

***STEELTON-HIGHSPIRE SCHOOL DISTRICT***

***YEAR ENDED JUNE 30, 2017***

# ***STEELTON-HIGHSPIRE SCHOOL DISTRICT***

YEAR ENDED JUNE 30, 2017

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# **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

YEAR ENDED JUNE 30, 2017

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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, 2017 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, 2017 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.

## **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 and the information about other postemployment benefits - schedule of funding progress 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 19, 2018 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 19, 2018

## **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**YEAR ENDED JUNE 30, 2017**

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, 2017. 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 exceeded its assets and deferred outflows at the close of the fiscal year by \$(26,016,761) (net deficit); which includes an unrestricted deficit of \$(29,425,883).

As of June 30, 2017, the District's fund balance for the General Fund was \$(1,340,929). This negative fund balance is attributed to prior years' deficits. The District is exploring areas in which expenditures can be decreased or eliminated, such as contracted services.

#### **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.

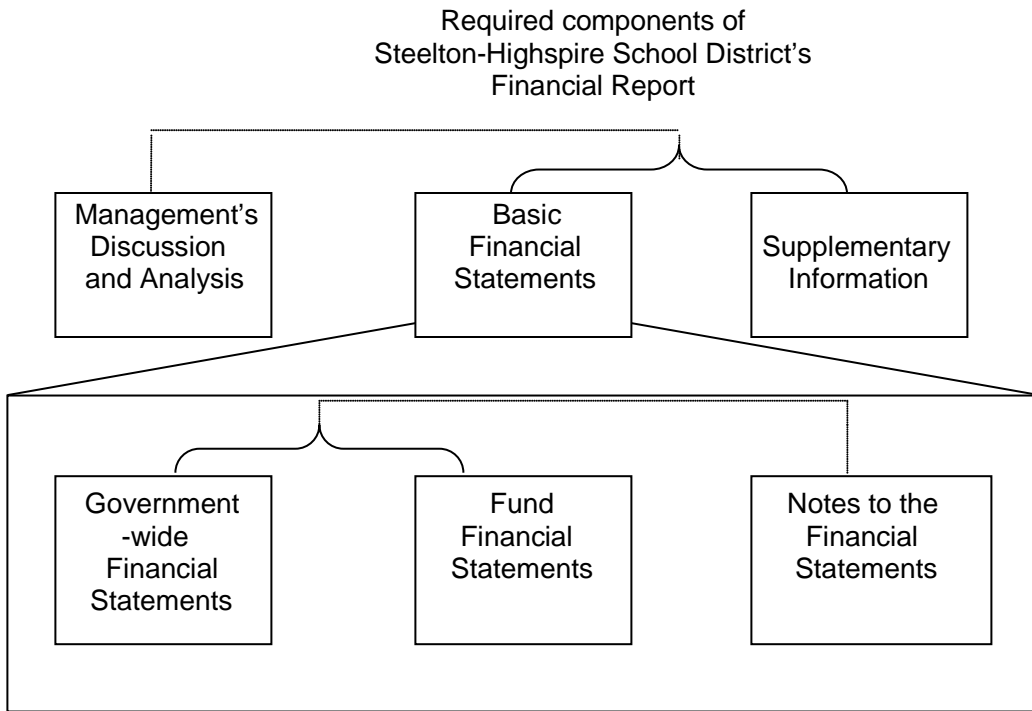
## **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

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

YEAR ENDED JUNE 30, 2017

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, 2017

### 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, 2017

#### **OVERVIEW OF FINANCIAL STATEMENTS**

##### *Government-wide statements*

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets, 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, 2017

**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 \$(26,187,409) at June 30, 2017, and \$(27,643,250) at June 30, 2016 per the following schedule.

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Current assets	\$ 1,682,426	\$ 2,286,304	\$ 638,687	\$ 658,542	\$ 2,321,113	\$ 2,944,846
Capital and other noncurrent assets	27,056,207	27,853,089	82,796	113,463	27,139,003	27,966,552
Total assets	28,738,633	30,139,393	721,483	772,005	29,460,116	30,911,398
Deferred outflow s of resources	4,763,571	1,629,680			4,763,571	1,629,680
Total assets and deferred outflow s of resources	<u>\$ 33,502,204</u>	<u>\$ 31,769,073</u>	<u>\$ 721,483</u>	<u>\$ 772,005</u>	<u>\$ 34,223,687</u>	<u>\$ 32,541,078</u>
Current liabilities	\$ 6,110,196	\$ 4,755,026	\$ 892,131	\$ 893,071	\$ 7,002,327	\$ 5,648,097
Long-term liabilities	51,068,769	51,445,231			51,068,769	51,445,231
Total liabilities	57,178,965	56,200,257	892,131	893,071	58,071,096	57,093,328
Deferred inflow s of resources	2,340,000	3,091,000			2,340,000	3,091,000
Total liabilities and deferred inflow s of resources	<u>\$ 59,518,965</u>	<u>\$ 59,291,257</u>	<u>\$ 892,131</u>	<u>\$ 893,071</u>	<u>\$ 60,411,096</u>	<u>\$ 60,184,328</u>
Net position (deficit):						
Net investment in capital assets	\$ 1,490,793	\$ 2,198,032	\$ 82,796	\$ 113,463	\$ 1,573,589	\$ 2,311,495
Restricted	1,918,329	1,584,003			1,918,329	1,584,003
Unrestricted	(29,425,883)	(31,304,219)	(253,444)	(234,529)	(29,679,327)	(31,538,748)
Total net position (deficit)	<u>\$(26,016,761)</u>	<u>\$(27,522,184)</u>	<u>\$(170,648)</u>	<u>\$(121,066)</u>	<u>\$(26,187,409)</u>	<u>\$(27,643,250)</u>

Governmental activities current liabilities increased approximately \$1,400,000. The District secured an additional \$750,000 grant for special education expenses. The additional revenue contributed to the reduction of the deficit.

# STEELTON-HIGHSPIRE SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2017

The results of this year's operations as a whole are reported in the statement of activities. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are 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, 2017 and 2016

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 18,514	\$ 20,266	\$ 48,044	\$ 63,241	\$ 66,558	\$ 83,507
Operating grants and contributions	6,488,049	6,296,780	744,864	852,530	7,232,913	7,149,310
General revenues and transfers:						
Property taxes	5,190,253	5,097,494			5,190,253	5,097,494
Other taxes	1,116,913	1,103,418			1,116,913	1,103,418
Grants, subsidies, unrestricted	8,000,743	7,793,308			8,000,743	7,793,308
Change in value, interest rate swap	1,044,890	(434,391)			1,044,890	(434,391)
Other	260,600	155,960	642	1,341	261,242	157,301
Total revenues	<u>22,119,962</u>	<u>20,032,835</u>	<u>793,550</u>	<u>917,112</u>	<u>22,913,512</u>	<u>20,949,947</u>
Expenses:						
Instructional services	13,384,005	12,326,283			13,384,005	12,326,283
Support services	5,577,895	5,622,215			5,577,895	5,622,215
Noninstructional services	1,652,639	1,561,879			1,652,639	1,561,879
Food service			843,132	776,837	843,132	776,837
Total expenses	<u>20,614,539</u>	<u>19,510,377</u>	<u>843,132</u>	<u>776,837</u>	<u>21,457,671</u>	<u>20,287,214</u>
Increase (decrease) in net position	<u>\$ 1,505,423</u>	<u>\$ 522,458</u>	<u>\$ (49,582)</u>	<u>\$ 140,275</u>	<u>\$ 1,455,841</u>	<u>\$ 662,733</u>

Governmental operating grants increased approximately \$200,000 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.

Unrestricted grants, subsidies increased \$207,435 in 2016-2017 from 2015-2016. There was also a slight increase in the annual subsidy in 2016-2017.

# **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

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

YEAR ENDED JUNE 30, 2017

Total revenues from business-type activities decreased over \$120,000 from the prior year, mostly due to the District not obtaining approval to participate in the National School Lunch Program until December 2016. 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, 2017 and 2016

Function/programs	Total cost of services		Net cost of services	
	2017	2016	2017	2016
Regular instruction	\$ 7,416,369	\$ 7,708,667	\$ 4,824,547	\$ 5,250,907
Special instruction	4,387,974	3,745,581	1,745,752	1,047,195
Vocational instruction	661,349	509,813	629,845	487,643
Other instructional programs	454,860	296,042	413,956	261,882
Other education programs	463,453	66,180	398,447	66,180
Pupil personnel	656,133	581,389	538,032	506,314
Instructional staff	295,633	157,564	224,064	55,713
Administration	1,236,806	1,334,841	1,029,690	1,169,152
Pupil health	156,661	140,797	110,366	100,361
Business services	533,800	1,011,865	479,263	967,840
Operation of plant and maintenance	1,362,666	1,179,400	1,275,645	1,121,594
Student transportation services	714,306	648,085	294,694	107,388
Other support services	621,890	568,274	581,690	541,844
Student activities	263,184	285,245	202,175	236,961
Community services	17,471	12,502	13,272	10,225
Debt service, interest	1,371,984	1,264,132	1,346,538	1,262,132
Total governmental activities	<u>\$ 20,614,539</u>	<u>\$ 19,510,377</u>	14,107,976	13,193,331
Less unrestricted grants, subsidies			<u>8,000,743</u>	<u>7,793,308</u>
Total needs from local taxes and other revenues			<u>\$ 6,107,233</u>	<u>\$ 5,400,023</u>

## **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

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

**YEAR ENDED JUNE 30, 2017**

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, 2017 and 2016**

<u>Function/programs</u>	<u>Total cost of services</u>		<u>Net cost of services</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Food services	\$ 843,132	\$ 776,837	\$ 50,224	\$ (138,934)
Less investment earnings and other			<u>(642)</u>	<u>(1,341)</u>
Total cost of (income from) business-type activities			<u>\$ 49,582</u>	<u>\$ (140,275)</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 2016-2017 General Fund original budget showed revenues exceeding expenditures resulting in an increase in the fund balance. For the year ended June 30, 2017, the revenues were under the final budget by \$112,841. This was due primarily to revenues from federal sources of \$994,250 which fell below budget by \$580,650. Revenues from taxes fell below budgeted amounts for the year as property assessments continue to be reduced, and revenue from state sources was less than budget. Revenues from intermediate sources was over budget by \$670,059 which helped to offset other areas that were under budget.

