eliminated, such as contracted services. Also the District is increasing their efforts to collect upon all delinquent taxes.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statement of net position (deficit) and the statement of activities provide both long-term and short-term information about the District's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail than the government-wide statements. The governmental funds' statements indicate how general District services were financed in the short-term, as well as what remains for future spending. Proprietary fund statements offer short- and long-term financial information about the activities that the District operates like a business. For this District, this is our Food Service Fund. Fiduciary fund statements provide information about financial relationships where the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

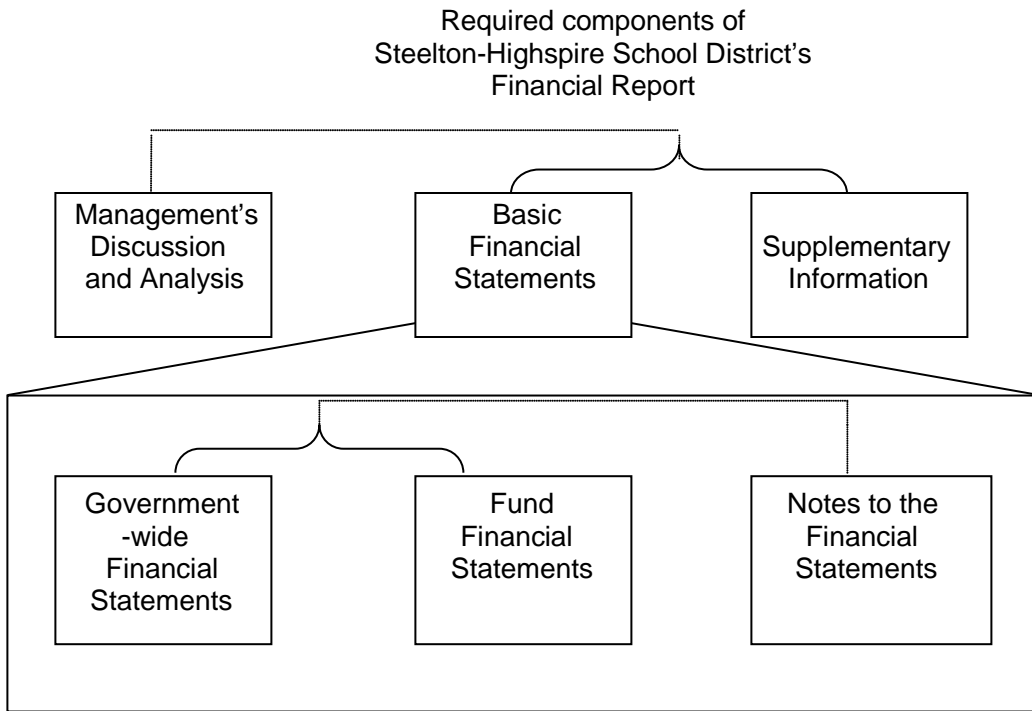
STEELTON-HIGHSPIRE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

YEAR ENDED JUNE 30, 2018

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

The following diagram shows how the required parts of the financial report are arranged and relate to one another:



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

STEELTON-HIGHSPIRE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

YEAR ENDED JUNE 30, 2018

Major Features of Steelton-Highspire School District's
Government-wide and Fund Financial Statements

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

STEELTON-HIGHSPIRE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

YEAR ENDED JUNE 30, 2018

OVERVIEW OF FINANCIAL STATEMENTS

Government-wide statements

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

The two government-wide statements report the District's net position and how it has changed. Net position, the difference between the District's assets and deferred outflows minus liabilities and deferred inflows, is one way to measure the District's financial health or position.

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

To assess the overall health of the District, you need to consider additional nonfinancial factors, such as changes in the District's property tax base and the performance of the students.

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

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

Fund financial statements

The District's fund financial statements provide detailed information about the most significant funds – not the District as a whole. Some funds are required by state law.

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

STEELTON-HIGHSPIRE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

YEAR ENDED JUNE 30, 2018

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

Fiduciary funds – The District is the trustee, or fiduciary, for some scholarship funds and student activities funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net position. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's total net position (deficit) was \$(26,725,636) at June 30, 2018, and \$(27,688,309) at June 30, 2017 per the following schedule.

	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Current assets	\$ 2,322,562	\$ 1,682,426	\$ 171,560	\$ 638,687	\$ 2,494,122	\$ 2,321,113
Capital and other noncurrent assets	24,405,023	27,056,207	53,311	82,796	24,458,334	27,139,003
Total assets	26,727,585	28,738,633	224,871	721,483	26,952,456	29,460,116
Deferred outflows of resources	4,337,909	4,932,899			4,337,909	4,932,899
Total assets and deferred outflows of resources	\$ 31,065,494	\$ 33,671,532	\$ 224,871	\$ 721,483	\$ 31,290,365	\$ 34,393,015
Current liabilities	\$ 5,402,453	\$ 6,110,196	\$ 347,238	\$ 892,131	\$ 5,749,691	\$ 7,002,327
Long-term liabilities	52,214,310	52,738,997			52,214,310	52,738,997
Total liabilities	57,616,763	58,849,193	347,238	892,131	57,964,001	59,741,324
Deferred inflows of resources	52,000	2,340,000			52,000	2,340,000
Total liabilities and deferred inflows of resources	\$ 57,668,763	\$ 61,189,193	\$ 347,238	\$ 892,131	\$ 58,016,001	\$ 62,081,324
Net position (deficit):						
Net investment in capital assets	\$ 3,687,097	\$ 1,490,793	\$ 53,311	\$ 82,796	\$ 3,740,408	\$ 1,573,589
Restricted		1,918,329				1,918,329
Unrestricted	(30,290,366)	(30,926,783)	(175,678)	(253,444)	(30,466,044)	(31,180,227)
Total net position (deficit)	\$ (26,603,269)	\$ (27,517,661)	\$ (122,367)	\$ (170,648)	\$ (26,725,636)	\$ (27,688,309)

STEELTON-HIGHSPIRE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

YEAR ENDED JUNE 30, 2018

Governmental activities current liabilities decreased approximately \$700,000. The District processed payment of old outstanding invoices reducing current liabilities.

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

The following takes the information from that statement and rearranges it slightly, so you can see our total revenues and expenses for the year.

Statement of Activities
Fiscal Years Ended June 30, 2018 and 2017

	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 73,186	\$ 18,514	\$ 71,489	\$ 48,044	\$ 144,675	\$ 66,558
Operating grants and contributions	7,320,690	6,488,049	904,333	744,864	8,225,023	7,232,913
General revenues (expenses) and transfers:						
Property taxes	5,222,368	5,190,253			5,222,368	5,190,253
Other taxes	1,048,704	1,116,913			1,048,704	1,116,913
Grants and subsidies, unrestricted	9,199,581	8,000,743			9,199,581	8,000,743
Investment revenue, interest	193,313	161,383	1,008	1,564	194,321	162,947
Change in value, interest rate swap	647,201	1,044,890			647,201	1,044,890
Other	79,531	99,217		(922)	79,531	98,295
Total revenues	<u>23,784,574</u>	<u>22,119,962</u>	<u>976,830</u>	<u>793,550</u>	<u>24,761,404</u>	<u>22,913,512</u>
Expenses:						
Instructional services	14,830,950	13,384,005			14,830,950	13,384,005
Support services	6,511,853	5,577,895			6,511,853	5,577,895
Noninstructional services	1,527,379	1,652,639			1,527,379	1,652,639
Food service			928,549	843,132	928,549	843,132
Total expenses	<u>22,870,182</u>	<u>20,614,539</u>	<u>928,549</u>	<u>843,132</u>	<u>23,798,731</u>	<u>21,457,671</u>
Increase (decrease) in net position	<u>\$ 914,392</u>	<u>\$ 1,505,423</u>	<u>\$ 48,281</u>	<u>\$ (49,582)</u>	<u>\$ 962,673</u>	<u>\$ 1,455,841</u>

Governmental operating grants increased approximately \$800,000 from an incremental increase in special education funding. The District educates in excess of 20% of its students requiring special education services. The majority of these students receive education and health related services from offsite consortium classrooms coordinated by the CAIU or placements to address their specific needs.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

YEAR ENDED JUNE 30, 2018

Unrestricted grants and subsidies increased \$1,198,838 in 2017-2018 from 2016-2017. There was also a slight increase in the annual subsidy in 2017-2018.

Total revenues from business-type activities increased over \$180,000 from the prior year, mostly due to the District participating for the full year in the National School Lunch Program as opposed to participating partially in the prior year. The District serves a high poverty community and participates in the Commonwealth's free and reduced lunch program. The District qualified for the Food and Nutrition's Community Eligible ranking which provided an increase in per student meal reimbursement. In addition, the cafeteria served an increased number of staff meals, as well as catering events.

The following presents the expenses of the governmental activities of the District, as well as each program's net cost (total cost less revenues generated by the activities). The net costs are offset by the other unrestricted grants, subsidies and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

Governmental Activities
Fiscal Years Ended June 30, 2018 and 2017

Function/programs	Total cost of services		Net cost of services	
	2018	2017	2018	2017
Regular instruction	\$ 8,436,451	\$ 7,416,369	\$ 5,672,444	\$ 4,824,547
Special instruction	4,978,321	4,387,974	2,398,123	1,745,752
Vocational instruction	457,553	661,349	442,540	629,845
Other instructional programs	312,992	454,860	261,792	413,956
Other education programs	645,633	463,453	553,246	398,447
Pupil personnel	875,638	656,133	734,804	538,032
Instructional staff	261,801	295,633	186,790	224,064
Administration	1,701,530	1,236,806	1,427,121	1,029,690
Pupil health	187,155	156,661	136,928	110,366
Business services	664,220	533,800	590,513	479,263
Operation of plant and maintenance	1,608,933	1,362,666	1,493,139	1,275,645
Student transportation services	447,351	714,306	95,214	294,694
Planning	1,100		1,100	
Other support services	764,125	621,890	710,761	581,690
Student activities	248,387	263,184	144,009	202,175
Community services	25,611	17,471	20,568	13,272
Debt service, interest	1,253,381	1,371,984	607,214	1,346,538
Total governmental activities	\$ 22,870,182	\$ 20,614,539	15,476,306	14,107,976
Less unrestricted grants, subsidies			<u>9,199,581</u>	<u>8,000,743</u>
Total needs from local taxes and other revenues			\$ 6,276,725	\$ 6,107,233

STEELTON-HIGHSPIRE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

YEAR ENDED JUNE 30, 2018

The following presents the activities of the food service program and the business-type activities of the District.

Business-Type Activities
Fiscal Years Ended June 30, 2018 and 2017

Function/programs	Total cost of services		Net cost of services	
	2018	2017	2018	2017
Food services	\$ 928,549	\$ 843,132	\$ (47,273)	\$ 50,224
Less investment earnings and other			<u>(1,008)</u>	<u>(642)</u>
Total cost of (income from) business-type activities			<u>\$ (48,281)</u>	<u>\$ 49,582</u>

The statement of revenues, expenses and changes in fund net position for the proprietary fund further details the actual results of operations.

THE DISTRICT FUNDS

The 2017-2018 General Fund original budget showed revenues exceeding expenditures resulting in an increase in the fund balance. For the year ended June 30, 2018, the revenues were over the final budget by \$294,530. This was due primarily to revenues from state sources which came in above budget by \$1,060,508. Revenues from taxes fell below budgeted amounts for the year as property assessments continue to be reduced causing revenue from local sources to be less than budget by \$922,904. Revenues from federal sources were over budget by approximately \$157,000, which with the overage in state funding, helped to offset the loss in local sources.

Total General Fund expenditures exceeded the final budget by \$664,156. This was due primarily to special programs which was over budget by \$846,246. Expenditures exceeded budget in the General Fund in the regular and special instructional areas due to an increase in special education and special needs students during the 2017-2018 school year.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

YEAR ENDED JUNE 30, 2018

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

At June 30, 2018, the District's governmental activities' gross capital assets were \$41,543,860. Capital assets include land, buildings and furniture and equipment. The following provides a breakdown of the capital assets and the accumulated depreciation for the fiscal years ended June 30, 2018 and 2017.

Governmental Activities - Capital Assets
Fiscal Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Land	\$ 20,000	\$ 20,000
Construction in progress	119,850	
Land improvements	506,425	506,425
Building and improvements	39,334,065	39,045,873
Furniture and equipment	<u>1,563,520</u>	<u>1,540,440</u>
	41,543,860	41,112,738
Accumulated depreciation	<u>(17,228,706)</u>	<u>(16,073,451)</u>
	<u>\$ 24,315,154</u>	<u>\$ 25,039,287</u>

A long-term capital project schedule and budget was developed to assure the District's facilities and equipment are maintained for both safety and long-term cost savings.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

YEAR ENDED JUNE 30, 2018

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Enrollment projections indicate that student enrollment will stabilize over the next few years. However, the Borough of Highspire is petitioning the Pennsylvania Department of Education to join the Middletown Area School District. If this request is approved, it will have a major impact on the student enrollment and finances of the District; however, this decision will not be finalized for several years.

