

BALDWIN-WHITEHALL SCHOOL DISTRICT

PITTSBURGH, PENNSYLVANIA

JUNE 30, 2018

AUDIT REPORT

BALDWIN-WHITEHALL SCHOOL DISTRICT

PITTSBURGH, PENNSYLVANIA

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BALDWIN-WHITEHALL SCHOOL DISTRICT

PITTSBURGH, PENNSYLVANIA

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Baldwin-Whitehall School District
4900 Curry Road
Pittsburgh, Pennsylvania 15236

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Baldwin-Whitehall School District as of June 30, 2018, and the respective changes in financial position, and, where applicable, 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, post-employment information, schedule of the District's proportionate share of the net pension liability, and schedule of the District contributions on pages i-xi and 49-52, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Baldwin-Whitehall School District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* 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 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 October 12, 2018, on our consideration of Baldwin-Whitehall School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our

testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Baldwin-Whitehall School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Baldwin-Whitehall School District's internal control over financial reporting and compliance.

Cottrill, Arbutina and Assoc.

Beaver, PA 15009
October 12, 2018

BALDWIN-WHITEHALL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2018

Required Supplementary Information (RSI)

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

FINANCIAL HIGHLIGHTS

As a result of the passage of Act 72 of 2004 by the Pennsylvania State Legislature, school districts were forced to complete their Preliminary Budget by February 15 of each year. Revenue and expense estimates had to be projected months earlier than was customary using much less factual information. Raising the real estate tax rate was now based on an index furnished by the State and the ability to qualify for certain specific exemptions. The future ramifications of raising or not raising the rate had to be considered because the index each year would be tied to the millage rate in effect the previous year. A significant change that occurred with the passage of Act 1 which replaced Act 72 was that school districts may now elect to pass a referendum 110 days prior to the next primary election of each year notifying the Pennsylvania Department of Education that they do not intend to raise the real estate tax millage beyond the level of the state mandated index which is provided to each District every year by the Department. This resolution allows Districts to revert to the former budget schedule of passing a preliminary budget by May 30 and a final budget by June 30.

- Total liabilities of the District exceeded its assets at the close of the most recent year by \$73,209,846 (net deficit). Of this amount, \$89,668,943 (unrestricted net deficit) may be used to meet the government's ongoing obligations to its citizens and creditors.
- The District's total net position increased from 2017 by \$3,236,325 or 4.23%.
- Unrestricted net position decreased by \$4,518,037 in 2018.
- Net investment in capital assets was \$15,007,814 at June 30, 2018, an increase of \$2,496,864.
- The District's real property tax rate increased 1.12 mills from 19.25 to 20.37.
- At June 30, 2018, the District had \$46,974,000 of bond debt outstanding. This represents a decrease of \$6,129,000 or 11.54% from the previous year.
- The total fund balance of the General Fund at June 30, 2018 was \$8.561 million of which \$3,606,773 was unassigned.
- The District remained at an investment grade bond rating of A1 from Moody's Investors Service for all related bond issuances and activities.

BALDWIN-WHITEHALL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2018

USING THE ANNUAL FINANCIAL AUDIT REPORT

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

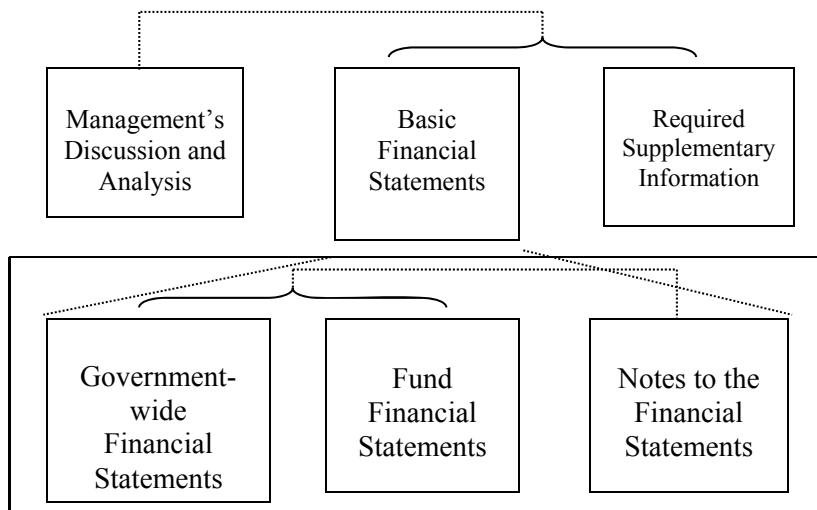
The first two statements are government-wide financial statements – the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the District’s overall financial status.