Total General Fund expenditures exceeded the final budget by \$401,692. This was due primarily to special programs which was over budget by \$913,486. Expenditures exceeded budget in the general fund in the regular and special instructional areas due to the ratification of the Steelton-Highspire Education Association's contract in August 2017. Special Education also had an increase of special needs students during the 2016-2017 school year. Vocational expenses exceeded budget due to higher enrollment than anticipated.

## **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

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

YEAR ENDED JUNE 30, 2017

#### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

##### *Capital assets*

At June 30, 2017, the District's governmental activities' gross capital assets were \$41,112,738. 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, 2017 and 2016.

##### **Governmental Activities - Capital Assets Fiscal Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Land	\$ 20,000	\$ 20,000
Site improvements	506,425	506,425
Building and improvements	39,045,873	39,045,873
Machinery and equipment	<u>1,540,440</u>	<u>2,079,552</u>
	41,112,738	41,651,850
Accumulated depreciation	<u>(16,073,451)</u>	<u>(15,481,535)</u>
	<u><u>\$ 25,039,287</u></u>	<u><u>\$ 26,170,315</u></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, 2017**

### *Debt administration*

#### **Outstanding Debt Fiscal Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
M&T lease payable	\$ 1,105,000	\$ 1,300,000
Mid Penn term loan	48,247	73,821
General Obligation Notes:		
Series of 2011		1,850,000
Series of 2007	1,970,000	1,985,000
Series of 2006	11,515,000	12,030,000
General Obligation Bonds:		
Series of 2017	3,800,000	
Series of 2013	1,735,000	2,005,000
Series of 2012	3,390,000	3,395,000
Series of 2011		1,555,000
	<u>23,563,247</u>	<u>24,193,821</u>
QZAB Bond	<u>2,025,000</u>	<u>2,025,000</u>
Total	<u><u>\$ 25,588,247</u></u>	<u><u>\$ 26,218,821</u></u>

As of July 1, 2016, the District had total outstanding debt principal of \$26,218,821. During the year, the District made payments against principal of \$1,025,574. The outstanding debt as of June 30, 2017 is \$25,588,247. During the year the District issued the General Obligation Bond, Series of 2017 to refund the General Obligation Note, Series of 2011 and the General Obligation Bond, Series of 2011.

Other obligations include pension obligations and accrued compensated absences (vacation pay, sick leave, personal days) for specific employees of the District. More detailed information about our long-term liabilities is included in the notes to the financial statements.



## **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

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

YEAR ENDED JUNE 30, 2017

#### **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 2017-2018 year is over \$1,000,000 more than the original revenue budget total for 2016-2017. This is due to anticipated funding increases from state and local sources. There is also a decrease in the budget for funding from federal/other revenues compared to the budget for 2016-2017. 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 has hired a full-time grant writer and is actively pursuing federal, state and local grant funding.

The expenditure and other financing uses budget total for the 2017-2018 year is also approximately \$1,300,000 more than the original expenditure and other financing uses budget total for 2016-2017. The District increased the budget for Instruction and Support Services due to an expanded multi-year curriculum program.

The District continues to prioritize expenses restricting the purchase of materials and services during the 2017-2018 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, 2017

The comparison of revenue and expenditure categories is as follows:

#### **ORIGINAL BUDGETED REVENUES**

	<u>2017-2018</u>		<u>Original 2016-2017</u>	
Local	\$ 7,928,436	35.6%	\$ 6,978,374	32.9%
State	13,366,827	60.1%	12,636,363	59.7%
Federal/other	<u>954,076</u>	4.3%	<u>1,574,900</u>	7.4%
Total	<u>\$ 22,249,339</u>		<u>\$ 21,189,637</u>	

#### **ORIGINAL BUDGETED EXPENDITURES AND OTHER FINANCIAL USES**

Instruction	\$ 11,972,783	54.5%	\$ 11,734,384	56.9%
Support services	7,105,788	32.4%	5,939,055	28.8%
Operation of noninstructional services	356,918	1.6%	354,406	1.7%
Other	<u>2,512,922</u>	11.5%	<u>2,595,940</u>	12.6%
	<u>\$ 21,948,411</u>		<u>\$ 20,623,785</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, 2017**

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Current assets:			
Cash	\$ 442,760	\$ 503,585	\$ 946,345
Investments	65,733		65,733
Taxes receivable, net of an allowance of \$524,377	381,392		381,392
Other receivables	35,294	3,944	39,238
Due from other governments	757,247	111,942	869,189
Inventories		19,216	19,216
	<u>1,682,426</u>	<u>638,687</u>	<u>2,321,113</u>
Total current assets			
Noncurrent assets:			
Land	20,000		20,000
Land improvements	506,425		506,425
Buildings and building improvements	39,045,873		39,045,873
Furniture and equipment	1,540,440	493,852	2,034,292
Accumulated depreciation	(16,073,451)	(411,056)	(16,484,507)
	<u>25,039,287</u>	<u>82,796</u>	<u>25,122,083</u>
Total capital assets			
Bond insurance costs, net	98,591		98,591
Sinking fund, 2003 QZAB	1,918,329		1,918,329
	<u>27,056,207</u>	<u>82,796</u>	<u>27,139,003</u>
Total noncurrent assets			
Deferred outflows of resources:			
Deferred charge on refunding	80,393		80,393
Pensions	4,683,178		4,683,178
	<u>4,763,571</u>		<u>4,763,571</u>
Total deferred outflows of resources			
Total assets and deferred outflows of resources	<u>\$ 33,502,204</u>	<u>\$ 721,483</u>	<u>\$ 34,223,687</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	\$ 1,804,708	\$ 19,385	\$ 1,824,093
Current portion of bonds, notes and lease payable	3,207,008		3,207,008
Internal balances	(862,025)	862,025	-
Accrued salaries and benefits	893,210		893,210
Payroll deductions and withholdings	758,997		758,997
Accrued interest	308,298		308,298
Unearned revenues		10,721	10,721
	<u>6,110,196</u>	<u>892,131</u>	<u>7,002,327</u>
Total current liabilities			
Noncurrent liabilities:			
Bonds, notes and lease payable, net	22,255,470		22,255,470
Compensated absences	306,618		306,618
Fair value of interest rate swap	2,158,653		2,158,653
Other postemployment benefits	826,028		826,028
Net pension liability	<u>25,522,000</u>		<u>25,522,000</u>
	<u>51,068,769</u>		<u>51,068,769</u>
Total noncurrent liabilities			
Total liabilities	<u>57,178,965</u>	<u>892,131</u>	<u>58,071,096</u>
Deferred inflows of resources, pensions	<u>2,340,000</u>		<u>2,340,000</u>
Net position (deficit):			
Net investment in capital assets	1,490,793	82,796	1,573,589
Restricted	1,918,329		1,918,329
Unrestricted deficit	<u>(29,425,883)</u>	<u>(253,444)</u>	<u>(29,679,327)</u>
	<u>(26,016,761)</u>	<u>(170,648)</u>	<u>(26,187,409)</u>
Total net position (deficit)			
Total liabilities, deferred inflows of resources and net position (deficit)	<u>\$ 33,502,204</u>	<u>\$ 721,483</u>	<u>\$ 34,223,687</u>