Due to decreasing real estate assessed values and an aging population, our local tax revenue continues to decrease. The District continues to seek other areas in which to increase revenues such as the availability of additional grant funds from the state and federal governments, as well as other sources. The District is also tightly monitoring its expenditures to ensure it stays within its current budget.

The original revenue budget total for the 2018-2019 year is approximately \$300,000 less than the original revenue budget total for 2017-2018. This is due to a continued struggle to receive payment of current and delinquent taxes. This number continues to climb and has reached nearly a million in one year of occupational taxes alone. There is, however, an increase in the budget for funding from federal/other revenues compared to the budget for 2017-2018. The District anticipated an increase from the federal subsidies due to the poverty level and is considered community eligible, which increases student funding. The District continues to apply for new grants.

The expenditure and other financing uses budget total for the 2018-2019 year is also approximately \$100,000 less than the original expenditure and other financing uses budget total for 2017-2018. The District decreased the budget for cyber/charter schools in hopes of bringing more students back to the District's own cyber service.

The District continues to prioritize expenses restricting the purchase of materials and services during the 2018-2019 school year. The District continues to provide weekly cash flow and financial status reports to the office of Budget and Fiscal Management, as it remains under Financial Watch Status with the Pennsylvania Department of Education.

Many districts face the common problem of escalating costs for employee benefits, particularly the retirement expenses of PSERS. This cost is set by outside influences and, therefore, is not a discretionary cost that can be controlled by District management.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

YEAR ENDED JUNE 30, 2018

The comparison of revenue and expenditure categories is as follows:

ORIGINAL BUDGETED REVENUES

	<u>2018-2019</u>		<u>2017-2018</u>	
Local	\$ 7,703,963	35.1%	\$ 7,928,436	35.6%
State	13,181,624	60.0%	13,366,827	60.2%
Federal/other	<u>1,067,173</u>	4.9%	<u>954,076</u>	4.3%
Total	<u>\$ 21,952,760</u>		<u>\$ 22,249,339</u>	

ORIGINAL BUDGETED EXPENDITURES AND OTHER FINANCIAL USES

Instruction	\$ 13,288,993	60.8%	\$ 13,075,995	59.6%
Support services	5,921,410	27.1%	6,002,576	27.3%
Operation of noninstructional services	17,807	0.1%	356,918	1.6%
Other	<u>2,615,247</u>	12.1%	<u>2,512,922</u>	11.4%
	<u>\$ 21,843,457</u>		<u>\$ 21,948,411</u>	

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Michael Simonetti, Business Manager, at Steelton-Highspire School District, 250 Reynders Avenue, Steelton, PA 17113, (717) 704-3800.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

STATEMENT OF NET POSITION (DEFICIT)

JUNE 30, 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Current assets:			
Cash	\$ 814,540	\$ 158,844	\$ 973,384
Investments	68,412		68,412
Taxes receivable, net of an allowance of \$794,158	943,726		943,726
Other receivables	12,458		12,458
Due from other governments	477,996		477,996
Prepays	5,430		5,430
Inventories		12,716	12,716
	<u>2,322,562</u>	<u>171,560</u>	<u>2,494,122</u>
Total current assets			
Noncurrent assets:			
Land	20,000		20,000
Construction in progress	119,850		119,850
Land improvements	506,425		506,425
Buildings and building improvements	39,334,065		39,334,065
Furniture and equipment	1,563,520	493,852	2,057,372
Accumulated depreciation	<u>(17,228,706)</u>	<u>(440,541)</u>	<u>(17,669,247)</u>
	24,315,154	53,311	24,368,465
Total capital assets			
Bond insurance costs, net	<u>89,869</u>		<u>89,869</u>
	24,405,023	53,311	24,458,334
Total noncurrent assets			
Deferred outflows of resources:			
Deferred charge on refunding	73,594		73,594
Pensions	4,021,000		4,021,000
Other postemployment benefits	112,315		112,315
Other postemployment benefits (HIPAP)	<u>131,000</u>		<u>131,000</u>
	4,337,909		4,337,909
Total deferred outflows of resources			
Total assets and deferred outflows of resources	<u>\$ 31,065,494</u>	<u>\$ 224,871</u>	<u>\$ 31,290,365</u>

See notes to financial statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)

	Governmental activities	Business-type activities	Total
Current liabilities:			
Accounts payable	\$ 1,939,908	\$ 15,101	\$ 1,955,009
Current portion of bonds, notes and lease payable	1,575,847		1,575,847
Internal balances	(326,623)	326,623	-
Accrued salaries and benefits	838,878		838,878
Payroll deductions and withholdings	1,080,008		1,080,008
Accrued interest	294,435		294,435
Unearned revenues		5,514	5,514
	<u>5,402,453</u>	<u>347,238</u>	<u>5,749,691</u>
Total current liabilities			
Noncurrent liabilities:			
Bonds, notes and lease payable, net	20,675,673		20,675,673
Compensated absences	332,613		332,613
Fair value of interest rate swap	1,511,452		1,511,452
Net pension liability	27,164,000		27,164,000
Other postemployment benefits	1,409,572		1,409,572
Other postemployment benefits (HIPAP)	1,121,000		1,121,000
	<u>52,214,310</u>		<u>52,214,310</u>
Total noncurrent liabilities			
Total liabilities	<u>57,616,763</u>	<u>347,238</u>	<u>57,964,001</u>
Deferred inflows of resources, other postemployment benefits (HIPAP)	<u>52,000</u>		<u>52,000</u>
Net position (deficit):			
Net investment in capital assets	3,687,097	53,311	3,740,408
Unrestricted deficit	(30,290,366)	(175,678)	(30,466,044)
	<u>(26,603,269)</u>	<u>(122,367)</u>	<u>(26,725,636)</u>
Total net position (deficit)			
Total liabilities, deferred inflows of resources and net position (deficit)	<u>\$ 31,065,494</u>	<u>\$ 224,871</u>	<u>\$ 31,290,365</u>

STEELTON-HIGHSPIRE SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	Expenses	Program revenues		Net (expense) revenue and changes in net position	
		Charges for services	Operating grants and contributions	Governmental activities	Business-type activities
Governmental activities:					
Instructional services:					
Regular instruction	\$ 8,436,451		\$ 2,764,007	\$ (5,672,444)	\$ (5,672,444)
Special instruction	4,978,321		2,580,198	(2,398,123)	(2,398,123)
Vocational instruction	457,553		15,013	(442,540)	(442,540)
Other instructional programs	312,992		51,200	(261,792)	(261,792)
Adult education programs	30,354			(30,354)	(30,354)
Pre-kindergarten	543,430		92,387	(451,043)	(451,043)
Community/junior college programs	71,849			(71,849)	(71,849)
Total instructional services	<u>14,830,950</u>		<u>5,502,805</u>	<u>(9,328,145)</u>	<u>(9,328,145)</u>
Support services:					
Pupil personnel	875,638		140,834	(734,804)	(734,804)
Instructional staff	261,801		75,011	(186,790)	(186,790)
Administration	1,701,530		274,409	(1,427,121)	(1,427,121)
Pupil health	187,155		50,227	(136,928)	(136,928)
Business services	664,220		73,707	(590,513)	(590,513)
Operation of plant and maintenance	1,608,933		115,794	(1,493,139)	(1,493,139)
Student transportation services	447,351		352,137	(95,214)	(95,214)
Planning	1,100			(1,100)	(1,100)
Other support services	764,125		53,364	(710,761)	(710,761)
Total support services	<u>6,511,853</u>		<u>1,135,483</u>	<u>(5,376,370)</u>	<u>(5,376,370)</u>
Noninstructional services:					
Student activities	248,387	\$ 73,186	31,192	(144,009)	(144,009)
Community services	25,611		5,043	(20,568)	(20,568)
Other financing uses	1,253,381		646,167	(607,214)	(607,214)
Total noninstructional services	<u>1,527,379</u>	<u>73,186</u>	<u>682,402</u>	<u>(771,791)</u>	<u>(771,791)</u>

(continued)

STEELTON-HIGHSPIRE SCHOOL DISTRICT

STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED JUNE 30, 2018

	Program revenues			Net (expense) revenue and changes in net position		
	Expenses	Charges for services	Operating grants and contributions	Governmental activities	Business-type activities	Total
Total government activities	\$ 22,870,182	\$ 73,186	\$ 7,320,690	\$ (15,476,306)		\$ (15,476,306)
Business-type activities, food service	928,549	71,489	904,333		\$ 47,273	47,273
Total primary government	<u>\$ 23,798,731</u>	<u>\$ 144,675</u>	<u>\$ 8,225,023</u>	<u>(15,476,306)</u>	<u>47,273</u>	<u>(15,429,033)</u>
General revenues:						
Taxes:						
Property, etc.				5,222,368		5,222,368
Other				1,048,704		1,048,704
Grants, subsidies, other nonrestricted				9,199,581		9,199,581
Investment revenue, interest				193,313	1,008	194,321
Change in fair value of interest rate swap				647,201		647,201
Miscellaneous				79,531		79,531
Total general revenues				<u>16,390,698</u>	<u>1,008</u>	<u>16,391,706</u>
Change in net position				914,392	48,281	962,673
Net position (deficit):						
Beginning, restated				<u>(27,517,661)</u>	<u>(170,648)</u>	<u>(27,688,309)</u>
Ending				<u>\$ (26,603,269)</u>	<u>\$ (122,367)</u>	<u>\$ (26,725,636)</u>

See notes to financial statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE (DEFICIT)

	Major funds		Nonmajor fund, capital projects fund	Total governmental funds
	General Fund	Debt service fund		
Liabilities:				
Accounts payable	\$ 1,939,908			\$ 1,939,908
Accrued salaries and benefits	838,878			838,878
Payroll deductions and withholdings	<u>1,080,008</u>			<u>1,080,008</u>
Total liabilities	<u>3,858,794</u>			<u>3,858,794</u>
Deferred inflows of resources, unavailable revenue	<u>721,153</u>			<u>721,153</u>
Fund balance (deficit):				
Nonspendable, prepaids	5,430			5,430
Assigned			\$ 192,445	192,445
Unassigned (deficit)	<u>(2,130,202)</u>	\$ 1,565		<u>(2,128,637)</u>
Total fund balance (deficit)	<u>(2,124,772)</u>	<u>1,565</u>	<u>192,445</u>	<u>(1,930,762)</u>
Total liabilities, deferred inflows of resources and fund balance (deficit)	<u>\$ 2,455,175</u>	<u>\$ 1,565</u>	<u>\$ 192,445</u>	<u>\$ 2,649,185</u>

STEELTON-HIGHSPIRE SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION (DEFICIT)**

YEAR ENDED JUNE 30, 2018

Total fund balance, governmental funds	\$ (1,930,762)
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is \$41,543,860, and the accumulated depreciation is \$17,228,706.	24,315,154
Property taxes receivable are not available soon enough to pay for the current period's expenditures and, therefore, are unearned in the funds.	721,153
Bond insurance costs relating to bonds payable are not reported as assets in the funds.	89,869
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:	
Deferred outflows of resources, pension, other	1,647,000
Deferred outflows of resources, pension, 2018 employer contributions	2,374,000
Deferred outflows and inflows of resources related to other postemployment benefits are applicable to future periods and, therefore, are not reported in the funds:	
Deferred outflows of resources, other postemployment benefits, other	18,712
Deferred outflows of resources, other postemployment benefits, 2018 employer contributions	93,603

(continued)

STEELTON-HIGHSPIRE SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION (DEFICIT) (CONTINUED)**

YEAR ENDED JUNE 30, 2018

Deferred outflows and inflows of resources related to other postemployment benefits (HIPAP) are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources, other postemployment benefits (HIPAP), other	\$	66,000
Deferred outflows of resources, other postemployment benefits (HIPAP), 2018 employer contributions		65,000
Deferred inflows of resources, other postemployment benefits (HIPAP)		(52,000)

Government-wide liabilities and related amounts not included in government funds as a result of the difference in the measurement focus of accounting:

Deferral on bond refunding	\$	73,594	
Accrued interest on the bonds		(294,435)	
Bonds, notes and lease payable		(22,365,847)	
Bond discount		114,327	
Compensated absences		(332,613)	
Fair value of interest rate swap		(1,511,452)	
Net pension liability		(27,164,000)	
Other postemployment benefits		(1,409,572)	
Other postemployment benefits (HIPAP)		(1,121,000)	(54,010,998)