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 tell 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 as a private enterprise. For Baldwin-Whitehall, this is the Food Service Fund. Fiduciary fund or Agency 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. For Baldwin-Whitehall, these are the Student Activity Funds.

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

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

Figure A-1
Required components of
Baldwin-Whitehall School District’s
Financial Report



BALDWIN-WHITEHALL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2018

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

| Figure A-2 Major Features of Baldwin-Whitehall School District’s Government-wide and Fund Financial Statements | | | | |
|--|--|--|---|--|
| | | Fund Statements | | |
| | Government-wide 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 to someone else’s resources – Activity 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 |

BALDWIN-WHITEHALL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2018

OVERVIEW OF FINANCIAL STATEMENTS

Government-wide Statements

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

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

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

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

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

- Governmental activities – All of the District's basic services are included here, such as instruction, 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, which begin on page 6, provide detailed information about the most significant funds – not the District as a whole. Some funds are required by state law and by bond requirements.

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

BALDWIN-WHITEHALL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2018

Proprietary funds – These funds are used to account for the District activities that are similar to business operations in the private sector, or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the District charges customers for services it provides – whether to outside customers or to other units in the District – these services are generally reported in proprietary funds. The Food Service Fund is the District’s proprietary fund and is the same as the business-type activities reported 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 the Student Activity Funds. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Position on Page 13. These activities are excluded 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 was (\$73,209,846) at June 30, 2018.

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

| | <u>2018</u> | | | <u>2017</u> | | |
|------------------------------------|----------------------------|-----------------------------|------------------------|----------------------------|-----------------------------|------------------------|
| | Governmental Activities | Business-Type Activities | Total | Governmental Activities | Business-Type Activities | Total |
| Current & other assets | \$ 19,975,238 | \$ 931,328 | \$ 20,906,566 | \$ 19,008,400 | \$ 724,080 | \$ 19,732,480 |
| Capital assets | 63,214,119 | 519,658 | 63,733,777 | 66,414,542 | 559,779 | 66,974,321 |
| Deferred Outflows of Resources | 17,958,406 | 358,046 | 18,316,452 | 20,497,339 | 408,525 | 20,905,864 |
| Total assets | <u>\$ 101,147,763</u> | <u>\$ 1,809,032</u> | <u>\$ 102,956,795</u> | <u>\$ 105,920,281</u> | <u>\$ 1,692,384</u> | <u>\$ 107,612,665</u> |
| Current & other liabilities | \$ 23,190,857 | \$ 244,284 | \$ 23,435,141 | \$ 21,370,705 | \$ 215,981 | \$ 21,586,686 |
| Long-term liabilities | 143,803,923 | 2,131,910 | 145,935,833 | 149,059,353 | 2,152,797 | 151,212,150 |
| Deferred Inflows of Resources | 6,656,820 | 138,847 | 6,795,667 | 6,396,707 | 137,293 | 6,534,000 |
| Total liabilities | <u>\$ 173,651,600</u> | <u>\$ 2,515,041</u> | <u>\$ 176,166,641</u> | <u>\$ 176,826,765</u> | <u>\$ 2,506,071</u> | <u>\$ 179,332,836</u> |
| Net Position | | | | | | |
| Net Investment in Capital Assets | \$ 15,007,814 | \$ 519,658 | \$ 15,527,472 | \$ 11,951,171 | \$ 559,779 | \$ 12,510,950 |
| Restricted | 931,625 | 0 | 931,625 | 919,785 | 0 | 919,785 |
| Unrestricted | (88,443,276) | (1,225,667) | (89,668,943) | (83,777,440) | (1,373,466) | (85,150,906) |
| Total net position | <u>\$ (72,503,837)</u> | <u>\$ (706,009)</u> | <u>\$ (73,209,846)</u> | <u>\$ (70,906,484)</u> | <u>\$ (813,687)</u> | <u>\$ (71,720,171)</u> |
| Total Liabilities and Net Position | <u>\$ 101,147,763</u> | <u>\$ 1,809,032</u> | <u>\$ 102,956,795</u> | <u>\$ 105,920,281</u> | <u>\$ 1,692,384</u> | <u>\$ 107,612,665</u> |

Due to the implementation of GASB Statement No. 68, beginning in 2014-15, the District was required to recognize its portion of pension liability. As a direct result of the net pension

BALDWIN-WHITEHALL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2018

liability, the District's Deferred Outflows of Resources decreased by \$2.7 million; Deferred Inflows of Resources decreased by \$70,000, and long term liabilities decreased by \$2.6 million.