# STEELTON-HIGHSPIRE SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

	Expenses	Program revenues		Net (expense) revenue and changes in net position	
		Charges for services	Operating grants and contributions	Governmental activities	Business-type activities
					Total
Governmental activities:					
Instructional services:					
Regular instruction	\$ 7,416,369		\$ 2,591,822	\$ (4,824,547)	\$ (4,824,547)
Special instruction	4,387,974		2,642,222	(1,745,752)	(1,745,752)
Vocational instruction	661,349		31,504	(629,845)	(629,845)
Other instructional programs	454,860		40,904	(413,956)	(413,956)
Adult education programs	22,863			(22,863)	(22,863)
Pre-kindergarten	380,019		65,006	(315,013)	(315,013)
Community/junior college programs	60,571			(60,571)	(60,571)
Total instructional services	13,384,005		5,371,458	(8,012,547)	(8,012,547)
Support services:					
Pupil personnel	656,133		118,101	(538,032)	(538,032)
Instructional staff	295,633		71,569	(224,064)	(224,064)
Administration	1,236,806		207,116	(1,029,690)	(1,029,690)
Pupil health	156,661		46,295	(110,366)	(110,366)
Business services	533,800		54,537	(479,263)	(479,263)
Operation of plant and maintenance	1,362,666		87,021	(1,275,645)	(1,275,645)
Student transportation services	714,306		419,612	(294,694)	(294,694)
Other support services	621,890		40,200	(581,690)	(581,690)
Total support services	5,577,895		1,044,451	(4,533,444)	(4,533,444)
Noninstructional services:					
Student activities	263,184	\$ 18,514	42,495	(202,175)	(202,175)
Community services	17,471		4,199	(13,272)	(13,272)
Other financing uses	1,371,984		25,446	(1,346,538)	(1,346,538)
Total noninstructional services	1,652,639	18,514	72,140	(1,561,985)	(1,561,985)

(continued)

# STEELTON-HIGHSPIRE SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED JUNE 30, 2017

		Program revenues		Net (expense) revenue and changes in net position		
		Charges for services	Operating grants and contributions	Governmental activities	Business-type activities	Total
Expenses						
Total government activities	\$ 20,614,539	\$ 18,514	\$ 6,488,049	\$ (14,107,976)		\$ (14,107,976)
Business-type activities, food service	843,132	48,044	744,864		\$ (50,224)	(50,224)
Total primary government	<u>\$ 21,457,671</u>	<u>\$ 66,558</u>	<u>\$ 7,232,913</u>	<u>(14,107,976)</u>	<u>(50,224)</u>	<u>(14,158,200)</u>
General revenues (expenses):						
Taxes:						
Property, etc.				5,190,253		5,190,253
Other				1,116,913		1,116,913
Grants, subsidies, other nonrestricted				8,000,743		8,000,743
Investment revenue, interest				161,383	1,564	162,947
Change in fair value of interest rate swap				1,044,890		1,044,890
Miscellaneous				99,217	(922)	98,295
Total general revenues (expenses)				<u>15,613,399</u>	<u>642</u>	<u>15,614,041</u>
Change in net position				1,505,423	(49,582)	1,455,841
Net position (deficit):						
Beginning				(27,522,184)	(121,066)	(27,643,250)
Ending				<u>\$ (26,016,761)</u>	<u>\$ (170,648)</u>	<u>\$ (26,187,409)</u>

See notes to financial statements.

**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

## BALANCE SHEET – GOVERNMENTAL FUNDS – JUNE 30, 2017

## ASSETS

[illegible]

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	\$ 1,804,708			\$ 1,804,708
Accrued salaries and benefits	893,210			893,210
Payroll deductions and withholdings	758,997			758,997
Interest payable		\$ 29,471		29,471
Total liabilities	3,456,915	29,471		3,486,386
Deferred inflows of resources, unavailable revenue	235,854			235,854
Fund balance (deficit):				
Restricted		1,918,329		1,918,329
Assigned			\$ 191,837	191,837
Unassigned (deficit)	(1,340,929)	(28,697)		(1,369,626)
Total fund balance (deficit)	(1,340,929)	1,889,632	191,837	740,540
Total liabilities, deferred inflows of resources and fund balance (deficit)	\$ 2,351,840	\$ 1,919,103	\$ 191,837	\$ 4,462,780



**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

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

YEAR ENDED JUNE 30, 2017

Total fund balance, governmental funds		\$	740,540
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 \$41,112,738, and the accumulated depreciation is \$16,073,451.			
			25,039,287
Property taxes receivable are not available soon enough to pay for the current period's expenditures and, therefore, are unearned in the funds.			
			235,854
Bond insurance costs relating to bonds payable are not reported as assets in the funds.			
			98,591
Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.			
			(25,522,000)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:			
Deferred outflows of resources related to pensions			
			4,683,178
Deferred inflows of resources related to pensions			
			(2,340,000)
Government-wide liabilities and related amounts not included in government funds as a result of the difference in the measurement focus of accounting:			
Bonds, notes and lease payable	\$ (25,588,247)		
Fair value of interest rate swap	(2,158,653)		
Bond discount	125,769		
Deferral on bond refunding	80,393		
Accrued interest on the bonds	(278,827)		
Other postemployment benefits	(826,028)		
Compensated absences	(306,618)		
			(28,952,211)
Total net position (deficit), governmental activities			<u>\$ (26,016,761)</u>

See notes to financial statements.

**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

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

YEAR ENDED JUNE 30, 2017

	<u>Major funds</u>		<u>Nonmajor fund, capital projects fund</u>	<u>Total governmental funds</u>
	<u>General fund</u>	<u>Debt service fund</u>		
Revenues:				
Local sources:				
Real estate taxes and penalties	\$ 5,190,253			\$ 5,190,253
Other taxes and penalties	1,187,275			1,187,275
Investment income	111,283	\$ 50,100		161,383
Rent	35,345			35,345
Revenues from intermediate sources	964,604			964,604
Tuition	8,800			8,800
Other revenues	<u>55,192</u>	<u></u>		<u>55,192</u>
Total local sources	7,552,752	50,100		7,602,852
State sources	12,521,138			12,521,138
Federal sources	994,250			994,250
Refund of prior year expenditures	<u>27,194</u>	<u></u>		<u>27,194</u>
Total revenues	<u>21,095,334</u>	<u>50,100</u>		<u>21,145,434</u>

(continued)

**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

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

YEAR ENDED JUNE 30, 2017

	<u>Major funds</u>		Nonmajor fund, capital projects	Total governmental funds
	<u>General fund</u>	<u>Debt service fund</u>	<u>fund</u>	
Expenditures:				
Current:				
Instruction	\$ 12,650,274			\$ 12,650,274
Support services	5,536,277			5,536,277
Operation of noninstructional services	272,279			272,279
Debt service:				
Principal	25,574	\$ 1,000,000		1,025,574
Bond issuance cost		98,262		98,262
Interest	5,591	1,361,309		1,366,900
	<u>18,489,995</u>	<u>2,459,571</u>		<u>20,949,566</u>
Total expenditures				
	<u>18,489,995</u>	<u>2,459,571</u>		<u>20,949,566</u>
Excess of revenue over (under) expenditures	<u>2,605,339</u>	<u>(2,409,471)</u>		<u>195,868</u>
Other financing sources (uses):				
Bond proceeds, net of discount		3,559,429	\$ 191,837	3,751,266
Other	6,010			6,010
Interfund transfers in (out)	(2,586,356)	2,586,356		-
Payment to refunded bond escrow agent		(3,405,000)		(3,405,000)
	<u>(2,580,346)</u>	<u>2,740,785</u>	<u>191,837</u>	<u>352,276</u>
Total other financing sources (uses)				
	<u>(2,580,346)</u>	<u>2,740,785</u>	<u>191,837</u>	<u>352,276</u>
Net change in fund balances	24,993	331,314	191,837	548,144
Fund balance (deficit), July 1, 2016	<u>(1,365,922)</u>	<u>1,558,318</u>	<u>-</u>	<u>192,396</u>
Fund balance (deficit), June 30, 2017	<u>\$ (1,340,929)</u>	<u>\$ 1,889,632</u>	<u>\$ 191,837</u>	<u>\$ 740,540</u>

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, 2017**

Total net change in fund balances, governmental funds	\$ 548,144
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, \$33,523; Depreciation expense, \$1,163,311; Disposals \$1,240	
	(1,131,028)
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.	
	(70,362)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net position (deficit).	
	4,430,574
The issuance of long-term debt provides current financial resources to governmental funds but increases liabilities in the statement of net position.	
	(3,800,000)
Governmental funds report District pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits is reported as pension expense.	
District pension contributions	2,165,178
Cost of benefits earned	(1,778,371)
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	(32,203)
Other postemployment benefits	(8,541)
Interest rate swap	1,044,890
Other:	
Change in accrued interest expense on bonds payable	73,927
Bond insurance costs, discounts, loss from refunding, and issuance costs	64,407
Miscellaneous	(1,192)
Change in net position of governmental activities	<u><u>\$ 1,505,423</u></u>

See notes to financial statements.

**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

STATEMENT OF NET POSITION (DEFICIT) – PROPRIETARY FUND

JUNE 30, 2017

ASSETS

	Food service fund
Current assets:	
Cash	\$ 503,585
Due from other governments	111,942
Inventory	19,216
Other receivables	<u>3,944</u>
Total current assets	<u>638,687</u>
Noncurrent assets:	
Machinery and equipment	493,852
Accumulated depreciation, machinery	<u>(411,056)</u>
Total noncurrent assets	<u>82,796</u>
Total assets	<u><u>\$ 721,483</u></u>

See notes to financial statements.