Total net position (deficit), governmental activities

\$ (26,603,269)

See notes to financial statements.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE –
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2018

	Major funds		Nonmajor fund, capital projects fund	Total governmental funds
	General Fund	Debt service fund		
Revenues:				
Local sources:				
Real estate taxes and penalties	\$ 4,699,754			\$ 4,699,754
Other taxes and penalties	1,086,019			1,086,019
Investment income	158,363	\$ 34,342	\$ 608	193,313
Rent	34,363			34,363
Revenues from intermediate sources	982,353			982,353
Other revenues	117,935			117,935
Total local sources	7,078,787	34,342	608	7,113,737
State sources	14,427,335			14,427,335
Federal sources	1,110,583			1,110,583
Refund of prior year expenditures	419			419
Total revenues	22,617,124	34,342	608	22,652,074

(continued)

STEELTON-HIGHSPIRE SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE –
GOVERNMENTAL FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2018

	Major funds		Nonmajor fund, capital projects fund	Total governmental funds
	General Fund	Debt service fund		
Expenditures:				
Current:				
Instruction	\$ 14,030,405			\$ 14,030,405
Support services	6,603,657			6,603,657
Operation of noninstructional services	256,104			256,104
Debt service:				
Principal	42,400	\$ 3,180,000		3,222,400
Interest	780	1,210,043		1,210,823
Total expenditures	20,933,346	4,390,043		25,323,389
Excess of revenue over (under) expenditures	1,683,778	(4,355,701)	\$ 608	(2,671,315)
Other financing sources (uses):				
Other	13			13
Interfund transfers in (out)	(2,467,634)	2,467,634		-
Total other financing sources (uses)	(2,467,621)	2,467,634		13
Net change in fund balances	(783,843)	(1,888,067)	608	(2,671,302)
Fund balance (deficit), July 1, 2017	(1,340,929)	1,889,632	191,837	740,540
Fund balance (deficit), June 30, 2018	\$ (2,124,772)	\$ 1,565	\$ 192,445	\$ (1,930,762)

See notes to financial statements.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGE IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2018

Total net change in fund balances, governmental funds	\$ (2,671,302)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the net amount of capital outlays less depreciation and disposals. Capital outlays, \$311,272; depreciation expense, \$1,155,255	
	(724,133)
Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Unearned tax revenues decreased by this amount this year.	
	485,299
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net position (deficit).	
	3,222,400
Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned is reported as:	
Pension expense	(2,338,178)
School pension contributions	2,374,000
Governmental funds report other postemployment benefit contributions as expenditures. However, in the statement of activities, the cost of other postemployment benefits earned is reported as:	
Other postemployment benefit expense	(111,932)
School other postemployment benefit contributions	93,603
Governmental funds report other postemployment benefit (HIPAP) contributions as expenditures. However, in the statement of activities, the cost of other postemployment benefits (HIPAP) earned is reported as:	
Other postemployment benefit (HIPAP) expense	(59,000)
School other postemployment benefit (HIPAP) contributions	65,000
In the statement of activities, certain operating expenses are measured by the amounts incurred during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used:	
Compensated absences	(25,995)
Interest rate swap	647,201
Other:	
Change in accrued interest expense on bonds payable	(15,608)
Bond insurance costs, discounts, loss from refunding and issuance costs	(26,963)
Change in net position of governmental activities	<u>\$ 914,392</u>

See notes to financial statements.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

STATEMENT OF NET POSITION (DEFICIT) – PROPRIETARY FUND

JUNE 30, 2018

ASSETS

	<u>Food service fund</u>
Current assets:	
Cash	\$ 158,844
Inventory	<u>12,716</u>
 Total current assets	 <u>171,560</u>
Noncurrent assets:	
Machinery and equipment	493,852
Accumulated depreciation, machinery	<u>(440,541)</u>
 Total noncurrent assets	 <u>53,311</u>
 Total assets	 <u><u>\$ 224,871</u></u>

(continued)

LIABILITIES AND NET POSITION (DEFICIT)

	Food service fund
	<u> </u>
Current liabilities:	
Accounts payable	\$ 15,101
Unearned revenue	5,514
Due to general fund, net	<u>326,623</u>
Total current liabilities	<u>347,238</u>
Total liabilities	<u>347,238</u>
Net position (deficit):	
Invested in capital assets	53,311
Unrestricted (deficit)	<u>(175,678)</u>
Total net position (deficit)	<u>(122,367)</u>
Total liabilities and net position (deficit)	<u><u>\$ 224,871</u></u>

See notes to financial statements.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET POSITION –
PROPRIETARY FUND

YEAR ENDED JUNE 30, 2018

	<u>Food service fund</u>
Operating revenues, food service revenue	<u>\$ 71,489</u>
Operating expenses:	
Depreciation	29,485
Food supplies	54,945
Miscellaneous expense	12,634
Purchased professional and technical services	<u>831,485</u>
Total operating expenses	<u>928,549</u>
Operating loss	<u>(857,060)</u>
Nonoperating revenues and expenses:	
Earnings on investments	1,008
State subsidy revenue	32,837
Federal subsidy revenue	821,161
USDA donated commodities	<u>50,335</u>
Total nonoperating revenues and expenses	<u>905,341</u>
Change in net position	48,281
Total net position (deficit):	
July 1, 2017	<u>(170,648)</u>
June 30, 2018	<u><u>\$ (122,367)</u></u>

See notes to financial statements.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUND

YEAR ENDED JUNE 30, 2018

	<u>Food service fund</u>
Cash flows from operating activities:	
Cash received from users	\$ 70,226
Cash payments, suppliers of goods and services	<u>(846,513)</u>
Net cash used in operating activities	<u>(776,287)</u>
Cash flows from noncapital financing activities:	
State sources	37,481
Federal sources	928,459
Repayments of amounts due to the general fund	<u>(535,402)</u>
Net cash provided by noncapital financing activities	<u>430,538</u>
Net cash provided by investing activities, earnings on investments	<u>1,008</u>
Net decrease in cash	(344,741)
Cash:	
Beginning of year	<u>503,585</u>
End of year	<u><u>\$ 158,844</u></u>

(continued)

STEELTON-HIGHSPIRE SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUND (CONTINUED)

YEAR ENDED JUNE 30, 2018

	<u>Food service fund</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	<u>\$ (857,060)</u>
Adjustments:	
Depreciation	29,485
Donated commodities	50,335
Change in:	
Receivables	3,944
Inventories	6,500
Accounts payable	(4,284)
Unearned revenues	<u>(5,207)</u>
Total adjustments	<u>80,773</u>
Cash used in operating activities	<u><u>\$ (776,287)</u></u>

See notes to financial statements.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS

YEAR ENDED JUNE 30, 2018

	<u>Student activities</u>
Asset, cash	<u>\$ 27,380</u>
Liabilities:	
Accounts payable	\$ 4,263
Due to student groups	<u>23,117</u>
Total liabilities	<u>\$ 27,380</u>

See notes to financial statements.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

1. Summary of significant accounting policies:

Steelton-Highspire School District (the District), located in Dauphin County, Pennsylvania, provides a full range of educational services appropriate to grade levels kindergarten through 12 to students living in Steelton and Highspire Boroughs. These include regular, honors and vocational education programs and special education programs for gifted and emotional support. The governing body of the District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the District is carried out by the administrative staff of the District, headed by the Superintendent of Schools who is appointed by the District's board. The District is comprised of one elementary school and one junior/senior high school, serving approximately 1,250 students.

The accounting policies of Steelton-Highspire School District have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the District's significant accounting policies.

Reporting entity:

The criteria used by the District to evaluate the possible inclusion of related entities (Authorities, Boards, Councils and so forth) within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the District reviews the applicability of the following criteria.

The District is financially accountable for:

1. Organizations that make up its legal entity.
2. Legally separate organizations - if District officials appoint a voting majority of the organization's governing body and the District is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the District as defined below.

Impose its will - If the District can significantly influence the programs, projects or activities of, or the level of services performed or provided by, the organization.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

1. Summary of significant accounting policies (continued):

Reporting entity (continued):

Financial benefit or burden - If the District (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.

3. Organizations that are fiscally dependent on the District. Fiscal dependency is established if the organization is unable to adopt its own budget, levy taxes or set rates or charges or issue bonded debt without the approval of the District.

Based on the foregoing criteria, no additional entities are included in the accompanying financial statements.

Basis of presentation, fund accounting and measurement focus:

Basis of presentation

Government-wide statements (i.e., the statement of net position (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the District. As a general rule, the effect of interfund activity has been eliminated from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the expenses of a given function are offset by program revenues. Program revenues include charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function. In addition, program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements are also provided in the report for all of the governmental funds, the proprietary fund and the fiduciary funds of the District. The major individual governmental funds and the individual proprietary (enterprise) fund are reported as separate columns in the fund financial statements. Fiduciary funds are reported by fund type.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

1. Summary of significant accounting policies (continued):

Basis of presentation, fund accounting and measurement focus (continued):

Basis of presentation (continued)

The proprietary fund distinguishes 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 ongoing operations. The operating revenues of the District's enterprise fund are food service charges. Operating expenses for the 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.

Fund accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts comprising each fund's assets, liabilities, deferrals, fund balance, revenues and expenditures or expenses. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

Governmental funds

Governmental funds are used to account for the District's expendable financial resources and related liabilities (except those accounted for in proprietary funds). The measurement focus is based upon determination of changes in financial position. The following are the District's major governmental fund types:

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

Debt Service Fund - This fund is used to account for the accumulation of resources for and payment of, interest and principal on debt.

Nonmajor fund, Capital Projects Fund - This fund is used to account for all resources for the acquisition or construction of major capital facilities by the District.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

1. Summary of significant accounting policies (continued):

Basis of presentation, fund accounting and measurement focus (continued):

Proprietary Fund

The Proprietary Fund is used to account for activities that are similar to those often found in the private sector. It consists of an Enterprise Fund, which is used to account for the District's operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the cost of providing goods or services to the students on a continuing basis be financed or recovered primarily through user charges. The following fund is used to account for those financial activities:

Food Service Fund - This fund accounts for the revenues, food purchases and other costs and expenses of providing meals to students during the school year.

Fiduciary funds

These are the funds that account for the assets held by the District as a trustee or agent for individuals and private organizations and are, therefore, not available to support the District's own programs. The funds included in this category are:

Student Activities Funds - These funds are used to account for assets authorized by Section 511 of the Public School Code of 1949, for school publications and organizations.

Measurement focus and basis of accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net position (total assets plus deferred outflows less total liabilities less deferred inflows) is used as a practical measure of economic resources, and the statement of activities includes all transactions and events that increased or decreased net position.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

1. Summary of significant accounting policies (continued):

Basis of presentation, fund accounting and measurement focus (continued):

Measurement focus and basis of accounting (continued)

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state and other grants designated for payment of specific District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as unearned revenues until earned. Expenditures are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, pension expense, postemployment and termination benefits and claims and judgments, are recorded only when payment is due.

Cash and cash equivalents:

Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and include investments with maturities of three months or less when purchased.

Cash and cash equivalents include amounts in demand and interest-bearing bank deposits.

Investments:

For the Pennsylvania Local Government Investment Trust investment, the value is equal to cost/principal amount because that is the value at which the investment can be readily redeemed.

Due from other funds and due to other funds:

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

1. Summary of significant accounting policies (continued):

Inventories:

Inventories in the Food Service Fund consist of government donated commodities, which were valued at fair value, and purchased commodities and supplies, both valued at cost using the first-in, first-out (FIFO) method. Any unused commodities donated by the federal government at June 30, 2018 are reported as unearned revenue.

Capital assets:

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. 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 historical cost is not available, for assets purchased or constructed. Donated capital assets are recorded at acquisition 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.

All reported capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	45
Land improvements	20
Furniture and equipment	5 to 50

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

1. Summary of significant accounting policies (continued):

Long-term obligations:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond discounts (a contra liability), as well as bond insurance costs (an asset), are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts as revenues or expenditures during the current period.

Pension and other postemployment benefits (HIPAP) plan:

For purposes of measuring the net pension liability, net other postemployment benefits (HIPAP), deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits (HIPAP), pension expense and other postemployment benefits (HIPAP) expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS' 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.