Most of the District's net position is invested in capital assets (buildings, land, and equipment). The remaining unrestricted net position is combined as designated and undesignated amounts. The designated balances are amounts set aside to fund future purchases or capital projects as planned by the District.

The results of this year's operations as a whole are reported in the Statement of Activities on Page 5. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District's activities that are supported by other general revenues. The two largest general revenues are the Basic Education Subsidy provided by the State of Pennsylvania, and the local taxes assessed to community taxpayers.

Table A-2 takes the information from that Statement, rearranges it slightly, so you can see our total revenues for the year.

Table A-2
Fiscal Year ended June 30, 2018 and 2017

| | <u>2018</u> | | | <u>2017</u> | | |
|---|------------------------------------|-------------------------------------|----------------------|------------------------------------|-------------------------------------|----------------------|
| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 440,838 | \$ 763,578 | \$ 1,204,416 | \$ 537,078 | \$ 742,657 | \$ 1,279,735 |
| Operating grants & contributions | 12,529,182 | 1,299,449 | 13,828,631 | 11,005,002 | 1,239,924 | 12,244,926 |
| Capital grants & contrib. | 1,234,526 | 0 | 1,234,526 | 1,925,378 | 0 | 1,925,378 |
| General revenues: | | | | | | |
| Property taxes | 35,857,939 | 0 | 35,857,939 | 33,083,975 | 0 | 33,083,975 |
| Other taxes | 5,325,890 | 0 | 5,325,890 | 5,413,364 | 0 | 5,413,364 |
| Grants, subsidies and contributions, unrestricted | 9,712,327 | 0 | 9,712,327 | 9,570,850 | 0 | 9,570,850 |
| Other | 1,929,650 | 1,931 | 1,931,581 | 1,592,416 | 1,535 | 1,593,951 |
| Total Revenues | <u>\$ 67,030,352</u> | <u>\$ 2,064,958</u> | <u>\$ 69,095,310</u> | <u>\$ 63,128,063</u> | <u>\$ 1,984,116</u> | <u>\$ 65,112,179</u> |

BALDWIN-WHITEHALL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2018

Table A-2 - Continued

| | <u>2018</u> | | | <u>2017</u> | | |
|---|----------------------------|-----------------------------|------------------------|----------------------------|-----------------------------|------------------------|
| | Governmental Activities | Business-type Activities | Total | Governmental Activities | Business-type Activities | Total |
| EXPENSES | | | | | | |
| Instruction | \$ 39,505,860 | \$ 0 | \$ 39,505,860 | \$ 42,271,073 | \$ 0 | \$ 42,271,073 |
| Instructional student support | 3,769,373 | 0 | 3,769,373 | 2,168,737 | 0 | 2,168,737 |
| Administrative and financial support | 6,063,116 | 0 | 6,063,116 | 6,030,115 | 0 | 6,030,115 |
| Operation and maintenance of plant | 6,710,027 | 0 | 6,710,027 | 6,741,098 | 0 | 6,741,098 |
| Pupil transportation | 4,992,255 | 0 | 4,992,255 | 4,864,081 | 0 | 4,864,081 |
| Student activities | 1,493,343 | 0 | 1,493,343 | 1,170,561 | 0 | 1,170,561 |
| Community services | 8,902 | 0 | 8,902 | 12,022 | 0 | 12,022 |
| Interest on long-term debt | 953,012 | 0 | 953,012 | 1,371,469 | 0 | 1,371,469 |
| Capital expenditures not subject to depreciation | 405,817 | 0 | 405,817 | 512,872 | 0 | 512,872 |
| Food services | <u>0</u> | <u>1,957,280</u> | <u>1,957,280</u> | <u>0</u> | <u>1,763,853</u> | <u>1,763,853</u> |
| Total expenses | <u>\$ 63,901,705</u> | <u>\$ 1,957,280</u> | <u>\$ 65,858,985</u> | <u>\$ 65,142,028</u> | <u>\$ 1,763,853</u> | <u>\$ 66,905,881</u> |
| Increase (decrease) in net position before transfers | \$ 3,128,947 | \$ 107,678 | \$ 3,236,625 | \$ (2,013,965) | \$ 220,263 | \$ (1,793,702) |
| Transfers | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Increase (decrease) in net position | <u>\$ 3,128,947</u> | <u>\$ 107,678</u> | <u>\$ 3,236,625</u> | <u>\$ (2,013,965)</u> | <u>\$ 220,263</u> | <u>\$ (1,793,702)</u> |
| Net position - Beginning | \$ (70,906,484) | \$ (813,687) | \$ (71,720,171) | \$ (68,297,438) | \$ (1,033,950) | \$ (69,331,388) |
| Prior Period Adjustment | <u>(4,726,000)</u> | <u>0</u> | <u>(4,726,000)</u> | <u>(595,081)</u> | <u>0</u> | <u>(595,081)</u> |
| Net Position - Ending | <u>\$ (72,503,537)</u> | <u>\$ (706,009)</u> | <u>\$ (73,209,546)</u> | <u>\$ (70,906,484)</u> | <u>\$ (813,687)</u> | <u>\$ (71,720,171)</u> |