# LIABILITIES AND NET POSITION (DEFICIT)

	Food service fund
Current liabilities:	
Accounts payable	\$ 19,385
Unearned revenue	10,721
Due to general fund, net	862,025
Total current liabilities	<u>892,131</u>
Net position (deficit):	
Invested in capital assets	82,796
Unrestricted (deficit)	<u>(253,444)</u>
Total net position (deficit)	<u>(170,648)</u>
Total liabilities and net position (deficit)	<u><u>\$ 721,483</u></u>

**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

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

YEAR ENDED JUNE 30, 2017

	<u>Food service fund</u>
Operating revenues, food service revenue	<u>\$ 48,044</u>
Operating expenses:	
Depreciation	29,745
Food supplies	46,930
Miscellaneous expense	8,337
Purchased professional and technical services	<u>758,120</u>
Total operating expenses	<u>843,132</u>
Operating loss	<u>(795,088)</u>
Nonoperating revenues and expenses:	
Earnings on investments	1,564
State subsidy revenue	26,891
Federal subsidy revenue	671,211
Loss on disposal of equipment	(922)
USDA donated commodities	<u>46,762</u>
Total nonoperating revenues and expenses	<u>745,506</u>
Change in net position	(49,582)
Total net position (deficit):	
July 1, 2016	<u>(121,066)</u>
June 30, 2017	<u><u>\$(170,648)</u></u>

See notes to financial statements.

**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

STATEMENT OF CASH FLOWS – PROPRIETARY FUND

YEAR ENDED JUNE 30, 2017

	<u>Food service fund</u>
Cash flows from operating activities:	
Cash received from users	\$ 41,294
Cash payments, suppliers of goods and services	<u>(765,333)</u>
Net cash used in operating activities	<u>(724,039)</u>
Cash flows from noncapital financing activities:	
State sources	26,891
Federal sources	663,843
Net increase in amounts due to the general fund	<u>(1,154)</u>
Net cash provided by noncapital financing activities	<u>689,580</u>
Net cash provided by investing activities, earnings on investments	<u>1,564</u>
Net decrease in cash	(32,895)
Cash:	
Beginning of year	<u>536,480</u>
End of year	<u><u>\$ 503,585</u></u>

(continued)



**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

STATEMENT OF CASH FLOWS – PROPRIETARY FUND (CONTINUED)

YEAR ENDED JUNE 30, 2017

	<u>Food service fund</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	<u>\$ (795,088)</u>
Adjustments:	
Depreciation	29,745
Donated commodities	46,762
Change in:	
Receivables	(3,902)
Inventories	(1,770)
Accounts payable	3,062
Unearned revenues	<u>(2,848)</u>
Total adjustments	<u>71,049</u>
Cash used in operating activities	<u><u>\$ (724,039)</u></u>

See notes to financial statements.

***STEELTON-HIGHSPIRE SCHOOL DISTRICT***

**STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS**

**JUNE 30, 2017**

	<u>Student activities</u>
Asset, cash	<u>\$ 52,069</u>
Liability, due to student groups	\$ 52,069
Net position	<u>-</u>
Total liabilities and net position	<u>\$ 52,069</u>

See notes to financial statements.

***STEELTON-HIGHSPIRE SCHOOL DISTRICT***

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUNDS**

**YEAR ENDED JUNE 30, 2017**

	<u>Private purpose trust</u>
Miscellaneous	\$ (6)
Net position:	
July 1, 2016	<u>6</u>
June 30, 2017	<u><u>\$ -</u></u>

See notes to financial statements.

# **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2017**

### **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, 2017

#### **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, 2017

#### **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 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.

## **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

YEAR ENDED JUNE 30, 2017

#### **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:

Private Purpose Trust Funds - These funds are used to account for assets held by the District in a trustee capacity. These funds account for various scholarship programs for students.

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.

## **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

YEAR ENDED JUNE 30, 2017

#### **1. Summary of significant accounting policies (continued):**

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

##### 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.

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.



## **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

YEAR ENDED JUNE 30, 2017

#### **1. Summary of significant accounting policies (continued):**

##### *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. For the federal home loan mortgage corporation bonds, the fair value can be determined from independent pricing vendors and is generally based on recent trading activity and other relevant information, including market interest rate curves and the type of investment.

##### *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.

##### *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, 2017 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.

**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**1. Summary of significant accounting policies (continued):**

*Capital assets (continued):*

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

*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 plan:*

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

## **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

YEAR ENDED JUNE 30, 2017

#### **1. Summary of significant accounting policies (continued):**

##### *Pension plan (continued):*

Substantially all full-time and part-time employees of the District participate in a cost-sharing multiple-employer defined benefit pension plan through PSERS. 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, 2017, the rate of employer contribution was 30.03%. The 30.03% rate is composed of a contribution rate of 29.20% 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 as state source revenues. The District made or accrued all required contributions for the year ended June 30, 2017 and has recognized them as expenditures in the governmental fund.

##### *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, 2017

#### **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, 2017

#### **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 and the governmental funds balance sheet report 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 two items that qualify for reporting as a deferred outflow of resources and a deferred inflow of resources in the government-wide financial statements. One 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 proportion of the total pension liability and the pension plan's fiduciary net position; contributions made to the plan between the measurement date of the net pension liability and the end of the District's fiscal year; differences between projected and actual experience; actual pension plan investment earnings in excess of or less than the expected amount included in determining pension expense; and any changes in assumptions. 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. The second item, 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.

## **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

YEAR ENDED JUNE 30, 2017

#### **1. Summary of significant accounting policies (continued):**

##### *Deferred outflows and inflows of resources (continued):*

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.

#### **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, 2017

**2. Deposits and investments:**

*Custodial credit risk, deposits (continued):*

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

Bank accounts, uninsured	\$ 777,023
Insured by the FDIC	<u>250,775</u>
	1,027,798
Less outstanding checks	<u>(29,384)</u>
Total	<u><u>\$ 998,414</u></u>

Amounts are shown in the financial statements as follows:

Governmental activities	\$ 442,760
Business-type activities	503,585
Fiduciary fund deposits not included in government-wide statement	<u>52,069</u>
	<u><u>\$ 998,414</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.

**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**2. Deposits and investments (continued):**

*Custodial credit risk, deposits (continued):*

As of June 30, 2017, the District had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Ratings</u>	<u>Carrying value</u>
Pennsylvania Local Government Investment Trust, at cost	Demand	AAA	\$ 65,733
Federal Home Loan Mortgage Corp., Zero Coupon Bonds, at fair value	September 26, 2017	AA+	<u>1,918,329</u>
			<u>\$ 1,984,062</u>

*Interest rate risk and 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, and the District does not have a formal policy to limit its investment choices to certain credit ratings.

*Concentration of credit risk:*

The District places no limit on the amounts invested in any one issuer. The District's investments in Federal Home Loan Mortgage Corporation represent 96.7% of the District's total investments as of June 30, 2017.

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, 2017

#### **2. Deposits and investments (continued):**

##### *Concentration of credit risk (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.

#### **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, 2017 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

**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**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>
Earned income taxes	\$ 109,797	\$ 109,797	
Per capita and occupational privilege tax, net of an allowance of \$524,377	262,189	26,335	\$ 235,854
Transfer tax	<u>9,406</u>	<u>9,406</u>	
	<u>\$ 381,392</u>	<u>\$ 145,538</u>	<u>\$ 235,854</u>

**5. Due from other governments:**

Amounts due from other governments represent receivables for revenues earned by the District. At June 30, 2017, the following amounts are due from other governmental units:

	<u>General fund</u>	<u>Food service fund</u>
Federal programs	\$ 480,192	\$ 107,298
State programs / grants, school lunch		4,644
State subsidies:		
Social Security	121,114	
Retirement	97,528	
Lease rental reimbursement	25,446	
Transportation reimbursement	<u>32,967</u>	
	<u>\$ 757,247</u>	<u>\$ 111,942</u>

**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**6. Due to and from other funds:**

Interfund receivable and payable balances as of June 30, 2017 are as follows:

	Due from other funds	Due to other funds
General fund	\$ 862,025	
Food service fund		\$ 862,025
Total	<u>\$ 862,025</u>	<u>\$ 862,025</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.

**7. Fund transfers:**

Interfund transfers in the governmental funds for the year ended June 30, 2017 are as follows:

	Transfers to other funds	Transfers from other funds
Major funds:		
General fund	\$ 2,586,356	
Debt service fund		\$ 2,586,356
	<u>\$ 2,586,356</u>	<u>\$ 2,586,356</u>

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, 2017**

**8. Capital assets:**

Capital asset activity for the year ended June 30, 2017 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	<u>\$ 20,000</u>			<u>\$ 20,000</u>
Capital assets being depreciated:				
Land improvements	506,425			506,425
Buildings and building improvements	39,045,873			39,045,873
Furniture and equipment	<u>2,079,552</u>	<u>\$ 33,523</u>	<u>\$ 572,635</u>	<u>1,540,440</u>
Total capital assets being depreciated	<u>41,631,850</u>	<u>33,523</u>	<u>572,635</u>	<u>41,092,738</u>
Less accumulated depreciation for:				
Land improvements	137,039	16,088		153,127
Building and building improvements	13,588,570	1,029,477		14,618,047
Furniture and equipment	<u>1,755,926</u>	<u>117,746</u>	<u>571,395</u>	<u>1,302,277</u>
Total accumulated depreciation	<u>15,481,535</u>	<u>1,163,311</u>	<u>571,395</u>	<u>16,073,451</u>
Total capital assets being depreciated, net	<u>26,150,315</u>	<u>(1,129,788)</u>	<u>1,240</u>	<u>25,019,287</u>
Governmental activities, capital assets, net	<u><u>\$ 26,170,315</u></u>	<u><u>\$(1,129,788)</u></u>	<u><u>\$ 1,240</u></u>	<u><u>\$ 25,039,287</u></u>