Substantially all full-time and part-time employees of the District participate in a cost-sharing multiple-employer defined benefit pension plan through Public School Employee's Retirement System (PSERS or the System). On the governmental fund financial statements, the District recognizes annual pension expenditures or expenses equal to its contractually required contributions. For the fiscal year ended June 30, 2018, the rate of employer contribution was 32.57%. The 32.57% rate is composed of a contribution rate of 31.74% for pension benefits and 0.83% for healthcare insurance premium assistance. The District is required to pay the entire employer contribution rate and is reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income aid ratio (as defined in Act 29 of 1994), which is at least one-half of the total employer rate. Such payments are recorded in the general fund and proprietary funds as state source revenues. In the government-wide financial statements, payments are allocated based on function. The District made all required contributions for the year ended June 30, 2018 and has recognized them as expenditures or expenses.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

1. Summary of significant accounting policies (continued):

Postemployment benefits other than pension (OPEB):

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 OPEB plan and additions to/deductions from the OPEB fiduciary net position have been determined on the same basis as they are reported by the OPEB plan. Benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Compensated absences:

The District's policy for compensated absences allows employees to accumulate an unlimited amount of sick leave. Upon retirement or termination, the employee would be paid a certain amount, according to their contract, for these accumulated sick days. Earned vacation time is generally required to be used within one year of accrual.

Use of estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferrals and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. The estimates for the net pension liability were provided by PSERS and are a significant estimate. Actual results could differ from those estimates.

GASB Statement No. 54:

The District follows Governmental Accounting Standards Board (GASB) Statement No. 54, which defines how fund balances of the governmental funds are presented in the financial statements.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

1. Summary of significant accounting policies (continued):

Fund balance classification:

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: Includes amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted: Includes amounts that can be spent only for specific purposes because of the grantors' or contributors' restrictions, the District Ordinance, the city code, state or federal laws or externally imposed conditions by grantors or creditors. Amounts required to be held for sinking fund requirements of creditors are considered restricted.

Committed: Includes amounts that can be used only for specific purposes determined by a formal action by the District's board (highest level of decision making authority) resolution. These amounts cannot be used for any other purpose unless the District's board removes or changes the specified use by taking the same action (resolution) that was employed when the funds were initially committed.

Assigned: Includes amounts that are designated by the District's board for a specific purpose but are not spendable until a formal action by the District's board or an ordinance is passed. This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted or committed. This intent can be expressed by the District's board or through the District's board delegating this responsibility to the District's management through the budgetary process.

Unassigned: All amounts not included in other spendable classifications and are considered to be available for general use by the District.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

1. Summary of significant accounting policies (continued):

Fund balance classification (continued):

The classifications of the fund balances are included in the governmental funds balance sheet. The District would typically use restricted fund balances first, followed by committed resources and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds. Assigned funds are reduced to the extent that expenditure authority has been budgeted by the District's board or the assignment has been changed by the board. Decreases to fund balance first reduce unassigned fund balance; in the event that unassigned fund balances become zero, then assigned and committed fund balance are used in that order.

Deferred outflows and inflows of resources:

The statement of financial position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources are a separate financial statement element and represent consumption of net position or fund balance that applies to future periods, and thus, will not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources are a separate financial statement element and represent the acquisition of net position or fund balance that applies to future periods and will not be recognized as an inflow of resources (revenue) until a future period. The District has three items that qualify for reporting as a deferred outflow of resources and a deferred inflow of resources in the government-wide financial statements.

The first item relates to the net pension liability, and these deferrals are only reported in the government-wide statement of net position (deficit). Deferred outflows and deferred inflows of resources result from changes in the District's proportionate share of the total pension liability and the pension plan's fiduciary net position; for contributions made to the plan between the measurement date of the net pension liability and the end of the District's fiscal year; for differences between projected and actual experience and for actual pension plan investment earnings in excess of or less than the expected amount included in determining the expense. The deferred outflows related to the contribution are included in pension expense in the next year, whereas other deferrals are attributed to pension expense over a total of five years, including the current year.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

1. Summary of significant accounting policies (continued):

Deferred outflows and inflows of resources (continued):

The second item relates to the net other postemployment benefits and net other postemployment benefits (HIPAP), and these deferrals are only reported in the government-wide statement of net position (deficit). Deferred outflows and deferred inflows of resources related to other postemployment benefits result from changes in the District's actuarially determined liability. Deferred outflows and deferred inflows of resources related to other postemployment benefits (HIPAP) result from changes in the District's proportionate share of the total other postemployment benefits (HIPAP) liability and the other postemployment benefit (HIPAP) plan's fiduciary net position; for contributions made to the plan between the measurement date of the net other postemployment benefits (HIPAP) liability and the end of the District's fiscal year; for differences between projected and actual experience and for actual other postemployment benefits (HIPAP) plan investment earnings in excess of or less than the expected amount included in determining the expense. The deferred outflows related to the contribution are included in other postemployment benefits (HIPAP) expense in the next year, whereas other deferrals are attributed to other postemployment benefits (HIPAP) expense over a total of five to seven years, including the current year.

The third item related to a deferred charge on refunding, results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. In the fund financial statements, governmental fund types recognize the deferred charge on refunding as an expense during the current year.

The governmental funds balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to future periods, and so will not be recognized as an inflow of resources (revenue) until that time. In the governmental funds, the deferred inflow of resources is for revenues that are not considered available. The District will not recognize the related revenues until they are available (collected no later than 60 days after the end of the District's fiscal year) under the modified accrual basis of accounting. Accordingly, the item unavailable revenue is reported only in the governmental funds balance sheet.

Subsequent events:

The District has evaluated subsequent events through January 21, 2019, which is the date the financial statements were available to be issued.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

1. Summary of significant accounting policies (continued):

Adoption of GASB statements:

During the 2018 fiscal year end, the District adopted GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; Statement No. 81, *Irrevocable Split-Interest Agreements*; Statement No. 82, *Pension Issues - an Amendment of GASB Statements No. 67, No. 68 and No. 73*; GASB Statement No. 85, *Omnibus 2017* and GASB Statement No. 86, *Certain Debt Extinguishment Issues*.

Pending GASB statements:

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting for legally enforceable liabilities associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The provisions of GASB Statement No. 83 are effective for the District's June 30, 2019 financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The provisions of GASB Statement No. 84 are effective for the District's June 30, 2020 financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement changes accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of GASB Statement No. 87 are effective for the District's December 31, 2021 financial statements.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

1. Summary of significant accounting policies (continued):

Pending GASB statements (continued):

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions of GASB Statement No. 88 are effective for the District's June 30, 2019 financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The provisions of GASB Statement No. 89 are effective for the District's June 30, 2021 financial statements.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. This Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The provisions of GASB Statement No. 90 are effective for the District's June 30, 2020 financial statements.

The effect of implementation of these statements has not yet been determined.

2. Deposits and investments:

Custodial credit risk, deposits:

Custodial credit risk is the risk that, in the event of a counterparty failure, the District's deposits may not be returned to it. The District does have a policy for custodial credit risk as defined by the Pennsylvania School Code, Section 440.1. The District maintains cash and cash equivalent deposits with a financial institution in excess of the current federally insured limit of \$250,000. Any uninsured accounts exposed to custodial credit risk are collateralized by the pledging bank's trust department in accordance with Act 72.

Section 440.1 of the Public School Code of 1949, as amended, limits the composition of the District's investments, and the District has no formal investment policy that would further limit its investment choices.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

2. Deposits and investments (continued):

Custodial credit risk, deposits (continued):

The reconciliation of deposits to the financial statements is as follows:

Bank accounts, uninsured	\$ 811,427
Insured by the FDIC	<u>251,564</u>
	1,062,991
Less outstanding checks	<u>(62,227)</u>
Total	<u><u>\$ 1,000,764</u></u>

Amounts are shown in the financial statements as follows:

Governmental activities	\$ 814,540
Business-type activities	158,844
Fiduciary fund deposits not included in government-wide statement	<u>27,380</u>
	<u><u>\$ 1,000,764</u></u>

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral security that is in the possession of an outside party.

The District uses external investment pools to ensure safety and maximize efficiency, liquidity and yield for District funds. The external investment pools are valued at amortized cost, which approximates fair value. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium. The fair value of securities, held by the external investment pool, is evaluated on at least a weekly basis using prices supplied from an independent pricing service. These values are compared to the amortized cost.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

2. Deposits and investments (continued):

Custodial credit risk, deposits (continued):

The District has investments with PLGIT. PLGIT (the Fund) was established as a common law trust, organized under laws of the Commonwealth of Pennsylvania. Shares of the Fund are offered to certain Pennsylvania school districts, intermediate units, area vocational-technical schools and municipalities. The purpose of the Fund is to enable such governmental units to pool their available funds for investments authorized by Section 440.1 of the Pennsylvania Public School Code of 1949 as amended. The Fund is governed by elected boards of trustees who are responsible for the overall management of the Fund. The trustees are elected from the several classes of local governments participating in the Fund. Each fund is audited annually by independent auditors. The Fund operates in a manner consistent with the Securities and Exchange Commission’s Rule 2(a)7 of the Investment Company Act of 1940. The Fund uses amortized cost to report net position to compute share prices. The Fund maintains a net asset value of \$1 per share. Accordingly, the fair value of the position in the Fund is the same as the value of the Fund’s shares.

As of June 30, 2018, the District had the following investments:

	<u>Amortized cost</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Investments measured at amortized cost, external investment pool , PLGIT ¹	<u>\$ 68,412</u>	Weekly	5 days

¹ External investment pool: This type includes pooled investments in bank repurchase agreements, certificates of deposit, U.S. treasuries and U.S. government obligations. The fair value of the investments in this type have been determined using amortized cost. Distributions from the fund will be received as the underlying investments of the funds are liquidated, which is expected to occur weekly.

Interest rate risk, credit risk and concentration of credit risk:

The District’s investments follow the Pennsylvania School Code. The District does not have a formal policy to limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, the District does not have a formal policy to limit its investment choices to certain credit ratings, and the District places no limit on the amounts invested in any one issuer.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

3. Real estate taxes:

Based upon assessments provided by the County, the District's tax collectors bill and collect property taxes. The District tax rate for the year ended June 30, 2018 was 26.227 mills (\$26.227 per \$1,000 of assessed valuation) as levied by the District's board of school directors. The schedule for real estate taxes levied for each fiscal year is as follows:

July 1	Levy date
July 1 - August 31	2% discount period
September 1 - October 31	Face payment period
November 1 - December 31	10% penalty period
April 1	Lien date

4. Taxes receivable and unearned revenue, General Fund:

A summary of the taxes receivable and unavailable revenue accounts follows:

	<u>Taxes receivable</u>	<u>Collections received within 60 days recognized as revenue in the General Fund</u>	<u>General Fund unavailable revenue</u>
Real estate	\$ 593,768	\$ 71,154	\$ 522,614
Earned income taxes	125,616	125,616	
Per capita and occupational privilege tax, net of an allowance of \$794,158	218,412	19,873	198,539
Transfer tax	5,930	5,930	
	<u>\$ 943,726</u>	<u>\$ 222,573</u>	<u>\$ 721,153</u>

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

5. Due from other governments:

Amounts due from other governments represent receivables for revenues earned by the District. At June 30, 2018, the following amounts are due from other governmental units:

	<u>General Fund</u>
Federal programs	\$ 163,144
State subsidies:	
Social Security	129,142
Retirement	128,572
Transportation reimbursement	<u>57,138</u>
	<u>\$ 477,996</u>

6. Due to and from other funds:

Interfund receivable and payable balances as of June 30, 2018 are as follows:

	<u>Due from other funds</u>	<u>Due to other funds</u>
General Fund	\$ 326,623	
Food Service Fund		<u>\$ 326,623</u>
Total	<u>\$ 326,623</u>	<u>\$ 326,623</u>

The General Fund's net amount due from the Food Service Fund helped support the Food Service Fund's operations. The net amount due from the Food Service Fund is not expected to be repaid within one year.