The tables below present the expenses of both the Governmental Activities and the Business-type Activities of the District.

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

BALDWIN-WHITEHALL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2018

Table A-3
Fiscal Year ended June 30, 2018 and 2017
Governmental Activities

| <u>Functions/Programs</u> | <u>June 30, 2018</u> | | <u>June 30, 2017</u> | |
|---|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | <u>Total Cost of Services</u> | <u>Net Cost of Services</u> | <u>Total Cost of Services</u> | <u>Net Cost of Services</u> |
| Instruction | \$ 39,505,860 | \$ 30,404,297 | \$ 42,271,073 | \$ 33,473,913 |
| Instructional student support | 3,769,373 | 2,251,931 | 2,168,737 | 2,251,931 |
| Administrative & financial support | 6,063,116 | 5,626,878 | 6,030,115 | 5,626,878 |
| Operation & Maintenance | 6,710,027 | 6,012,937 | 6,741,098 | 6,012,937 |
| Pupil transportation | 4,992,255 | 3,251,358 | 4,864,081 | 3,251,358 |
| Student activities | 1,493,343 | 1,087,471 | 1,170,561 | 1,087,471 |
| Community services | 8,902 | 11,119 | 12,022 | 11,119 |
| Interest on long-term debt | 953,012 | (553,909) | 1,371,469 | (553,909) |
| Capital expenditures not subject to depreciation | 405,817 | 512,872 | 512,872 | 512,872 |
| Total governmental activities | <u>\$ 63,901,705</u> | <u>\$ 48,604,954</u> | <u>\$ 65,142,028</u> | <u>\$ 51,674,570</u> |
| Less: | | | | |
| Unrestricted grants, subsidies | | \$ 9,712,327 | | \$ 9,570,850 |
| Total need from local taxes & other revenues | | <u>\$ 38,892,627</u> | | <u>\$ 42,103,720</u> |

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

Table A-4
Fiscal Year ended June 30, 2018 and 2017
Business-type Activities

| <u>Functions/Programs</u> | <u>June 30, 2018</u> | | <u>June 30, 2017</u> | |
|--------------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | <u>Total Cost of Services</u> | <u>Net Cost of Services</u> | <u>Total Cost of Services</u> | <u>Net Cost of Services</u> |
| Food Services | \$ 1,957,280 | \$ (105,747) | \$ 1,763,853 | \$ (218,728) |
| Less: | | | | |
| Transfers In | | 0 | | 0 |
| Investment Earnings | | (1,931) | | (1,535) |
| Total business-type activities | | <u>\$ (107,678)</u> | | <u>\$ (220,263)</u> |

BALDWIN-WHITEHALL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2018

The Statement of Revenues, Expenses and Changes in Fund Net Position for this proprietary fund will further detail the actual results of operations.

THE DISTRICT FUNDS

At June 30, 2018, the District governmental funds reported a combined total fund balance of \$8,561,089 which is an increase of \$292,185.

General Fund Budget

During the fiscal year, the Board authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District in accordance with state law. Transfers between specific categories of expenditures/financing uses occur during the year. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided on Page 14.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2018, the District had \$66,414,542 invested in a broad range of capital assets, including land, buildings, furniture, and equipment.

Table A-5
 Governmental Activities
 Capital assets - net of depreciation

| | <u>2018</u> | <u>2017</u> |
|-----------------------|-------------------|-------------------|
| Land | \$ 1,350,777 | \$ 1,350,777 |
| Site Improvements | 3,477,079 | 3,431,559 |
| Buildings | 53,287,466 | 57,215,270 |
| Furniture & Equipment | <u>5,098,797</u> | <u>4,416,936</u> |
| | <u>63,214,119</u> | <u>66,414,542</u> |

DEBT ADMINISTRATION

During the 2017-2018 fiscal-year, the District made payments against bond principal of \$6,129,000 resulting in ending outstanding bond debt of \$46,974,000 as of June 30, 2018. Table A-6 below depicts the District's total outstanding debt by bond issue.