**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**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	\$ 528,732		\$ (34,880)	\$ 493,852
Less accumulated depreciation for equipment	<u>415,269</u>	<u>\$ 29,745</u>	<u>(33,958)</u>	<u>411,056</u>
Business-type activities, capital assets, net	<u>\$ 113,463</u>	<u>\$ (29,745)</u>	<u>\$ (922)</u>	<u>\$ 82,796</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	\$ 662,221			\$ 662,221
Special instruction	233,035			233,035
Vocational instruction	21,423			21,423
Other instructional programs	27,815			27,815
Pre K	44,204			44,204
Pupil personnel		\$ 34,947		34,947
Instructional staff		6,443		6,443
Administration		61,288		61,288
Pupil health		6,518		6,518
Business services		16,138		16,138
Operation and maintenance of plant services		25,750		25,750
Other support services		11,896		11,896
Student activities			\$ 10,587	10,587
Community services			1,046	1,046
	<u>\$ 988,698</u>	<u>\$ 162,980</u>	<u>\$ 11,633</u>	<u>\$ 1,163,311</u>

**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**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
2003A QZAB Bond	\$ 2,025,000	-0-%	2018	\$2,025,000 in 2018
2006 General Obligation Note	11,515,000	Variable*	2028	\$540,000-\$1,290,000
2007 General Obligation Note	1,970,000	Variable*	2028	\$35,000-\$240,000,
2012 General Obligation Bond	3,390,000	1%-3.625%	2030	\$20,000-\$395,000
2013 General Obligation Bond	1,735,000	.7%-2.625%	2023	\$275,000-\$305,000
2017 General Obligation Bond	3,800,000	2%-3.375%	2029	\$40,000-\$1,740,000
M&T lease payable	1,105,000	4.129%	2022	\$205,000-\$240,000
Mid Penn Term Loan	48,247	5.50%	2019	\$21,000 - \$27,000
	<u>\$ 25,588,247</u>			

\* See Note 10.

**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**9. Long-term debt (continued):**

In June 2017, the District issued its General Obligation Bonds, Series of 2017, in the amount of \$3,800,000. The proceeds of the bonds were used to currently refund the Series of 2011 bonds and notes, undertake certain capital projects and pay the costs to issue the bonds.

The following is a summary of debt transactions of the District for the year ended June 30, 2017:

Bonds, notes and lease payable at July 1, 2017	\$ 26,218,821
Issued, Series of 2017, bond	3,800,000
Debt refunded:	
Series of 2011, bond	(1,555,000)
Series of 2011, note	(1,850,000)
Debt paid:	
Series of 2006, note	(515,000)
Series of 2007, note	(15,000)
Series of 2012, bond	(5,000)
Series of 2013, bond	(270,000)
Lease payable	(195,000)
Term loan	<u>(25,574)</u>
Bonds, notes and lease payable at June 30, 2017	25,588,247
Current portion of bonds, notes and lease payable	(3,207,008)
Bond discount	<u>(125,769)</u>
Long-term portion of bonds, notes and lease payable	<u><u>\$ 22,255,470</u></u>

**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**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>
2018	\$ 3,207,008	\$ 1,209,454	\$ 4,416,462
2019	1,591,239	1,191,534	2,782,773
2020	1,660,000	1,104,307	2,764,307
2021	1,760,000	1,010,589	2,770,589
2022	1,860,000	909,601	2,769,601
2023-2027	9,685,000	2,915,117	12,600,117
2028-2030	5,825,000	383,503	6,208,503
	<u>\$ 25,588,247</u>	<u>\$ 8,724,105</u>	<u>\$ 34,312,352</u>

Expenditures in the fund financial statements for interest on long-term debt for the year ended June 30, 2017 were \$1,366,900 and were primarily provided from general fund transfers.

The District is required to make payments annually into a debt service sinking fund in order to fund the QZAB bond at maturity in 2018.

The following is a summary of remaining debt service sinking fund requirements for the 2003A QZAB bond:

<u>Year ending June 30,</u>	
2018	<u>\$ 106,671</u>



# **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

YEAR ENDED JUNE 30, 2017

### **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.

At June 30, 2017, 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	\$ 13,485,000	\$ 2,158,653	\$ 1,044,890	Moody's Aa3

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.

## **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

YEAR ENDED JUNE 30, 2017

#### **11. Tax claims sold with recourse:**

The District sold its real estate tax claims to a third party with recourse and is contingently liable for outstanding tax claims of approximately \$1,200,000.

#### **12. Defined benefit pension plan:**

##### *Plan description:*

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

##### *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. Class T-C and T-D members 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 services 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 (the Code)) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a 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 10 years of service.

## **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

YEAR ENDED JUNE 30, 2017

#### **12. Defined benefit pension plan (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 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, 2017**

#### **12. Defined benefit pension plan (continued):**

##### *Employer contributions:*

The District's contractually required contribution rate for fiscal year ended June 30, 2017 was 29.20% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$2,165,178 for the year ended June 30, 2017.

##### *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 PSERS and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

At June 30, 2017, the District reported a liability of \$25,522,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2015 to June 30, 2016. There were no events during the period June 30, 2016 to June 30, 2017 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, 2016, the District's proportion was .0515%, which was an increase of .0005% from its proportion measured as of June 30, 2015.

**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**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, 2017, the District recognized pension expense of \$1,804,000. At June 30, 2017, 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	\$ 921,000	
Net difference between projected and actual investment earnings	1,422,000	
Change in proportion	175,000	\$ 2,127,000
Difference between expected and actual experience		213,000
District contributions subsequent to the measurement date	<u>2,165,178</u>	<u></u>
	<u>\$ 4,683,178</u>	<u>\$ 2,340,000</u>

## STEELTON-HIGHSPIRE SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

#### 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, 2017, \$2,165,178 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 June 30,	
2018	\$(374,000)
2019	(374,000)
2020	348,000
2021	578,000

#### Actuarial assumptions:

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

Actuarial cost method:	Entry age normal - level % of pay
Investment return:	7.25%, includes inflation 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 modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three years for both males and females to the RP-2014 Mortality Tables for males and females, adjusted to reflect PSERS's experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females to the RP-2014 Mortality Tables for males and females, adjusted to reflect PSERS's experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

## **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

#### **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 actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the PSERS Board at its June 10, 2016 board meeting, and were effective beginning with the June 30, 2016 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by 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, 2017

#### 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's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016 are as follows:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Global public equity	22.5 %	5.3 %
Fixed income	28.5	2.1
Commodities	8.0	2.5
Absolute return	10.0	3.3
Risk parity	10.0	3.9
Master limited partnerships/infrastructure	5.0	4.8
Real estate	12.0	4.0
Alternative investments	15.0	6.6
Cash	3.0	0.2
Financing (LIBOR)	<u>(14.0)</u>	<u>(0.5)</u>
	<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, 2017

#### 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%
District's proportionate share of the net pension liability	\$ 31,220,000	\$ 25,522,000	\$ 20,734,000

##### Pension plan fiduciary net position:

Detailed information about PSERS's fiduciary net position is available in PSERS's Comprehensive Annual financial report which can be found on PSERS's website at [www.psers.state.pa.us](http://www.psers.state.pa.us).

#### 13. 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, 2017, the District paid HACC a total of \$60,571. 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, 2017**

#### **14. Other postemployment benefits:**

Postemployment benefits other than pensions (OPEB) are recognized in the government-wide statements when the employee-related services are received by the employer rather than when the benefits are paid. The additional required financial note disclosures detailed below include information about actuarial accrued liabilities for these promised benefits associated with past employee services, and whether and to what extent those benefits have been funded.

##### *Plan description:*

The District offers postemployment health, dental and vision insurance benefits to employees upon their retirement with the same plan provisions provided to active employees. All employees are eligible for postemployment health, dental and vision insurance benefits upon retirement with 30 years of PSERS service or upon superannuation retirement. Retirees are required to pay the full premium to obtain the postemployment benefits. Spouses may elect coverage as well but are required to pay the full premium.

The plan does not issue a publicly available financial report. As of July 1, 2016, there were 142 active participants and 13 retired participants.

##### *Funding policy:*

The District currently follows a pay-as-you-go funding approach, paying an amount each year equal to the benefits claimed in that year.

**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

**14. Other postemployment benefits (continued):**

*Annual OPEB cost and net OPEB obligation:*

The District's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal costs each year and amortize (using the level dollar method) any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's OPEB cost for the year, the amount contributed to the plan and changes in the District's OPEB obligation to the plan.