STEELTON-HIGHSPIRE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

7. Fund transfers:

Interfund transfers in the governmental funds for the year ended June 30, 2018 are as follows:

	Transfers to other funds	Transfers from other funds
Major funds:		
General Fund	\$ 2,467,634	
Debt service fund		\$ 2,467,634
	\$ 2,467,634	\$ 2,467,634

The General Fund regularly transfers funds to the debt service fund to make principal and interest payments.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

8. Capital assets:

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

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 20,000			\$ 20,000
Construction in progress		\$ 119,850		119,850
Total capital assets not being depreciated	<u>20,000</u>	<u>119,850</u>		<u>139,850</u>
Capital assets being depreciated:				
Land improvements	506,425			506,425
Buildings and building improvements	39,045,873	288,192		39,334,065
Furniture and equipment	<u>1,540,440</u>	<u>23,080</u>		<u>1,563,520</u>
Total capital assets being depreciated	<u>41,092,738</u>	<u>311,272</u>		<u>41,404,010</u>
Less accumulated depreciation for:				
Land improvements	153,127	16,088		169,215
Building and building improvements	14,618,047	1,051,830		15,669,877
Furniture and equipment	<u>1,302,277</u>	<u>87,337</u>		<u>1,389,614</u>
Total accumulated depreciation	<u>16,073,451</u>	<u>1,155,255</u>		<u>17,228,706</u>
Total capital assets being depreciated, net	<u>25,019,287</u>	<u>(843,983)</u>		<u>24,175,304</u>
Governmental activities, capital assets, net	<u>\$ 25,039,287</u>	<u>\$ (724,133)</u>		<u>\$ 24,315,154</u>

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

8. Capital assets (continued):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Capital assets being depreciated, equipment	\$ 493,852			\$ 493,852
Less accumulated depreciation for equipment	<u>411,056</u>	<u>\$ 29,485</u>		<u>440,541</u>
Business-type activities, capital assets, net	<u>\$ 82,796</u>	<u>\$ (29,485)</u>		<u>\$ 53,311</u>

For governmental activities, depreciation expense was charged to functions of the government as follows:

	<u>Instruction</u>	<u>Support services</u>	<u>Noninstructional</u>	<u>Total</u>
Regular instruction	\$ 542,839			\$ 542,839
Special instruction	179,146			179,146
Vocational instruction	7,269			7,269
Other instructional programs	24,791			24,791
Pre K	44,734			44,734
Pupil personnel		\$ 68,192		68,192
Instructional staff		7,852		7,852
Administration		132,869		132,869
Pupil health		12,422		12,422
Business services		35,689		35,689
Operation and maintenance of plant services		56,068		56,068
Other support services		25,839		25,839
Student activities			\$ 15,103	15,103
Community services			2,442	2,442
	<u>\$ 798,779</u>	<u>\$ 338,931</u>	<u>\$ 17,545</u>	<u>\$ 1,155,255</u>

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

9. Long-term debt:

Summary of general obligation bonds, notes and lease payable (secured by the full faith and credit of the District):

Year	Amount	Interest rates	Maturity date	Annual principal installments ranging from
2006 General Obligation Note	\$ 10,975,000	Variable*	2028	\$540,000-\$1,290,000
2007 General Obligation Note	1,935,000	Variable*	2028	\$35,000-\$240,000,
2012 General Obligation Bond	3,370,000	1%-3.625%	2030	\$20,000-\$395,000
2013 General Obligation Bond	1,460,000	.7%-2.625%	2023	\$275,000-\$305,000
2017 General Obligation Bond	3,720,000	2%-3.375%	2029	\$40,000-\$1,740,000
M&T Bank lease payable	900,000	4.129%	2022	\$205,000-\$240,000
Mid Penn Bank Term Loan	5,847	5.50%	2019	\$5,847 in 2019
	<u>\$ 22,365,847</u>			

* See Note 10.

STEELTON-HIGHSPIRE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

9. Long-term debt (continued):

The following is a summary of debt transactions of the District for the year ended June 30, 2018:

Bonds, notes and lease payable at July 1, 2018	\$ 25,588,247
Debt paid:	
2003A QZAB bond	(2,025,000)
Series of 2006, note	(540,000)
Series of 2007, note	(35,000)
Series of 2012, bond	(20,000)
Series of 2013, bond	(275,000)
Series of 2017, bond	(80,000)
Lease payable	(205,000)
Term loan	<u>(42,400)</u>
Bonds, notes and lease payable at June 30, 2018	22,365,847
Current portion of bonds, notes and lease payable	(1,575,847)
Bond discount	<u>(114,327)</u>
Long-term portion of bonds, notes and lease payable	<u><u>\$ 20,675,673</u></u>

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

9. Long-term debt (continued):

The debt service requirements of the general obligation bonds, notes and lease payable, are listed below.

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,575,847	\$ 32,771	\$ 1,608,618
2020	1,660,000	1,104,297	2,764,297
2021	1,760,000	1,010,575	2,770,575
2022	1,860,000	909,599	2,769,599
2023	1,970,000	801,148	2,771,148
2024-2028	9,945,000	2,347,466	12,292,466
2029-2030	<u>3,595,000</u>	<u>150,003</u>	<u>3,745,003</u>
	<u>\$ 22,365,847</u>	<u>\$ 6,355,859</u>	<u>\$ 28,721,706</u>

Expenditures in the fund financial statements for interest on long-term debt for the year ended June 30, 2018 were \$1,210,823 and were primarily provided from General Fund transfers.

10. Derivatives:

In April 2007, the District entered into an uncollateralized interest rate swap agreement for its General Obligation Note, Series of 2005 (there was a partial termination of the interest swap agreement during 2011 as a result of a bond refunding); its General Obligation Note, Series of 2006 and its General Obligation Note, Series of 2007 with one counterparty. The interest rate swap was effective on July 1, 2008 and will mature on February 1, 2028.

Under this agreement, the District will pay to the swap counterparty a fixed rate of interest of 4.15% on a notional amount of the outstanding debt. The swap counterparty would pay interest on the same notional amount based on the USD-SIFMA Municipal Swap Index. Only the net difference would be exchanged with the counterparty. The District is exposed to credit risk in the event that the counterparty fails to perform under the agreement. The District is exposed to interest rate risk on its swap agreement. The District's net payments increase as London Interbank Offered Rate (LIBOR) or the SIFMA swap index decreases. The District is also exposed to basis risk because the variable rate payments received on these derivative instruments are based on a rate or index other than interest rates the District pays on its general obligation notes.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

10. Derivatives (continued):

At June 30, 2018, the following is a schedule of the derivative investment for the interest rate swaps that are a part of the governmental activities of the District:

	<u>Outstanding notional amount</u>	<u>Fair value</u>	<u>Change in fair value</u>	<u>Counterparty credit rating</u>
Interest rate swap	\$ 12,910,000	\$ 1,511,452	\$ 647,201	Moody's A1

As of June 30, 2010, the interest rate swap did not meet the criteria for hedge effectiveness and, thus, is considered to be an investment derivative instrument.

Fair value for the interest rate swap was estimated using mid-market levels derived from proprietary models based upon well recognized financial principles and reasonable estimates about relevant future market conditions. These valuations do not necessarily represent actual terms at which new transactions could be entered into or the actual terms at which existing transactions could be liquidated.

The interest rate swap may be terminated at any time if certain events occur, as defined. Since the derivative instrument is in a liability position, if the derivative instrument was terminated, the District would be liable for a payment that approximates the liability.

11. Fair value measurements:

Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs and Level 3 inputs are significant unobservable inputs. Fair value measurements are as follows at June 30, 2018:

<u>Description</u>	<u>Total</u>	<u>(Level 2)</u>
Interest rate swap	\$ 1,511,452	\$ 1,511,452
Donated commodities	5,514	5,514

See Note 1 and Note 10 for a further description of how the fair value measurements were derived.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

12. Defined benefit pension plan:

Plan description:

The District contributes to a governmental cost-sharing multiple-employer defined benefit pension plan administered by Pennsylvania Public School Employees' Retirement System (PSERS or System). 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:

Benefits are provided by PSERS by statute; therefore, financial statement amounts are affected by PSERS activity. The District's reported amounts will vary over time depending on the pension results of PSERS.

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

To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than 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 Retirement Code (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 members' 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.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

12. Defined benefit pension plan (continued):

Benefits provided (continued):

Participants are eligible for disability retirement benefits after completing 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 (10 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.

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 members' 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 July 1, 2002.

Members who joined the System after June 30, 2011 automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011 who elect Class T-F membership contribute at 10.3% (base rate) of the member's qualifying compensation. 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 the Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

12. Defined benefit pension plan (continued):

Employer contributions:

The District's contractually required contribution rate for the 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 \$2,374,000 for the year ended June 30, 2018.

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions:

The District's net pension liability, deferred outflows of resources and deferred inflows of resources related to pension and pension expense information about the fiduciary net position of the PSERS and additions to/deductions from PSERS' 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.

At June 30, 2018, the District reported a liability of \$27,164,000 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. There were no events during the period June 30, 2017 to June 30, 2018 that affect the measurement of the net pension results. 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, 2017, the District's proportion was .0550%, which was an increase of .0035% from its proportion measured as of June 30, 2016.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

12. Defined benefit pension plan (continued):

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

For the year ended June 30, 2018, the District recognized pension expense of \$2,338,000. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Change in assumptions	\$ 739,000	
Net difference between projected and actual investment earnings	628,000	
Change in proportion	101,000	
Difference between expected and actual experience	120,000	
Net difference between District actual contributions and the calculated portion determined by PSERS	59,000	
District contributions subsequent to the measurement date	<u>2,374,000</u>	
	<u>\$ 4,021,000</u>	

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

12. Defined benefit pension plan (continued):

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

For the year ended June 30, 2018, \$2,374,000 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 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 <u>June 30,</u>	
2019	\$ (97,000)
2020	647,000
2021	867,000
2022	230,000

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

12. Defined benefit pension plan (continued):

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

Actuarial assumptions:

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

Actuarial cost method:	Entry age normal - level percentage of pay
Investment return:	7.25%, includes inflation of 2.75%
Salary increases:	Effective average of 5.00%, which reflects an allowance for inflation of 2.75%, real wage growth and merit or seniority increases of 2.25%
Mortality rates:	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.
Assumptions:	PSERS' Board approved new actuarial assumptions effective for the June 30, 2016 actuarial valuation. The new assumptions were used to calculate the net pension liability at June 30, 2016 and are reflected above.

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

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS' 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 plan.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

12. Defined benefit pension plan (continued):

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

The PSERS' board adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017 are as follows:

<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
Master limited partnerships/infrastructure	8.0	4.8
Real estate	10.0	3.6
Alternative investments	15.0	6.2
Cash	3.0	0.6
Financing (LIBOR)	<u>(20.0)</u>	1.1
	<u>100.0 %</u>	

Discount rate:

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

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

12. Defined benefit pension plan (continued):

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

Sensitivity of the District's proportionate share:

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 one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current discount rate 7.25%	1% Increase 8.25%
	<u> </u>	<u> </u>	<u> </u>
District's proportionate share of the net pension liability	\$ 33,436,000	\$ 27,164,000	\$ 21,868,000

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 PSERS' website at www.psers.state.pa.us.

13. Other postemployment benefits:

Plan description:

The District offers postemployment health and dental insurance benefits to employees upon their retirement with the same plan provisions provided to active employees. Coverage ceases upon Medicare eligibility for members and spouses. The following is a breakdown of eligibility requirements and coverage by group:

Former Superintendent

The District pays the full cost of coverage for the member, which includes health, dental and vision. Spouses may elect coverage as well, but are required to pay the full premium.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

13. Other postemployment benefits (continued):

Plan description (continued):

Teachers

For teachers who retired prior to June 1, 2017 that have reached retirement with 30 years of PSERS service or upon superannuation retirement, the member may elect coverage by contributing 12% of the premiums. Spouses may elect coverage as well, but are required to pay the full premium.

For teachers who retire after June 1, 2017, employees are eligible for health and dental upon retirement with 30 years of PSERS service or upon superannuation retirement. If the member retires through PSERS, he/she may elect to receive \$8,000 annually from the District to be used as reimbursement for coverage elected in the open market. If the member does not elect to receive the \$8,000 towards the open market, the member and spouse may instead continue medical and dental through the District by paying the full premium as determined for the purpose of COBRA.

All Others

For all other employees who retired prior to June 1, 2017 that have reached retirement with 30 years of PSERS service or upon superannuation retirement, the member may elect coverage by contributing 12% of the premiums. Spouses may elect coverage as well, but are required to pay the full premium.

For all other employees who retire after June 1, 2017, employees are eligible for health and dental upon retirement with 30 years of PSERS service or upon superannuation retirement. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purpose of COBRA.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

13. Other postemployment benefits (continued):

Employees covered by benefit terms:

At July 1, 2016, the following employees were covered by benefit terms:

	<u>Non-Prof. Union</u>	<u>Non-Prof. Nonunion</u>	<u>Teachers</u>	<u>Administrators</u>	<u>Total</u>
Inactive employees or beneficiaries currently receiving benefits	1		9	3	13
Active employees	<u>21</u>	<u>11</u>	<u>92</u>	<u>18</u>	<u>142</u>
Total	<u><u>22</u></u>	<u><u>11</u></u>	<u><u>101</u></u>	<u><u>21</u></u>	<u><u>155</u></u>

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

13. Other postemployment benefits (continued):

Total OPEB liability and actuarial assumptions:

The District's total OPEB liability of \$1,409,572 was measured as of June 30, 2017 and was determined by rolling forward the July 1, 2016 actuarial valuation to June 30, 2017 using the following actuarial assumptions and other inputs, applies to all periods included in the measurement, unless otherwise specified:

Discount rate:	3.13% based on S&P Municipal Bond 20-Year High Grade Rate Index at July 1, 2017
Salary increases:	2.50% cost of living adjustment, 1% real wage growth and merit increases which varies by age from 2.75% to 0%
Healthcare cost trend rates:	6.5% in 2016, 6.0% in 2017 and 5.5% in 2018 through 2020. Rates gradually decrease from 5.4% in 2021 to 3.8% in 2075 and later based on Society of Actuaries Long-Run Medical Cost Trend Model.
Retirees' share of benefit related costs:	Retiree contributions are assumed to increase at the same rate as the healthcare cost trend rate
Mortality rates:	Separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

13. Other postemployment benefits (continued):

Changes in the total OPEB Liability:

Balance at June 30, 2016	<u>\$ 1,387,256</u>
Changes for the year:	
Service cost	75,718
Interest	34,967
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	19,959
Benefit payments	(108,328)
Other changes	<u>-</u>
Net changes	<u>22,316</u>
Balance at June 30, 2017	<u><u>\$ 1,409,572</u></u>

Changes in assumptions reflect a change in the discount rate from 2.49% in 2016 to 3.13% in 2017. The trend assumptions for salary, mortality, withdrawal and retirement were updated based on the new PSERS' assumptions.