BALDWIN-WHITEHALL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2018

Table A-6
 Outstanding Debt

| General Obligation Notes/Bonds | <u>2018</u> | <u>2017</u> |
|---------------------------------------|----------------------|----------------------|
| Series 2012 | \$ 1,220,000 | \$ 1,445,000 |
| Series 2013 | 9,610,000 | 9,815,000 |
| Series 2014 | 4,675,000 | 5,905,000 |
| Series 2014A | 8,565,000 | 8,655,000 |
| Series 2015 | 9,525,000 | 9,650,000 |
| Series 2016 | 9,857,000 | 9,995,000 |
| Series 2016A | <u>3,522,000</u> | <u>7,638,000</u> |
| | <u>\$ 46,974,000</u> | <u>\$ 53,103,000</u> |

Other obligations include the following:

| | <u>2018</u> | <u>2017</u> |
|--------------------------------|-----------------------|-----------------------|
| Other Post-Employment Benefits | \$ 5,928,400 | \$ 1,848,569 |
| Compensated Absences | 1,263,645 | 1,270,560 |
| Net Pension Liability | 106,136,000 | 108,728,000 |
| Leases | <u>1,351,784</u> | <u>697,500</u> |
| Total | <u>\$ 114,679,829</u> | <u>\$ 112,544,629</u> |

More detailed information about our long-term liabilities is included in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The revenue budget for the 2018-2019 year is \$1,968,985 more than the original budget for 2017-2018. This represents a 2.98% increase in budgeted revenues. The expenditure budget for the 2018-2019 year is \$1,944,736 more than the original budget for 2017-2018, which is a 2.94% increase.

The comparison of revenue and expenditure categories is as follows:

Table A-7
 BUDGETED REVENUES

| | 2018-2019 | 2017-2018 |
|---------------|-----------|-----------|
| Local | 63.32% | 62.80% |
| State | 35.04% | 35.33% |
| Federal/Other | 1.64% | 1.87% |

BALDWIN-WHITEHALL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2018

BUDGETED EXPENDITURES

| | 2018-2019 | 2017-2018 |
|---------------------------|-----------|-----------|
| Instruction | 57.24% | 54.20% |
| Support Services | 28.77% | 31.49% |
| Non-Instruction/Community | 1.73% | 2.33% |
| Fund Transfers/Debt | 12.26% | 11.98% |

FUTURE IMPLICATIONS

Budgeting in fiscal 2018-19 brought significant challenges as legislation has curtailed school boards' ability to levy taxes. In addition, funding requirements for school districts have been very challenging with the required increases to employer retirement contributions and health care costs. The millage rate was increased by 0.68 mills from 20.37 to 21.05 further impacting the local real estate tax revenue. The original budget for 2018-19 was a balanced budget.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Mark Cherpak, Business Manager at:

4900 Curry Road
Pittsburgh, PA 15236,
412-884-6300

BALDWIN-WHITEHALL SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|------------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and Cash Equivalents | \$ 10,656,699 | \$ 737,160 | \$ 11,393,859 |
| Taxes Receivable, net | | | |
| Property Taxes | 4,415,541 | 0 | 4,415,541 |
| Earned Income Taxes | 879,246 | 0 | 879,246 |
| Internal Balances | (126,335) | 126,335 | 0 |
| Due From Other Governments | 3,449,050 | 26,176 | 3,475,226 |
| Other Receivables | 186,918 | 6,114 | 193,032 |
| Prepaid Expenses | 514,119 | 0 | 514,119 |
| Inventories | <u>0</u> | <u>35,543</u> | <u>35,543</u> |
| Total Current Assets | <u>\$ 19,975,238</u> | <u>\$ 931,328</u> | <u>\$ 20,906,566</u> |
| Noncurrent Assets | | | |
| Land | \$ 1,350,777 | \$ 0 | \$ 1,350,777 |
| Site Improvements (net of depreciation) | 3,477,079 | 0 | 3,477,079 |
| Building & Building Improvements (net of depreciation) | 53,287,466 | 0 | 53,287,466 |
| Furniture & Equipment (net of depreciation) | <u>5,098,797</u> | <u>519,658</u> | <u>5,618,455</u> |
| Total Noncurrent Assets | <u>\$ 63,214,119</u> | <u>\$ 519,658</u> | <u>\$ 63,733,777</u> |
| TOTAL ASSETS | <u>\$ 83,189,357</u> | <u>\$ 1,450,986</u> | <u>\$ 84,640,343</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows of resources related to pensions | \$ 16,310,715 | \$ 358,046 | \$ 16,668,761 |
| Deferred outflows of resources related to District OPEB | 1,642,691 | 0 | 1,642,691 |
| Deferred outflows of resources related to PSERS OPEB | <u>5,000</u> | <u>0</u> | <u>5,000</u> |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 17,958,406</u> | <u>\$ 358,046</u> | <u>\$ 18,316,452</u> |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts Payable | \$ 704,609 | \$ 989 | \$ 705,598 |
| Current Portion of LT Debt | 6,729,039 | 0 | 6,729,039 |
| Short-Term Payables | 144,020 | 0 | 144,020 |
| Accrued Salaries and Benefits | 6,016,539 | 160 | 6,016,699 |
| Current Portion of Net Pension Liability | 9,319,190 | 204,571 | 9,523,761 |
| Unearned Revenues | <u>277,460</u> | <u>38,564</u> | <u>316,024</u> |
| Total Current Liabilities | <u>\$ 23,190,857</u> | <u>\$ 244,284</u> | <u>\$ 23,435,141</u> |
| Noncurrent Liabilities | | | |
| Bonds Payable (net) | \$ 40,671,000 | \$ 0 | \$ 40,671,000 |
| Unamortized bond discount/premium | 534,805 | 0 | 534,805 |
| LT Portion of District Other Post-Employment Benefits | 1,550,400 | 0 | 1,550,400 |
| LT Portion of PSERS Other Post-Employment Benefits | 4,378,000 | 0 | 4,378,000 |
| LT Portion of Leases Payable | 925,744 | 0 | 925,744 |
| LT Portion of Compensated Absences | 1,206,970 | 56,675 | 1,263,645 |
| LT Net Pension Liability | <u>94,537,004</u> | <u>2,075,235</u> | <u>96,612,239</u> |
| Total Noncurrent Liabilities | <u>\$ 143,803,923</u> | <u>\$ 2,131,910</u> | <u>\$ 145,935,833</u> |
| TOTAL LIABILITIES | <u>\$ 166,994,780</u> | <u>\$ 2,376,194</u> | <u>\$ 169,370,974</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows of resources related to pensions | \$ 6,325,153 | \$ 138,847 | \$ 6,464,000 |
| Deferred inflows of resources related to District OPEB | 44,667 | 0 | 44,667 |
| Deferred inflows of resources related to PSERS OPEB | <u>287,000</u> | <u>0</u> | <u>287,000</u> |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>\$ 6,656,820</u> | <u>\$ 138,847</u> | <u>\$ 6,795,667</u> |
| NET POSITION | | | |
| Net Investment in capital assets | \$ 15,007,814 | \$ 519,658 | \$ 15,527,472 |
| Restricted for: | | | |
| Capital Reserve | 931,625 | 0 | 931,625 |
| Unrestricted (deficit) | <u>(88,443,276)</u> | <u>(1,225,667)</u> | <u>(89,668,943)</u> |
| TOTAL NET POSITION | <u>\$ (72,503,837)</u> | <u>\$ (706,009)</u> | <u>\$ (73,209,846)</u> |