Normal cost as of July 1, 2016	\$ 53,268
Interest on net OPEB obligation	<u>2,397</u>
Total normal cost	55,665
30-year amortization of unfunded actuarial accrued liability	<u>74,604</u>
Annual required contribution	130,269
Estimated interest on net OPEB obligation	36,787
Estimated adjustment to annual required contribution	<u>(50,187)</u>
Annual OPEB cost	116,869
Contributions made (projected)	<u>(108,328)</u>
Increase in net OPEB obligation	8,541
Net OPEB obligation:	
Beginning of year	<u>817,487</u>
End of year	<u>\$ 826,028</u>

**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

**14. Other postemployment benefits (continued):**

*Trend information:*

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Employer contributions</u>	<u>Percentage of annual OPEB costs contributed</u>	<u>Net OPEB obligation</u>
6/30/2014	\$ 287,341	\$ 147,797	51.4%	\$ 537,616
6/30/2015	285,054	154,707	54.3%	667,963
6/30/2016	282,917	133,393	47.1%	817,487

*Funding status and funding progress:*

The funded status of the plan was as follows:

	<u>7/1/2016</u>	<u>7/1/2013</u>	<u>7/1/2010</u>
Actuarial valuation date			
Fiscal year ends that the actuarial valuation date covers	<u>2017</u>	<u>2014, 2015 and 2016</u>	<u>2013, 2012 and 2011</u>
Unfunded actuarial accrued liability	<u>\$ 1,215,219</u>	<u>\$ 1,967,188</u>	<u>\$ 1,610,707</u>
Funded ratio	0.00%	0.00%	0.00%
Covered payroll	7,099,748	6,877,954	8,096,267
Unfunded actuarial accrued liability as a percentage of covered payroll	17.12%	28.60%	19.89%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actuarial results are compared to past expectations and new estimates are made about the future.

## **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

YEAR ENDED JUNE 30, 2017

#### **14. Other postemployment benefits (continued):**

##### *Actuarial methods and assumptions:*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of the valuation.

In the July 1, 2016 actuarial valuation, the entry age normal cost method was used. An assumption for salary increases was used only for spreading contributions over future pay under this cost method. For this purpose, salary increases were composed of a 2.5% cost of living adjustment, 1% real wage growth and for teachers and administrators a merit increase which varied by age from 2.75% to .25%. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and the assumed retirement age.

Claims costs for medical and prescription drugs are based on the expected portion of the overall cost attributed to individuals in the specified age and gender brackets. Dental costs are assumed to equal the premium charged for coverage. Retiree contributions are assumed to increase at the same rate as the Health Care Cost Trend Rate, which was 6.0% in 2017 and will be 5.5% in 2018 through 2020. Rates gradually decrease from 5.4% in 2021 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.

Other actuarial assumptions include the following: a 4.5% discount rate, retirement rates based on PSERS plan experience and mortality rates as assumed in the PSERS defined benefit pension plan actuarial valuation and rates of withdrawal that vary by age, gender and years of service. No disability was assumed, and the valuation assumed certain percentages of retirees electing coverage under the plan along with the percentage married at retirement and the spouses' age difference.

# **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

YEAR ENDED JUNE 30, 2017

### **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 \$1,505,000 to PSHIC during the 2016-2017 school year.

### **16. Fund balance deficits:**

The general fund, including the athletic fund, and proprietary fund have fund balance deficits of \$(1,340,929) and \$(170,648), respectively, as of June 30, 2017. The proprietary fund recognized a net change in fund balance of \$(49,582), \$140,275 and \$(73,094) 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>
2012	\$18,566,901	\$ 18,812,158	\$ (245,257)	\$(2,680,400)	\$ 2,007	\$ (2,678,393)
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)

# **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

YEAR ENDED JUNE 30, 2017

### **16. Fund balance deficits (continued):**

A significant factor impacting the deterioration of the District's general fund fund balance was overestimating budgeted revenues through 2014. 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>
2012	\$ 19,416,216	\$ 18,566,901	\$(849,315)
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

The District evaluated a number of strategies in order to reduce the fund balance deficit. The District plans to restrict expenditures for the 2017-2018 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 2017-2018 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. This early warning system gives the District access to additional technical assistance from PDE, aimed at improving its fiscal condition. The technical assistance involves PDE employees and consultants evaluating the District's policies and procedures, assessing their programs, providing best practice recommendations and serving as liaisons with PDE. 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.

# **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

YEAR ENDED JUNE 30, 2017

### **17. Continuing financial difficulties (continued):**

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 \$750,000 of additional Federal IDEA Special Education funding in the 2016-2017 school year to assist the District with the unpaid expenses.

### **18. 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, 2017:

<u>Description</u>	<u>Total</u>	<u>(Level 2)</u>
Federal Home Loan Mortgage Corporation, Zero Coupon Bonds	\$ 1,918,329	\$ 1,918,329
Interest rate swap	2,158,653	2,158,653
Donated commodities	10,721	10,721

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

### **19. Commitment and subsequent events:**

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 starting in the 2017/2018 school year and cost approximately \$360,000.

The District has evaluated subsequent events through January 19, 2018, which is the date the financial statements were available to be issued.



**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

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

YEAR ENDED JUNE 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
School District's proportion of the net pension liability	0.0515%	0.0510%	0.0558%
School District's proportionate share of the net pension liability	\$ 25,522,000	\$ 22,090,000	\$ 22,086,000
School District's covered payroll	\$ 6,669,820	\$ 7,117,457	\$ 7,840,337
School District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	382.65%	310.36%	281.70%
Plan fiduciary net position as a percentage of the total pension liability	50.14%	54.36%	57.24%

**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

**SCHEDULES OF DISTRICT PENSION CONTRIBUTIONS**  
(Required Supplementary Information)  
(unaudited)

YEAR ENDED JUNE 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 2,104,321	\$ 1,651,371	\$ 1,318,111
Contributions in relation to the contractually required contribution	<u>2,104,321</u>	<u>1,651,371</u>	<u>1,318,111</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered payroll	\$ 6,669,820	\$ 6,562,980	\$ 7,117,457
Contributions as a percentage of covered- employee payroll	31.55%	25.16%	18.52%

**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

OTHER POSTEMPLOYMENT BENEFITS  
SCHEDULE OF FUNDING PROGRESS  
(Required supplementary information)  
(unaudited)

YEAR ENDED JUNE 30, 2017

	Actuarial valuation date	Actuarial value of assets ( a )	Actuarial accrued liability (AAL) - entry age ( b )	Unfunded AAL (UAAL) ( b-a )	Funded ratio ( a/b )	Covered payroll ( c )	UAAL as of percentage of covered payroll (( b-a )/ c )
Non-professional union	7/1/2016	\$ -	\$ 136,486	\$ 136,486	0.00%	\$ 434,433	31.42%
Non-professional nonunion	7/1/2016	-	10,600	10,600	0.00%	440,842	2.40%
Teachers	7/1/2016	-	900,731	900,731	0.00%	4,889,064	18.42%
Administration	7/1/2016	-	<u>167,402</u>	<u>167,402</u>	<u>0.00%</u>	<u>1,335,409</u>	12.54%
Total	7/1/2016	-	<u>\$ 1,215,219</u>	<u>\$ 1,215,219</u>	<u>0.00%</u>	<u>\$ 7,099,748</u>	17.12%
Non-professional union	7/1/2013	\$ -	\$ 43,137	\$ 43,137	0.00%	\$ 578,532	7.46%
Non-professional nonunion	7/1/2013	-	2,582	2,582	0.00%	163,456	1.58%
Teachers	7/1/2013	-	1,458,222	1,458,222	0.00%	5,323,674	27.39%
Administration	7/1/2013	-	<u>463,247</u>	<u>463,247</u>	<u>0.00%</u>	<u>812,292</u>	57.03%
Total	7/1/2013	-	<u>\$ 1,967,188</u>	<u>\$ 1,967,188</u>	<u>0.00%</u>	<u>\$ 6,877,954</u>	28.60%

(continued)

**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

OTHER POSTEMPLOYMENT BENEFITS  
SCHEDULE OF FUNDING PROGRESS (CONTINUED)  
(Required supplementary information)  
(unaudited)

YEAR ENDED JUNE 30, 2017

	Actuarial valuation date	Actuarial value of assets ( a )	Actuarial accrued liability (AAL) - entry age ( b )	Unfunded AAL (UAAL) ( b-a )	Funded ratio ( a/b )	Covered payroll ( c )	UAAL as of percentage of covered payroll (( b-a )/ c)
Non-professional union	7/1/2010	\$ -	\$ 29,678	\$ 29,678	0.00%	\$ 790,151	3.76%
Non-professional nonunion	7/1/2010	-	2,167	2,167	0.00%	120,756	1.79%
Teachers	7/1/2010	-	1,176,270	1,176,270	0.00%	6,000,898	19.60%
Administration	7/1/2010	-	<u>402,592</u>	<u>402,592</u>	<u>0.00%</u>	<u>1,184,462</u>	33.99%
Total	7/1/2010	-	<u>\$ 1,610,707</u>	<u>\$ 1,610,707</u>	<u>0.00%</u>	<u>\$ 8,096,267</u>	19.89%