Sensitivity of total OPEB liability to changes in the discount rate:

The following presents the net OPEB liability of the plan, as well as what the plan's total OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	<u>1% Decrease</u>	<u>Current discount rate</u>	<u>1% Increase</u>
	2.13%	3.13%	4.13%
District's total OPEB liability	\$ 1,508,611	\$ 1,409,572	\$ 1,316,356

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

13. Other postemployment benefits (continued):

Sensitivity of total OPEB liability to changes in the health cost trend rate:

The following presents the total OPEB liability of the plan, as well as what the plan's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower or 1% higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current trend rates</u>	<u>1% Increase</u>
District's total OPEB liability	\$ 1,296,325	\$ 1,409,572	\$ 1,544,486

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB:

For the year ended June 30, 2018, the District recognized OPEB expense of \$111,932. 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>
Change in assumptions	\$ 18,712	
District contributions subsequent to the measurement date	<u>93,603</u>	
	<u>\$ 112,315</u>	

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

13. Other postemployment benefits (continued):

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB (continued):

For the year ended June 30, 2018, \$93,603 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 total 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:

<u>Year ended June 30,</u>	
2019	\$ 1,247
2020	1,247
2021	1,247
2022	1,247
2023	1,247
thereafter	12,477

Health Insurance Premium Assistance Program (HIPAP):

For purposes of measuring the net HIPAP liability, deferred outflows of resources and deferred inflows of resources related to HIPAP, and HIPAP expense, information about the fiduciary net position of 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.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

13. Other postemployment benefits (continued):

Health Insurance Premium Assistance Program (HIPAP) (continued):

PSERS provides Premium Assistance which is a governmental cost-sharing, multiple-employer HIPAP plan 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 (HOP). As of June 30, 2017, there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance eligibility criteria:

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

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

Employer contributions:

The District's contractually required contribution rate for the fiscal year ended June 30, 2018 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 \$65,000 for the year ended June 30, 2018.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

13. Other postemployment benefits (continued):

HIPAP liabilities, HIPAP expense and deferred outflows of resources and deferred inflows of resources related to HIPAP:

At June 30, 2018, the District reported a liability of \$1,121,000 for its proportionate share of the net HIPAP liability. The net HIPAP liability was measured as of June 30, 2017, and the total HIPAP liability used to calculate the net HIPAP liability was determined by rolling forward the System's total HIPAP liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net HIPAP 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, 2017, the District's proportion was .0550%, which was an increase of .0035% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School recognized HIPAP expense of \$59,000. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to HIPAP from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Change in assumptions		\$ 52,000
Net difference between projected and actual investment earnings	\$ 1,000	
Change in proportion	65,000	
District contributions subsequent to the measurement date	<u>65,000</u>	
	<u>\$ 131,000</u>	<u>\$ 52,000</u>

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

13. Other postemployment benefits (continued):

HIPAP liabilities, HIPAP expense and deferred outflows of resources and deferred inflows of resources related to HIPAP (continued):

Deferred outflows of resources related to HIPAP of \$65,000 were reported as resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net HIPAP liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to HIPAP will be recognized in HIPAP expense as follows:

Year ended <u>June 30,</u>	
2019	\$ 3,000
2020	2,000
2021	2,000
2022	2,000
2023	2,000
thereafter	3,000

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

13. Other postemployment benefits (continued):

HIPAP liabilities, HIPAP expense and deferred outflows of resources and deferred inflows of resources related to HIPAP (continued):

Actuarial assumptions:

The total HIPAP liability as of June 30, 2017, was determined by rolling forward PSERS' total HIPAP 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 percentage of pay
Investment return:	3.13% - S&P 20-Year Municipal Bond Rate.
Salary increase:	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:	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%.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

13. Other postemployment benefits (continued):

HIPAP liabilities, HIPAP expense and deferred outflows of resources and deferred inflows of resources related to HIPAP (continued):

Actuarial assumptions (continued):

The following assumptions were used to determine the contribution rate:

Cost method:	Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
Asset valuation method:	Market value.
Salary increase:	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:	63% of eligible retirees are assumed to elect premium assistance.
Mortality rates:	Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back three year 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 seven years for males and three years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back three 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 HIPAP plan investments was determined using the HIPAP asset allocation policy and best estimates of geometric real rates of return for each asset class.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

13. Other postemployment benefits (continued):

HIPAP liabilities, HIPAP expense, and deferred outflows of resources and deferred inflows of resources related to HIPAP (continued):

Actuarial assumptions (continued):

The HIPAP 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>HIPAP - Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Cash	76.4 %	0.6 %
Fixed income	<u>23.6</u>	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 HIPAP liability was 3.13%. Under the plan’s funding policy, contributions are structured for short-term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the HIPAP 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 HIPAP liability.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

13. Other postemployment benefits (continued):

HIPAP liabilities, HIPAP expense and deferred outflows of resources and deferred inflows of resources related to HIPAP (continued):

Sensitivity of the District's proportionate share of the net HIPAP liability to changes in healthcare cost trend rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2017, retirees' Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2016, 91,797 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2016, 1,354 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving 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 District's proportionate share of the net HIPAP liability for June 30, 2017, calculated using current healthcare cost trends, as well as what the net HIPAP liability would be if it health cost trends were one-percentage point lower or one-percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current trend rates</u>	<u>1% Increase</u>
District's proportionate share of the net HIPAP liability	\$ 1,120,000	\$ 1,121,000	\$ 1,121,000

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

13. Other postemployment benefits (continued):

HIPAP liabilities, HIPAP expense and deferred outflows of resources and deferred inflows of resources related to HIPAP (continued):

Sensitivity of the District's proportionate share of the net HIPAP liability to changes in the discount rate (continued)

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

	<u>1% Decrease 2.13%</u>	<u>Current discount rate 3.13%</u>	<u>1% Increase 4.13%</u>
District's proportionate share of the net HIPAP liability	\$ 1,274,000	\$ 1,121,000	\$ 993,000

HIPAP 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.

14. Joint venture:

The Harrisburg Area Community College (HACC) provides two years of undergraduate education to students. Students residing in participating districts are required to only pay a third of tuition costs, with the District paying a third and the Commonwealth paying a third. For the year ended June 30, 2018, the District paid HACC a total of \$71,849. Complete financial statements for HACC can be obtained from its administrative office.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

15. Risk management:

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters for which the District generally attempts to mitigate losses through purchasing commercial insurance.

On July 1, 2012, the District entered into a Public School Health Insurance Cooperative Agreement (PSHIC) with other school districts in the insurance cooperative. The plan is designed to use a modified self-funding approach, which would have a defined maximum liability but retain savings for low claim years. The PSHIC receives, processes and pays medical claims as may come due within the benefit program of each member district. Management consists of a board of directors comprised of one appointed representative from each member district. Each member pays premiums, claim costs, claims administration costs, fees and all reasonable and necessary expenses due and payable to the cooperative for insurance services provided to each member. A 5% fee can be assessed to a member district that is late in paying the monthly contribution to PSHIC in addition to an 18% interest rate per annum. The District incurred \$2,101,445 to PSHIC during the 2017-2018 school year.

16. Fund balance deficits:

The General Fund, including the athletic fund, and proprietary fund have fund balance deficits of \$(2,124,772) and \$(122,367), respectively, as of June 30, 2018. The proprietary fund recognized a net change in fund balance of \$48,281; \$(49,582) and \$140,275 during each of the past three fiscal years. The General Fund, excluding the athletic fund, recognized the following net change in fund balance during each of the prior five fiscal years:

<u>Fiscal year ending June 30,</u>	<u>Revenues</u>	<u>Expenditures and other financing uses</u>	<u>Net change in fund balance</u>	<u>General Fund fund balance</u>	<u>Athletic fund fund balance</u>	<u>Total combined general fund fund balance</u>
2013	\$ 18,558,466	\$ 17,680,784	\$ 877,682	\$ (1,802,718)	\$ 696	\$ (1,802,022)
2014	18,866,441	19,359,570	(493,129)	(2,295,847)	(8,706)	(2,304,553)
2015	19,661,897	18,646,929	1,014,968	(1,280,879)	446	(1,280,433)
2016	20,336,291	20,422,381	(86,090)	(1,366,969)	1,047	(1,365,922)
2017	21,076,796	21,051,389	25,407	(1,341,562)	633	(1,340,929)

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

16. Fund balance deficits (continued):

A significant factor impacting the deterioration of the District's General Fund fund balance was overestimating budgeted revenues in 2013, 2014 and 2017. The following table details budgeted and actual revenues for the General Fund, excluding the athletic fund:

<u>Year ending</u>	<u>Budgeted revenues</u>	<u>Actual revenues</u>	<u>Budget variance</u>
2013	\$ 19,268,871	\$ 18,558,466	\$ (710,405)
2014	18,963,986	18,866,441	(97,545)
2015	18,796,733	19,661,897	865,164
2016	20,102,916	20,336,291	233,375
2017	21,189,637	21,076,796	(112,841)

The District evaluated a number of strategies in order to reduce the fund balance deficit. The District plans to restrict expenditures for the 2018-2019 school year. The District's vendor contracts for goods and services are reviewed annually by the District's solicitor and continue to be evaluated to ensure the best pricing models occur for the 2018-2019 school year.

17. Continuing financial difficulties:

On March 15, 2013, the District was placed on the Pennsylvania Department of Education's (PDE) Financial Watch Status as a result of poor financial performance and other ratios that indicate that the District is struggling to maintain fiscal stability. The District remains under Financial Watch Status. While the District's modified accrual basis financial position has improved since March 15, 2013, the District continues to work closely with PDE's technical services to monitor cash flow and budget.

The District may be forced to eliminate certain educational services and decrease its professional staff in order to correct its poor financial situation. The likelihood that the District will have to curtail its educational offerings is increased by the fact that it has an unstable local tax base, as evidenced by its high rate of delinquent tax payments.

The District administration continues to work in partnership with PDE to address their financial concerns. PDE also indicated a willingness to assist the District to eliminate the deficit associated with the culmination of unpaid vendor invoices. PDE provided \$650,000 of additional Federal IDEA Special Education funding and \$1,000,000 of empowerment funds in the 2017-2018 school year to assist the District with the unpaid expenses.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

18. Commitment:

The District signed a contract with NRG Building Services, Inc. in June 2017 to upgrade the District's security system. This project is estimated to occur over a three-year period at a cost of approximately \$360,000. The project started during the 2017/2018 school year and as of June 30, 2018, there was \$119,850 of expense incurred and paid.