BALDWIN-WHITEHALL SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

| Function/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|--|----------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Governmental Activities: | | | | | | | |
| Instruction: | | | | | | | |
| Regular Instruction | \$ 30,219,124 | \$ 36,780 | \$ 4,858,673 | \$ 0 | \$ (25,323,671) | \$ 0 | \$ (25,323,671) |
| Special Instruction | 6,804,635 | 0 | 4,014,551 | 0 | (2,790,084) | 0 | (2,790,084) |
| Vocational Instruction | 2,450,808 | 0 | 181,157 | 0 | (2,269,651) | 0 | (2,269,651) |
| Other Instructional Programs | 9,366 | 0 | 10,402 | 0 | 1,036 | 0 | 1,036 |
| Non-Public School Programs | 21,927 | 0 | 0 | 0 | (21,927) | 0 | (21,927) |
| Total Instructional Services | \$ 39,505,860 | \$ 36,780 | \$ 9,064,783 | \$ 0 | \$ (30,404,297) | \$ 0 | \$ (30,404,297) |
| Support Services: | | | | | | | |
| Pupil Personnel | \$ 1,672,326 | \$ 0 | \$ 219,737 | \$ 0 | \$ (1,452,589) | \$ 0 | \$ (1,452,589) |
| Instructional Staff | 1,512,919 | 0 | 119,903 | 0 | (1,393,016) | 0 | (1,393,016) |
| Administration | 4,296,077 | 0 | 426,178 | 0 | (3,869,899) | 0 | (3,869,899) |
| Pupil Health | 584,128 | 0 | 154,936 | 0 | (429,192) | 0 | (429,192) |
| Business Services | 1,195,424 | 0 | 92,475 | 0 | (1,102,949) | 0 | (1,102,949) |
| Operation of Plant and Maintenance Services | 6,710,027 | 343,417 | 383,018 | 0 | (5,983,592) | 0 | (5,983,592) |
| Student Transportation Services | 4,992,255 | 0 | 1,714,048 | 0 | (3,278,207) | 0 | (3,278,207) |
| Central | 518,351 | 0 | 62,906 | 0 | (455,445) | 0 | (455,445) |
| Other Support Services | 53,264 | 0 | 0 | 0 | (53,264) | 0 | (53,264) |
| Total Support Services | \$ 21,534,771 | \$ 343,417 | \$ 3,173,201 | \$ 0 | \$ (18,018,153) | \$ 0 | \$ (18,018,153) |
| Non-Instructional Services: | | | | | | | |
| Student Activities | \$ 1,493,343 | \$ 60,641 | \$ 290,781 | \$ 0 | \$ (1,141,921) | \$ 0 | \$ (1,141,921) |
| Community Services | 8,902 | 0 | 417 | 0 | (8,485) | 0 | (8,485) |
| Interest on Long-Term Debt | 953,012 | 0 | 0 | 1,234,526 | 281,514 | 0 | 281,514 |
| Capital Expenditures not subject to capitalization | 405,817 | 0 | 0 | 0 | (405,817) | 0 | (405,817) |
| Total Non-Instructional Services | \$ 2,861,074 | \$ 60,641 | \$ 291,198 | \$ 1,234,526 | \$ (1,274,709) | \$ 0 | \$ (1,274,709) |
| Total Governmental Activities | \$ 63,901,705 | \$ 440,838 | \$ 12,529,182 | \$ 1,234,526 | \$ (49,697,159) | \$ 0 | \$ (49,697,159) |
| Business-Type Activities: | | | | | | | |
| Food Services | 1,957,280 | 763,578 | 1,299,449 | 0 | 0 | 105,747 | 105,747 |
| Total Primary Government | \$ 65,858,985 | \$ 1,204,416 | \$ 13,828,631 | \$ 1,234,526 | \$ (49,697,159) | \$ 105,747 | \$ (49,591,412) |
| General Revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes, levied for general purposes, net | | | | | \$ 35,857,939 | \$ 0 | \$ 35,857,939 |
| Other taxes levied for general purposes, net | | | | | 5,325,890 | 0 | 5,325,890 |
| Property Tax Relief | | | | | 1,662,227 | 0 | 1,662,227 |
| Grants, subsidies & contributions not restricted | | | | | 9,712,327 | 0 | 9,712,327 |
| Investment earnings | | | | | 142,477 | 1,931 | 144,408 |
| Miscellaneous income | | | | | 22,812 | 0 | 22,812 |
| Refunds of prior year expenditures | | | | | 176,638 | 0 | 176,638 |
| Refunds of prior year revenues | | | | | (74,504) | 0 | (74,504) |
| Total general revenues and transfers | | | | | \$ 52,825,806 | \$ 1,931 | \$ 52,827,737 |
| Change in Net Position | | | | | \$ 3,128,647 | \$ 107,678 | \$ 3,236,325 |
| Net Position - June 30, 2017 | | | | | (70,906,484) | (813,687) | (71,720,171) |
| Prior Period Adjustment (Note 15) | | | | | (4,726,000) | 0 | (4,726,000) |
| Net Position - June 30, 2017, restated | | | | | \$ (75,632,484) | \$ (813,687) | \$ (76,446,171) |
| Net Position - June 30, 2018 | | | | | \$ (72,503,837) | \$ (706,009) | \$ (73,209,846) |