# 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, 2017

	Budgeted amounts		Actual budgetary activities	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Local sources:				
Real estate taxes and penalties	\$ 5,193,515	\$ 5,193,515	\$ 5,190,253	\$ (3,262)
Other taxes and penalties	1,324,775	1,324,775	1,187,275	(137,500)
Investment income	9,754	9,754	111,259	101,505
Rent	32,912	32,912	35,345	2,433
Revenues from intermediate sources	294,545	294,545	964,604	670,059
Tuition	6,036	6,036	8,800	2,764
Other revenue	116,837	116,837	36,678	(80,159)
Total local sources	6,978,374	6,978,374	7,534,214	555,840
State sources	12,636,363	12,636,363	12,521,138	(115,225)
Federal sources	1,574,900	1,574,900	994,250	(580,650)
Refund of prior year expenditures			27,194	27,194
Total revenues	21,189,637	21,189,637	21,076,796	(112,841)
Expenditures:				
Instruction:				
Regular programs	7,251,494	6,894,119	6,926,524	(32,405)
Special programs	3,305,249	3,299,735	4,213,221	(913,486)
Vocational programs	399,548	399,548	645,481	(245,933)
Other instructional programs	646,866	591,000	434,314	156,686
Adult education programs		22,863	22,863	-
Community/junior college programs	131,227	131,227	60,571	70,656
Pre-k		323,219	347,300	(24,081)
	11,734,384	11,661,711	12,650,274	(988,563)

(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, 2017

	<u>Budgeted amounts</u>		<u>Actual budgetary activities</u>	<u>Variance with final budget positive (negative)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (continued):				
Support services:				
Pupil personnel services	\$ 633,390	\$ 633,392	\$ 642,646	\$ (9,254)
Instructional staff services	224,450	198,254	292,739	(94,485)
Administrative services	1,205,127	1,304,027	1,206,044	97,983
Pupil health	153,750	153,750	153,823	(73)
Business services	671,687	625,421	525,760	99,661
Operation and maintenance of plant services	1,370,659	1,463,433	1,354,650	108,783
Student transportation services	1,044,686	989,707	714,306	275,401
Other support services	635,306	635,306	646,309	(11,003)
	<u>5,939,055</u>	<u>6,003,290</u>	<u>5,536,277</u>	<u>467,013</u>
Operation of noninstructional services:				
Student activities	342,206	343,706	195,466	148,240
Community services	12,199	19,137	16,354	2,783
	<u>354,405</u>	<u>362,843</u>	<u>211,820</u>	<u>151,023</u>
Debt service			<u>31,165</u>	<u>(31,165)</u>
Total expenditures	<u>18,027,844</u>	<u>18,027,844</u>	<u>18,429,536</u>	<u>(401,692)</u>
Excess of revenues over expenditures	<u>3,161,793</u>	<u>3,161,793</u>	<u>2,647,260</u>	<u>(514,533)</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, 2017

	<u>Budgeted amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>budgetary</u>	<u>final budget</u>
			<u>activities</u>	<u>positive</u>
				<u>(negative)</u>
Other financing uses (sources):				
Debt service transfers	\$ 2,546,440	\$ 2,488,710	\$ 2,627,856	\$ (139,146)
Other		8,230	(6,010)	14,240
Interfund transfers	49,500	49,500		49,500
Budgetary reserve	<u>565,853</u>	<u>615,353</u>		<u>615,353</u>
Total other financing uses (sources)	<u>3,161,793</u>	<u>3,161,793</u>	<u>2,621,846</u>	<u>539,947</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	25,414	<u>\$ 25,414</u>
Fund balance (deficit), July 1, 2016			<u>(1,366,976)</u>	
Fund balance (deficit), June 30, 2017			<u>\$ (1,341,562)</u>	

## ***STEELTON-HIGHSPIRE SCHOOL DISTRICT***

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

**YEAR ENDED JUNE 30, 2017**

#### **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, 2017.
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.

(continued)



***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, 2017

**Excess of expenditures over budget:**

For the year ended June 30, 2017, expenditures exceeded budget in the general fund. These over expenditures were primarily caused by greater than anticipated costs for special education and charter schools.

(continued)

**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, 2017**

**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	\$ 21,076,796
Reclassifications, athletic fund revenue not included in general fund budgetary approval	<u>18,538</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - general fund	<u>\$ 21,095,334</u>
Expenditures:	
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedule	\$ 18,429,536
Reclassifications, athletic fund expenditures not included in general fund budgetary approval	<u>60,459</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - general fund	<u>\$ 18,489,995</u>
Eliminations in the financial statement presentation include a \$41,500 transfer from the general fund to the athletic fund.	

**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2017**

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, 2016	Revenue recognized	Expenditures	Accrued (unearned) revenue at June 30, 2017	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	042-160420	4/29/16-9/30/17	\$ 139,664	\$ 131,905		\$ 139,387	\$ 139,387	\$ 7,482	\$ -
	I	84.010	042-150420	6/18/15-9/30/16	143,306	26,870	\$ 26,870				
Title I, Part A:	I	84.010	013-170420	8/31/16-9/30/17	693,637	347,180		546,456	546,456	199,276	
	I	84.010	013-160420	8/12/15-9/30/16	682,472	92,178	(160,262)	252,440	252,440		
	I	84.010	013-150420	7/14/14-9/30/15	715,950	165,145	165,145				
Total Title I						763,278	31,753	938,283	938,283	206,758	-
Title II-A, Improving Teacher Quality:	I	84.367	020-170420	9/8/16-9/30/17	49,795	50,299		49,795	49,795	(504)	
	I	84.367	020-160420	9/8/15-9/30/16	51,832	7,232	7,232				
	I	84.367	020-150420	9/8/14-9/30/15	52,036	24,031	24,031				
Total Title II						81,562	31,263	49,795	49,795	(504)	-
						844,840	63,016	988,078	988,078	206,254	-

(continued)

# STEELTON-HIGHSPIRE SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2017

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, 2016	Revenue recognized	Expenditures	Accrued (unearned) revenue at June 30, 2017	Amounts paid to subrecipients
<b>Special Education Cluster (IDEA):</b>											
Passed through the Capital Area Intermediate Unit:											
Unit:											
Individuals with Disabilities Education Act, Special Education-Grants to States, Part B:	I	84.027	62-170015	7/1/16-6/30/17	\$ 271,111	\$ 271,111		\$ 271,111	\$ 271,111	\$ -	\$ -
	I	84.027	62-160016	7/1/15-6/30/16	279,191	279,191	\$ 279,191				
Individuals with Disabilities Education Act, Part B, Section 619:	I	84.173	N/A	7/1/16-6/30/17	2,335	2,335		2,335	2,335		
	I	84.173	N/A	7/1/15-6/30/16	1,711	1,711	1,711				
Total passed through the Capital Area Intermediate Unit						554,348	280,902	273,446	273,446	-	-
Passed through the Lancaster-Lebanon Intermediate Unit:											
Individuals with Disabilities Education Act, Part B, Section 611	I	84.027A	#H027A150093	7/1/16-6/30/17	750,000	425,024		691,158	691,158	266,134	
Total Special Education Cluster (IDEA)						979,372	280,902	964,604	964,604	266,134	-
Total U.S. Department of Education						1,824,212	343,918	1,952,682	1,952,682	472,388	-
<u>U.S. Department of Health and Human Services:</u>											
Passed through the Pennsylvania Department of Welfare:											
ACCESS Title XIV Medical Assistance:	I	93.778	N/A	7/1/16 - 6/30/17	N/A	6,089		13,893	13,893	7,804	
	I	93.778	N/A	7/1/15 - 6/30/16	N/A	5,778	13,499	(7,721)	(7,721)		
Total U.S. Department Health and Human Services						11,867	13,499	6,172	6,172	7,804	-

(continued)

# STEELTON-HIGHSPIRE SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2017

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, 2015	Revenue recognized	Expenditures	Accrued (unearned) revenue at June 30, 2016	Amounts paid to subrecipients
<u>U.S. Department of Agriculture:</u>											
<b>Child Nutrition Cluster:</b>											
Passed through the Pennsylvania Department of Education:											\$ -
National School Lunch Program:	I	10.555	N/A	7/1/16-6/30/17	N/A	\$ 384,102		\$ 462,530	\$ 462,530	\$ 78,428	
	I	10.555	N/A	7/1/15-6/30/16	N/A	73,036	\$ 73,036				
School Breakfast Program:	I	10.553	N/A	7/1/16-6/30/17	N/A	134,089		162,959	162,959	28,870	
	I	10.553	N/A	7/1/15-6/30/16	N/A	27,069	27,069				
Total passed through the Pennsylvania Department of Education						618,296	100,105	625,489	625,489	107,298	-
Passed through the Pennsylvania Department of Agriculture:											
National School Lunch Program, donated commodities:	I	10.555	N/A	7/1/15-6/30/16	N/A	43,914 (a)	(13,569) (b)	46,762	46,762 (c)	(10,721) (d)	
Total Child Nutrition Cluster						662,210	86,536	672,251	672,251	96,577	-
Child Nutrition Discretionary Grants Limited Availability+A100:	I	10.579	N/A	2/23/16-6/30/16	N/A	19,222		19,222	19,222		
Fresh Fruit and Vegetable Program:	I	10.582	N/A	7/1/15-6/30/16	N/A	26,501		26,501	26,501		
Total U.S. Department of Agriculture						707,933	86,536	717,974	717,974	96,577	-
Total federal awards						\$ 2,544,012	\$ 443,953	\$ 2,676,828	\$ 2,676,828	\$ 576,769	\$ -

(continued)

## **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

### **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

Source codes:

D - Direct  
I - Indirect

Calculation of 50% rule (25% for low-risk auditee):

Special Education Cluster	\$ 964,604	
Title I	<u>938,283</u>	
	<u>\$ 1,902,887</u>	
	<u>\$ 1,902,887</u>	
Total expenditures per above	<u>\$ 2,676,828</u>	= <u>71.09%</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, 2017. 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 Child Nutrition Discretionary Grant**

This \$19,222 is a cash basis amount as this was not reported on the June 30, 2016 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, 2017 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 19, 2018.