19. Adoption of new accounting principle:

Effective July 1, 2017, the School adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The new standard revises and establishes new financial reporting requirements for other postemployment benefits provided for employees. The following is the adjustment to net position for governmental activities:

	<u>Governmental activities</u>
Beginning net position (deficit), as previously reported at June 30, 2017	<u>\$ (26,016,761)</u>
Prior period adjustment, implementation of GASB 75, net other postemployment benefit liability (measurement date)	(561,228)
Deferred outflows, net other postemployment benefit liability, District's contribution made during fiscal year 2017	108,328
Prior period adjustment, implementation of GASB 75, net other postemployment benefit liability (HIPAP) (measurement date)	(1,109,000)
Deferred outflows, net other postemployment benefit liability (HIPAP), District's contribution made during fiscal year 2017	<u>61,000</u>
Total prior period adjustment	<u>(1,500,900)</u>
Net position (deficit) as restated, July 1, 2017	<u><u>\$ (27,517,661)</u></u>

STEELTON-HIGHSPIRE SCHOOL DISTRICT

SCHEDULES OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(Required Supplementary Information)
(unaudited)

FOR THE VALUATION YEARS ENDED JUNE 30

	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.0550%	0.0515%	0.0510%
District's proportionate share of the net pension liability	\$ 27,164,000	\$ 25,522,000	\$ 22,090,000
District's covered payroll	\$ 7,318,916	\$ 6,669,820	\$ 7,117,457
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	371.15%	382.65%	310.36%
Plan fiduciary net position as a percentage of the total pension liability	51.84%	50.14%	54.36%

STEELTON-HIGHSPIRE SCHOOL DISTRICT

SCHEDULES OF DISTRICT'S PENSION CONTRIBUTIONS
(Required Supplementary Information)
(unaudited)

FOR THE VALUATION YEARS ENDED JUNE 30

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 2,104,000	\$ 1,638,000	\$ 1,317,000
Contributions in relation to the contractually required contribution	<u>2,104,000</u>	<u>1,615,000</u>	<u>1,318,000</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ 23,000</u>	<u>\$ (1,000)</u>
District's covered payroll	\$ 7,318,916	\$ 6,669,820	\$ 7,117,457
Contributions as a percentage of covered- employee payroll	28.75%	24.21%	18.52%

STEELTON-HIGHSPIRE SCHOOL DISTRICT

SCHEDULE OF CHANGES IN THE DISTRICT'S
TOTAL OPEB LIABILITY AND RELATED RATIOS
(Required Supplementary Information)
(unaudited)

FOR THE VALUATION YEAR ENDED JUNE 30

	<u>2017</u>
Total other postemployment benefit (OPEB) liability:	
Service cost	\$ 75,718
Interest	34,967
Changes in assumptions	19,959
Benefit payments	<u>(108,328)</u>
Net changes in total OPEB liability	22,316
Total OPEB liability, beginning	<u>1,387,256</u>
Total OPEB liability, ending	<u>\$ 1,409,572</u>
Covered-employee payroll	\$ 7,099,748
Total OPEB liability as a percentage of covered-employee payroll	19.85%

Note to Schedule:

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

STEELTON-HIGHSPIRE SCHOOL DISTRICT

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE
NET OPEB (HIPAP) LIABILITY
(Required supplementary information)
(unaudited)

FOR THE VALUATION YEAR ENDED JUNE 30

	<u>2017</u>
District's proportion of the net pension liability	0.0550%
District's proportionate share of the net pension liability	\$ 1,121,000
District's covered payroll	\$ 7,318,916
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	15.32%
Plan fiduciary net position as a percentage of the total pension liability	5.73%

STEELTON-HIGHSPIRE SCHOOL DISTRICT

SCHEDULE OF DISTRICT'S OPEB (HIPAP) CONTRIBUTIONS
(Required supplementary information)
(unaudited)

FOR THE VALUATION YEAR ENDED JUNE 30

	<u>2017</u>
Contractually required contribution	\$ 61,000
Contributions in relation to the contractually required contribution	<u>61,000</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
District's covered payroll	\$ 7,318,916
Contributions as a percentage of covered- employee payroll	0.83%

STEELTON-HIGHSPIRE SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE –
 BUDGET AND ACTUAL – GENERAL FUND
 (Required supplementary information)
 (unaudited)

YEAR ENDED JUNE 30, 2018

	Budgeted amounts		Actual budgetary activities	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Local sources:				
Real estate taxes and penalties	\$ 4,998,921	\$ 4,728,359	\$ 4,699,754	\$ (28,605)
Other taxes and penalties	1,414,935	1,685,498	1,086,019	(599,479)
Investment income	10,242	10,242	158,295	148,053
Rent	32,912	32,912	34,363	1,451
Revenues from intermediate sources	1,354,589	1,354,589	982,353	(372,236)
Other revenue	116,837	116,837	44,749	(72,088)
Total local sources	7,928,436	7,928,437	7,005,533	(922,904)
State sources	13,366,827	13,366,827	14,427,335	1,060,508
Federal sources	954,076	954,076	1,110,583	156,507
Refund of prior year expenditures			419	419
Total revenues	22,249,339	22,249,340	22,543,870	294,530
Expenditures:				
Instruction:				
Regular programs	8,018,275	7,773,346	7,891,583	(118,237)
Special programs	3,954,508	3,953,507	4,799,753	(846,246)
Vocational programs	553,611	553,611	450,321	103,290
Other instructional programs	483,421	496,637	288,172	208,465
Adult education programs			30,354	(30,354)
Community/junior college programs	66,180	66,180	71,849	(5,669)
Pre-k		356,324	498,373	(142,049)
	13,075,995	13,199,605	14,030,405	(830,800)

(continued)

STEELTON-HIGHSPIRE SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE –
 BUDGET AND ACTUAL – GENERAL FUND (CONTINUED)
 (Required supplementary information)
 (unaudited)

YEAR ENDED JUNE 30, 2018

	Budgeted amounts		Actual budgetary activities	Variance with final budget positive (negative)
	Original	Final		
Expenditures (continued):				
Support services:				
Pupil personnel services	\$ 620,612	\$ 675,797	\$ 807,426	\$ (131,629)
Instructional staff services	168,657	284,639	253,895	30,744
Administrative services	1,506,233	1,506,234	1,568,463	(62,229)
Pupil health	163,608	165,607	174,758	(9,151)
Business services	598,056	844,237	628,563	215,674
Operation and maintenance of plant services	1,699,097	1,699,098	1,983,790	(284,692)
Student transportation services	638,727	638,726	447,351	191,375
Planning			1,100	(1,100)
Other support services	607,586	825,085	738,311	86,774
	<u>6,002,576</u>	<u>6,639,423</u>	<u>6,603,657</u>	<u>35,766</u>
Operation of noninstructional services:				
Student activities	356,918	356,919	159,785	197,134
Community services			23,076	(23,076)
	<u>356,918</u>	<u>356,919</u>	<u>182,861</u>	<u>174,058</u>
Debt service			43,180	(43,180)
Total expenditures	<u>19,435,489</u>	<u>20,195,947</u>	<u>20,860,103</u>	<u>(664,156)</u>
Excess of revenues over expenditures	<u>2,813,850</u>	<u>2,053,393</u>	<u>1,683,767</u>	<u>(369,626)</u>

(continued)

STEELTON-HIGHSPIRE SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE –
 BUDGET AND ACTUAL – GENERAL FUND (CONTINUED)
 (Required supplementary information)
 (unaudited)

YEAR ENDED JUNE 30, 2018

	Budgeted amounts		Actual budgetary activities	Variance with final budget positive (negative)
	Original	Final		
Other financing uses (sources):				
Debt service transfers	\$ 2,512,922	\$ 2,053,393	\$ 2,517,634	\$ (464,241)
Other		(58,193)	(13)	(58,180)
	<u>2,512,922</u>	<u>1,995,200</u>	<u>2,517,621</u>	<u>(522,421)</u>
Total other financing uses (sources)				
Net change in fund balance	<u>\$ 300,928</u>	<u>\$ 58,193</u>	(833,854)	<u>\$ (892,047)</u>
Fund balance (deficit), July 1, 2017			<u>(1,341,562)</u>	
Fund balance (deficit), June 30, 2018			<u>\$ (2,175,416)</u>	

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND (CONTINUED) (unaudited)

YEAR ENDED JUNE 30, 2018

Budgetary data:

Steelton-Highspire School District follows the following procedures in establishing the budgetary data:

1. Prior to May 31, management submits to the District's board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the General Fund.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to June 30, the procedures require the budget to be legally enacted.
4. Legal budgetary control is maintained by the District's board at the departmental level. Transfers between departments, whether between funds or within a fund or revisions that alters the total revenues and expenditures of any fund, must be approved by the District's board. Budgetary information is presented at or below the legal level of budgetary control. It also includes the effects of approved budget amendments.
5. Budgetary data is included in the District's management information system and is employed as a management control device during the year.
6. Unused appropriations lapse at the end of each fiscal year; however, the District increases the subsequent year's appropriation by an amount equal to outstanding encumbrances and reserves a portion of the fund balance in a like amount. There were no outstanding encumbrances at June 30, 2018.
7. The budget for the General Fund is adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles for fund accounting, except that a budgetary reserve is provided.

Excess of expenditures over budget:

For the year ended June 30, 2018, expenditures exceeded budget in the General Fund. These over expenditures were primarily caused by greater than anticipated costs for special education and charter schools.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

NOTES TO THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
– BUDGET AND ACTUAL – GENERAL FUND (CONTINUED)
(unaudited)

YEAR ENDED JUNE 30, 2018

Explanation of General Fund differences between generally accepted accounting principles basis and budgetary basis:

	<u>General Fund</u>
Revenues:	
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedule	\$ 22,543,870
Reclassifications, athletic fund revenue not included in General Fund budgetary approval	<u>73,254</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - General Fund	<u><u>\$ 22,617,124</u></u>
Expenditures:	
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedule	\$ 20,860,103
Reclassifications, athletic fund expenditures not included in General Fund budgetary approval	<u>73,243</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - General Fund	<u><u>\$ 20,933,346</u></u>

Eliminations in the financial statement presentation include a \$50,000 transfer from the General Fund to the athletic fund.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2018

Federal grantor/ pass-through grantor/program title	Source code	Federal CFDA number	Pass-through grantor's number	Grant period beginning/ ending date	Program or award amount	Total received for the year	Accrued (unearned) revenue at July 1, 2017	Revenue recognized	Expenditures	Accrued (unearned) revenue at June 30, 2018	Amounts paid to subrecipients
<u>U.S. Department of Education:</u>											
Passed through the Pennsylvania Department of Education:											
Program Improvement Grants to LEAs:	I	84.010	042-170420	7/20/17-9/30/18	\$ 151,260	\$ 141,176		\$ 151,260	\$ 151,260	\$ 10,084	\$ -
	I	84.010	042-160420	4/29/16-9/30/17	139,664	7,759	\$ 7,482	277	277		
Title I, Part A:	I	84.010	013-180420	9/14/17-9/30/18	773,799	553,787		703,591	703,591	149,804	
	I	84.010	013-170420	8/31/16-9/30/17	693,637	349,350	199,276	150,074	150,074		
Total Title I						1,052,072	206,758	1,005,202	1,005,202	159,888	-
Title II-A, Improving Teacher Quality:	I	84.367	020-180420	9/14/17-9/30/18	92,045	65,630		58,794	58,794	(6,836)	
	I	84.367	020-170420	9/8/16-9/30/17	49,795	(504)	(504)				
Total Title II						65,126	(504)	58,794	58,794	(6,836)	-
Title IV, Part A - Student Support and Academic Enrichment Grant	I	84.424	144-180420	9/14/17-9/30/18	18,074	13,903		13,995	13,995	92	
						1,131,101	206,254	1,077,991	1,077,991	153,144	-

(continued)

STEELTON-HIGHSPIRE SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2018

Federal grantor/ pass-through grantor/program title	Source code	Federal CFDA number	Pass-through grantor's number	Grant period beginning/ ending date	Program or award amount	Total received for the year	Accrued (unearned) revenue at July 1, 2017	Revenue recognized	Expenditures	Accrued (unearned) revenue at June 30, 2018	Amounts paid to subrecipients
Special Education Cluster (IDEA):											
Passed through the Capital Area Intermediate Unit:											
Individuals with Disabilities Education Act, Special Education-Grants to States, Part B.	I	84.027	H027A180093	7/1/17-6/30/18	\$ 297,123	\$ 297,123	\$ -	\$ 297,123	\$ 297,123	\$ -	\$ -
Individuals with Disabilities Education Act, Part B, Section 619.	I	84.173	N/A	7/1/17-6/30/18	552	552		552	552		
Total passed through the Capital Area Intermediate Unit						297,675	-	297,675	297,675	-	-
Passed through the Lancaster-Lebanon Intermediate Unit:											
Individuals with Disabilities Education Act, Part B, Section 611:	I	84.027A	H027A180093	7/1/17-6/30/18	600,000	600,000		600,000	600,000		
Individuals with Disabilities Education Act, Special Education-Grants to States, Part B	I	84.027A	H027A150093	7/1/16-9/30/17	750,000	324,976	266,134	58,842	58,842		
Individuals with Disabilities Education Act, Special Education-Grants to States, Part B	I	84.027	062-18-0-033	7/1/17-6/30/18	10,000			10,000	10,000	10,000	
Total passed through the Lancaster-Lebanon Intermediate Unit						924,976	266,134	668,842	668,842	10,000	-
Total Special Education Cluster (IDEA)						1,222,651	266,134	966,517	966,517	10,000	-
Total U.S. Department of Education						2,353,752	472,388	2,044,508	2,044,508	163,144	-

(continued)

STEELTON-HIGHSPIRE SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2018

Federal grantor/ pass-through grantor/program title	Source code	Federal CFDA number	Pass-through grantor's number	Grant period beginning/ ending date	Program or award amount	Total received for the year	Accrued (unearned) revenue at July 1, 2017	Revenue recognized	Expenditures	Accrued (unearned) revenue at June 30, 2018	Amounts paid to subrecipients
<u>U.S. Department of Agriculture:</u>											
Child Nutrition Cluster:											
Passed through the Pennsylvania Department of Education:											
National School Lunch Program:	I	10.555	N/A	7/1/17-6/30/18	N/A	\$ 619,361		\$ 619,361	\$ 619,361	\$ -	\$ -
	I	10.555	N/A	7/1/16-6/30/17	N/A	78,427	\$ 78,427				
School Breakfast Program:	I	10.553	N/A	7/1/17-6/30/18	N/A	201,800		201,800	201,800		
	I	10.553	N/A	7/1/16-6/30/17	N/A	28,870	28,870				
Total passed through the Pennsylvania Department of Education						928,458	107,297	821,161	821,161	-	-
Passed through the Pennsylvania Department of Agriculture:											
National School Lunch Program, donated commodities:	I	10.555	N/A	7/1/17-6/30/18	N/A	45,128	(a) (10,721)	50,335	50,335	(c) (5,514)	(d)
Total Child Nutrition Cluster and U.S. Department of Agriculture						973,586	96,576	871,496	871,496	(5,514)	
Total federal awards						\$ 3,327,338	\$ 568,964	\$ 2,916,004	\$ 2,916,004	\$ 157,630	\$ -

(continued)

STEELTON-HIGHSPIRE SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2018

Source codes:

D - Direct
I - Indirect

Child Nutrition Cluster	\$ 871,496	
Title I	<u>1,005,202</u>	
	<u>\$ 1,876,698</u>	
Total expenditures per above	<u>\$ 1,876,698</u>	<u>\$ 2,916,004 = 64.36%</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1 Significant accounting policies

The schedule of expenditures of federal awards presents the activity of all federal award programs for the District for the year ended June 30, 2018. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

Nonmonetary food donations are reported in the schedule at the fair value of the commodities received and disbursed.

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

Note 2 Food distribution and other abbreviations denoted above:

- (a) USDA donated commodities received from Department of Agriculture
- (b) Beginning inventory at July 1
- (c) Total value of commodities used
- (d) Ending inventory at June 30

Note 3 ACCESS Title XIV Medical Assistance

The ACCESS Title XIV Medical Assistance from the June 30, 2017 schedule of expenditures of federal awards was determined not to be a federal award. The \$7,804 receivable from June 30, 2017 was removed from the June 30, 2018 schedule of expenditures of federal awards.



Independent Auditors' 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

Board of School Directors
Steelton-Highspire School District
Steelton, 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, the fiduciary funds and the remaining fund information of Steelton-Highspire School District as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 21, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Steelton-Highspire 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 District's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal controls, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness (2018-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Steelton-Highspire 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*.

The District's Responses to Our Findings

The District's responses to our findings are described in the accompanying schedule of findings and questioned costs. The District's responses to our findings were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown Schultz Steindler & Fritz

Camp Hill, Pennsylvania
January 21, 2019



Independent Auditors' Report on Compliance for Each Major Federal Program
and on Internal Control Over Compliance Required by
the Uniform Guidance

Board of School Directors
Steelton-Highspire School District
Steelton, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Steelton-Highspire 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 the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Steelton-Highspire 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 the 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 the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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 Steelton-Highspire School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the 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 the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-002 to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-003 to be a significant deficiency.

The District's Response to the Finding

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and is also described in the District's corrective action plan. The District's response to the finding was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

Purpose of this Report

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.

Brown Schultz Steidman & Fritz

Camp Hill, Pennsylvania
January 21, 2019

STEELTON-HIGHSPIRE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2018

I. SUMMARY OF AUDITORS' RESULTS:

Financial statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal awards

Internal control over major programs:

- Material weakness(es) identified? X yes none reported
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? X yes none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? X yes no

(continued)

STEELTON-HIGHSPIRE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

I. SUMMARY OF AUDITORS' RESULTS (CONTINUED):

Federal awards (continued)

Identification of major programs:

<u>CFDA number(s)</u>	<u>Name of federal program or cluster</u>
84.010	Title I:
84.010	Title I, Part A
	Program Improvement Grants to LEAs
10.553	Child Nutrition Cluster:
10.555	School Breakfast Program
10.555	National School Lunch Program
	National School Lunch Program, Donated commodities

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

yes no

(continued)

STEELTON-HIGHSPIRE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

II. FINANCIAL STATEMENT FINDINGS:

Internal control findings

Finding number 2018-001, material weakness

Condition and criteria:	There was a lack of analysis and oversight over reconciliations and general ledger amounts across all funds.
Cause:	There were several accounts that were misstated and needed to be adjusted during the year-end audit. This was due to 2017/2018 being the first full year the accountant was with the District and she was also new to governmental accounting.
Effect:	Several entries were made during the year-end audit to adjust balances to actual.
Recommendation:	The Business Manager should review all reconciliations prepared by the accountant to ensure that all general ledger amounts are correct. We also recommend that the business office analytically review accounts regularly to identify and correct amounts as needed.
The District's response:	The District agrees with the finding and has implemented the recommendations. The Business Manager reviews and signs off on all balance sheet reconciliations on a monthly basis.

(continued)

STEELTON-HIGHSPIRE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

Internal control over compliance finding

Finding number 2018-002, material weakness

Title I, CFDA 84.010

Federal Agency: U.S. Department of Education

Pass-through entity: Pennsylvania Department of Education

Project Number: 013-180420 and 013-170420

Program Improvement Grants to LEAs, CFDA 84.010

Federal Agency: U.S. Department of Education

Pass-through entity: Pennsylvania Department of Education

Project Number: 042-170420 and 042-160420

Condition and criteria:

Allowable costs were charged to the grants listed above that deviated from the approved budget before a revised spending plan and revised budget was requested. This deficiency allowed amounts to be spent contrary to approved budgeted amounts.

In addition, these federal programs do not have adequate internal controls in place to ensure management or employees, in the normal course of performing their assigned functions prevent or detect and correct misstatements on a timely basis.

District management should assign appropriate personnel to ensure that federal awards are being expended in line with approved budgets and amounts spent are properly tracked in a timely manner.

(continued)

STEELTON-HIGHSPIRE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED):

Internal control over compliance finding (continued)

Finding number 2018-002, material weakness (continued)

Cause: Expenses for a federal award may be charged differently to a federal award than the latest effective budget, and this historically has happened before any formal board approved or state approved budget revision occurs.

Effect: Budget revisions are going to need to be made for expenses that are already incurred in order to fulfill the federal awards requirements. Title I carryover requests may need to be made. Changes to the expenses that were initially charged to Title I need to be made.

Recommendation: District management should develop a process to ensure oversight and segregation of the fulfillment with grant requirements that allows for appropriate budgets to be created initially. Accordingly, federal awards should only be spent on the appropriate budget lines and if budget revisions are needed new spending plans should be approved by District management before the funds are expended.

The District should have personnel, policies, procedures and controls in place to detect and correct misstatements of federal programs on a timely basis. Appropriate staff and resources should be devoted to ensure there is timely compliance with federal awards and that there is appropriate monitoring of the federal awards. Having personnel with the knowledge and ability to track receivables, revenues and grant expenses in a timely and accurate manner is important.

The District's response: The District agrees with the finding and has implemented the recommendations. The District has the policies, procedures and controls in place to detect misstatements of federal programs on a timely basis. The District accountant is assigned to monitor expenditures to ensure proper expenditure classifications.

(continued)

STEELTON-HIGHSPIRE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED):

Internal control over compliance finding (continued)

Finding number 2018-003, significant deficiency

Title I, CFDA 84.010

Federal Agency: U.S. Department of Education

Pass-through entity: Pennsylvania Department of Education

Project Number: 013-180420 and 013-170420

Program Improvement Grants to LEAs, CFDA 84.010

Federal Agency: U.S. Department of Education

Pass-through entity: Pennsylvania Department of Education

Project Number: 042-170420 and 042-160420

Condition and criteria:

The Pennsylvania Department of Education's (PDE) Federal Programs Consolidated Review for the 2017-2018 school year found that the District did not properly maintain semi-annual time certifications for the employees being funded from Title I funds.

District management should assign appropriate personnel to ensure that federal awards compliance requirements are being followed, including maintaining semi-annual time certifications for the employees being funded from Title I funds.

Cause:

Semi-annual time certification statements were not available at time of PDE's visit.

Effect:

The District must maintain semi-annual certifications for any employee funds from a single cost objective to remain in compliance.

(continued)

STEELTON-HIGHSPIRE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED):

Internal control over compliance finding (continued)

Finding number 2018-003, significant deficiency (continued)

Recommendation:

District management should develop a process to ensure oversight and segregation of the fulfillment with grant requirements that allows for appropriate semi-annual time certifications to be maintained.

The District should have personnel, policies, procedures and controls in place to detect and correct noncompliance with federal programs on a timely basis. Appropriate staff and resources should be devoted to ensure there is timely compliance with federal awards and that there is appropriate monitoring of the federal awards and the compliance requirements.

The District's response:

The District agrees with the finding and has implemented the recommendations. The District has trained appropriate personnel on the policies, procedures and internal controls of federal programs. Appropriate staff have been assigned to monitor all federal requirements.

STEELTON-HIGHSPIRE SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS

YEAR ENDED JUNE 30, 2018

See Summary Schedule of Prior Audit Findings prepared by the District as a separate document.



Steelton-Highspire School District

250 Reynders Avenue
Steelton, PA 17113
Telephone (717) 704-3800
FAX (717) 704-3808

Travis M. Waters
Superintendent

C. Michael Simonetti
Business Manager

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

January 9, 2019

U.S Department of Education

Steelton-Highspire School District respectfully submits the following summary of prior audit findings for the year ended June 30, 2018.

Name and address of independent accounting firm:

Brown Schultz Sheridan & Fritz
210 Grandview Avenue
Camp Hill, PA 17011

Please see below for the findings noted in the audit for the year ended June 30th, 2017.

If you require additional information or have concerns, please contact C. Michael Simonetti, Business Manager (717-704-3800 ext. 3873 or email: MSimonetti@shsd.k12.pa.us).

Sincerely,

A handwritten signature in black ink that reads 'C. Michael Simonetti'. The signature is written in a cursive, flowing style.

C. Michael Simonetti, Business Manager

PRIOR YEAR FINDINGS

Finding number 2017-001

Condition and Criteria: There are a small number of accounting staff employed by the business office; this can contribute to inadequate segregation of duties. With a small accounting staff it is important to have processes and procedures in place that allow adequate segregation of duties (authorization, record keeping and custody of assets). Appropriately segregating duties and providing separate monitoring and oversight controls can mitigate the risks of errors or fraud.

Current year status: The district continues to work diligently to assign appropriate individuals with adequate segregation of duties. Presently we are fully staffed and have implemented the proper internal controls.

Finding number 2017-002

Condition and Criteria: There was a lack of internal controls and oversight over the Athletic Fund. Documentation of gate receipts and reconciliations were not maintained by the District. Checks were written to cash or individuals without support being provided.

Current year status: The district has since eliminated the position of athletic treasurer and moved all financial duties to the business office. All cash receipts and expenditures are in accordance to district policy.

Finding number 2017-003

Condition and Criteria: Proper documentation was not filed with the State to obtain reimbursement for meals for the first three months of the 2016/2017 school year.

Current year status: Appropriate personnel are aware of application deadlines and now two individuals are notified when all applications are submitted to ensure it is completed in a timely manner.

Finding number 2017-004

Title I, CFDA 84.010

Federal Agency U.S. Department of Education

Pass-through entity: Pennsylvania Department of Education

Project Number: 013-160420 and 013-150420

Program Improvement Grants to LEAs, CFDA 84-010

Federal Agency: U.S. Department of Education

Pass-through entity: Pennsylvania Department of Education

Project Number: 042-150420 and 042-160420

Condition and Criteria:

Allowable costs were charged to the grant listed above that deviated from the approved budget before a revised spending plan and revised budget was requested. This deficiency allowed amounts to be spent contrary to approved budgeted amounts.

In addition, these federal programs do not have adequate internal controls in place to ensure management or employees, in the normal course of performing their assigned functions prevent, or detect and correct, misstatements on a timely basis. Due to inadequate internal controls some time sheets were not maintained to support summer school pay.

District management should assign appropriate personnel to ensure that federal awards are being expended in line with approved budgets and amounts spent are properly tracked in a timely manner.

Current year status:

Currently, the district set up new account numbers associated with the grants to better track expenditures. In addition, the district accountant has been assigned monthly reconciliation of all grant accounts. The district assigned other specific personnel to manage and track all Title expenditures, ensuring proper reporting and advanced notice of budget revisions.