### **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 deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses (2017-001, 2017-002 and 2017-003).

## **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 19, 2018





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, 2017. 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, 2017.

## **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.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as finding 2017-004 that we consider to be a material weakness.

## **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 Steidan & Fritz*

Camp Hill, Pennsylvania  
January 19, 2018

**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2017**

**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)?        yes   X   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, 2017**

**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 84.010	Title I: Title I, Part A Program Improvement Grants to LEAs
84.027 84.027A	Special Education Cluster: Individuals with Disabilities Education Act- Part B Individuals with Disabilities Education Act- Part B Section 611
84.173	Individuals with Disabilities Education Act- Part B Section 619

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

\$ 750,000

Auditee qualified as low-risk auditee?

     yes   X   no

(continued)

## **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

YEAR ENDED JUNE 30, 2017

#### **II. FINANCIAL STATEMENT FINDINGS:**

##### *Internal control findings*

##### Finding number 2017-001

##### **Condition:**

There are a small number of accounting staff employed by the business office; this can contribute to inadequate segregation of duties.

##### **Criteria:**

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.

##### **Cause:**

The following are the identified issues as a result of the small business office staff and turnover of staff:

- Strong controls were not in place to substantiate the completeness of all cash receipts and unpaid disbursements (accounts payable).
- The same person that processed a check receipt could have recorded the check receipt and been responsible for storing the check receipt and taking the check receipt to the bank.
- Account coding of cash disbursements is noted on the supporting documentation, and this can be different from where the disbursements were actually recorded in the general ledger as a result of journal entries. Approval of vendor invoices for goods and services is a critical element of any internal control structure. Processes and procedures should be in place to ensure the initial recording is correct, to avoid changes and corrections in the accounting system.

(continued)

## **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

YEAR ENDED JUNE 30, 2017

#### **II. FINANCIAL STATEMENT FINDINGS (CONTINUED):**

*Internal control findings (continued)*

Finding number 2017-001 (continued)

**Cause (continued):**

- There is not a documented review of the bank statement and bank reconciliation process by someone separate from the person that prepares the bank reconciliation.
- Processing payments and mailing payments to vendors could have been accomplished by the same person.
- One employee was processing payroll, and no one was reviewing his work. With one person or a service provider responsible for processing payroll, incompatible functions are being performed and monitoring controls should be implemented, including documentation of same.
- Bank statements were taking many months to be prepared and fully adjusted.
- One employee has access to process checks, and a facsimile signature is used. Since an employee has access to the check printing and approvals for the checks, the Board Treasurer's documented review of the check registers, bank statements and supporting invoices is important to ensure all checks written were legitimate.

**Effect:**

Performing incompatible functions (authorization, record keeping and custody) can create the opportunity for misappropriation. Not having timely and accurate financial reports may prevent management and the board from having the best available information to make timely decisions.

(continued)

## **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

YEAR ENDED JUNE 30, 2017

#### **II. FINANCIAL STATEMENT FINDINGS (CONTINUED):**

*Internal control findings (continued)*

Finding number 2017-001 (continued)

**Recommendation:**

Cash receipts – One employee could open all of the mail, make a control list of all of the receipts and restrictively endorse all items received as “for deposit only.” This should prevent any unauthorized endorsement should the checks be misplaced or lost before being deposited. The receipts could then go to another employee for further processing and deposit to the bank on a timely basis (generally daily). Then, someone who does not otherwise handle receipts and has not been involved in the process could compare the deposit slips to the list of receipts to ensure that all funds from the control list were deposited. The comparison of the control list to the deposit slip should be documented.

Disbursements – Individuals responsible for recording entries into the financial system that can process payroll or payroll checks or direct deposits, have online banking capabilities and reconcile the bank statement should have monitoring controls in place to review or segregate some of the work performed. For example, a useful internal control is timely and consistently utilizing the board treasurer’s documented review of invoices to approve payment. Documentation should be consistent throughout the year, and record keeping should be maintained consistently in order to ensure expenses are recognized and recorded to appropriate accounts timely and all disbursements from the check register or bank statement should have a documented review. Additionally, if feasible, an employee outside of the cash receipts and cash disbursements process should open and review the bank statements for unusual items. It is also desirable to segregate the duties of processing payments from mailing payments to vendors. The same person that processes the checks for payments and prints the checks should not be able to mail the checks to vendors.

(continued)



**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**II. FINANCIAL STATEMENT FINDINGS (CONTINUED):**

*Internal control findings (continued)*

Finding number 2017-001 (continued)

**Recommendation (continued):**

Timeliness of financial reporting – Develop a plan to update the financial records in a timely manner in order to provide management with the best available information to make accurate decisions, along with meeting reporting and filing deadlines established by outside entities.

Payroll – With one person or an outside service provider responsible for payroll it is important for a separate employee to monitor the amounts paid for payroll, to monitor the employees that are included in payroll (ensuring they are legitimate employees) and to document the review of this monitoring. The documented review could be on payroll registers or other reports that are being reviewed. We also recommend cross training employees to allow the District to implement proper segregation of duties over the payroll process.

Bank reconciliation – If the business manager reviews bank statements and reconciliations, have a documented audit trail of the review.

**The District's response:**

The District agrees with the finding and is in the process of implementing the recommendations. See further details of processes to be put in place as described in the Corrective Action Plan.

(continued)

## **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

YEAR ENDED JUNE 30, 2017

#### **II. FINANCIAL STATEMENT FINDINGS (CONTINUED):**

##### *Internal control findings (continued)*

##### 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.

##### **Cause:**

The following are the identified issues as a result of the lack of internal controls over the Athletic Fund:

- The same person that collected and reconciled Athletic receipts recorded the revenue and took the money to the bank.
- Receipts and expenses were overstated during the year based on the Athletic Fund Treasurer issuing checks/change throughout the year and not reconciling the transactions on a regular basis.

##### **Effect:**

Revenue and expenses could be over or understated throughout the year without proper reconciliations on a regular basis. Also without proper documentation management cannot review and approve revenue and expenses, which can create the opportunity for misappropriation.

##### **Recommendation:**

Proper internal controls should be implemented over the Athletic Fund. All revenues and expenses should be supported by documentation. Reconciliations should be completed for all cash receipts on a timely basis. Someone other than the person collecting money and reconciling receipts should be reviewing and approving the transaction. All cash disbursements need to be supported by some sort of documentation.

(continued)

**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**II. FINANCIAL STATEMENT FINDINGS (CONTINUED):**

*Internal control findings (continued)*

Finding number 2017-002 (continued)

**The District's response:** The District agrees with the finding and is in the process of implementing the recommendations. See further details of processes to be put in place as described in the Corrective Action Plan.

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.

**Cause:** Proper documentation was not filed until December 2016. It is the State's policy to only accept claims one month prior to approval.

**Effect:** The District did not receive reimbursement for the first three months of the 2016/2017 school year.

**Recommendation:** The District should develop a process to ensure oversight and monitoring over the completion of required documents in order to be eligible to receive funding for a particular program. Appropriate staff and resources should be devoted to ensure that all required documents are completed timely.

**The District's response:** The District agrees with the finding and is in the process of implementing the recommendations. See further details of processes to be put in place as described in the Corrective Action Plan.

(continued)

**STEELTON-HIGHSPIRE SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:**

*Internal control over compliance finding*

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 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. 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.

(continued)

## **STEELTON-HIGHSPIRE SCHOOL DISTRICT**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

YEAR ENDED JUNE 30, 2017

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

*Internal control over compliance finding (continued)*

Finding number 2017-004 (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 the 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 is in the process of implementing the recommendations. See further details of processes to be put in place as described in the Corrective Action Plan.

***STEELTON-HIGHSPIRE SCHOOL DISTRICT***

STATUS OF PRIOR YEAR FINDINGS

YEAR ENDED JUNE 30, 2017

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 19, 2018

U.S Department of Education

Steelton-Highspire School District respectfully submits the following summary of prior audit findings for the year ended June 30, 2017.

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 30<sup>th</sup>, 2016.

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](mailto:MSimonetti@shsd.k12.pa.us))

Sincerely,

A handwritten signature in blue ink that reads "C. Michael Simonetti". The signature is fluid and cursive, with the first name "C." and last name "Simonetti" clearly legible.

C. Michael Simonetti, Business Manager

## PRIOR YEAR FINDINGS

### Finding number 2016-001

**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 in process of getting proper internal controls in place (See finding number 2017-001).

### Finding number 2016-002

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

Individuals with Disabilities Education Act – Part B, CFDA 84.027 and 84.027A

Federal Agency: U.S. Department of Education

Pass-through entity: Capital Area Intermediate Unit

Project Number: 62-160016 and H027A150093

**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 budget 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.

**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 also assigned additional personnel to manage and track all Title expenditures ensuring they are charged to the proper accounts and advanced notice of any budget revisions (See finding number 2017-004).