BALDWIN-WHITEHALL SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018

| | General | Total Governmental Funds |
|---|--------------------------|---|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 10,656,699 | \$ 10,656,699 |
| Taxes Receivable: | | |
| Property Taxes | 4,415,541 | 4,415,541 |
| Earned Income Taxes | 879,246 | 879,246 |
| Intergovernmental Receivables | 3,449,050 | 3,449,050 |
| Other Receivables | 186,918 | 186,918 |
| Prepaid Expenditures | 514,119 | 514,119 |
| TOTAL ASSETS | \$ 20,101,573 | \$ 20,101,573 |
| LIABILITIES AND FUND BALANCES | | |
| LIABILITIES | | |
| Accounts Payable | \$ 704,609 | \$ 704,609 |
| Accrued Salaries & Benefits | 6,016,539 | 6,016,539 |
| Interfund Payables | 126,335 | 126,335 |
| Unearned Revenue | 277,460 | 277,460 |
| TOTAL LIABILITIES | \$ 7,124,943 | \$ 7,124,943 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Unavailable Revenue - Property Taxes | \$ 4,415,541 | \$ 4,415,541 |
| FUND BALANCES | | |
| Nonspendable Fund Balance | | |
| Prepaid Expenses | \$ 514,119 | \$ 514,119 |
| Committed Fund Balance | | |
| Whitehall Recreation Equipment | 5,000 | 5,000 |
| Technology | 534,775 | 534,775 |
| Facility Improvements | 2,968,797 | 2,968,797 |
| Assigned Fund Balance | | |
| Capital Reserve | 931,625 | 931,625 |
| Unassigned Fund Balance | 3,606,773 | 3,606,773 |
| TOTAL FUND BALANCES | \$ 8,561,089 | \$ 8,561,089 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 20,101,573 | \$ 20,101,573 |

See Accompanying Notes to Financial Statements

BALDWIN-WHITEHALL SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 8,561,089

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

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

| | |
|----------------------------------|--------------|
| Add: Capital Assets | 133,151,559 |
| Deduct: Accumulated Depreciation | (69,937,440) |

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

| | |
|---------------------|-----------|
| Add: Property Taxes | 4,415,541 |
|---------------------|-----------|

Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds

| | |
|-----------------------|---------------|
| Net Pension Liability | (103,856,194) |
|-----------------------|---------------|

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

| | | |
|---|--------------------|------------|
| Deferred outflows of resources related to pensions and OPEB | \$ 17,958,406 | |
| Deferred inflows of resources related to pensions and OPEB | <u>(6,656,820)</u> | |
| | | 11,301,586 |

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

| | | |
|--|--------------------|---------------------|
| Deduct: Bonds/Notes Payable | \$ (46,974,000) | |
| Deduct: Leases Payable | (1,351,783) | |
| Deduct: Unamortized Discount/Premium | (534,805) | |
| Deduct: Accrued Interest on Debt | (144,020) | |
| Deduct: Compensated Absences and Other Post-Employment Benefit | <u>(7,135,370)</u> | |
| | | <u>(56,139,978)</u> |

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ (72,503,837)**

BALDWIN-WHITEHALL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, CHANGES IN FUND BALANCE
GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2018

| REVENUES | General | Total Governmental Funds |
|--|-----------------------------------|---|
| Local Sources | \$ 42,862,485 | \$ 42,862,485 |
| State Sources | 23,245,457 | 23,245,457 |
| Federal Sources | <u>991,373</u> | <u>991,373</u> |
| TOTAL REVENUES | <u>\$ 67,099,315</u> | <u>\$ 67,099,315</u> |
| EXPENDITURES | | |
| Instruction | \$ 37,057,687 | \$ 37,057,687 |
| Support Services | 21,083,092 | 21,083,092 |
| Non-Instructional Services | 1,362,070 | 1,362,070 |
| Capital Outlay | 759,012 | 759,012 |
| Debt Services | <u>7,753,540</u> | <u>7,753,540</u> |
| TOTAL EXPENDITURES | <u>\$ 68,015,401</u> | <u>\$ 68,015,401</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>\$ (916,086)</u> | <u>\$ (916,086)</u> |
| OTHER FINANCING SOURCES (USES) | | |
| Refund of Prior Year Receipts | \$ (70,860) | \$ (70,860) |
| Refund of Prior Year Expenditures | 156,303 | 156,303 |
| Lease Proceeds | <u>1,122,828</u> | <u>1,122,828</u> |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>\$ 1,208,271</u> | <u>\$ 1,208,271</u> |
| NET CHANGE IN FUND BALANCES | \$ 292,185 | \$ 292,185 |
| FUND BALANCE - JUNE 30, 2017 | <u>8,268,904</u> | <u>8,268,904</u> |
| FUND BALANCE - JUNE 30, 2018 | <u><u>\$ 8,561,089</u></u> | <u><u>\$ 8,561,089</u></u> |

See Accompanying Notes to Financial Statements

BALDWIN-WHITEHALL SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 292,185

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

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the period.

| | | | |
|--|----------------------------|--------------------|-------------|
| | Capital Outlays | \$ 1,174,114 | |
| | Less: Depreciation Expense | <u>(4,374,537)</u> | |
| | | | (3,200,423) |

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.

Deferred tax revenues changed by this amount this year. (150,761)

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

| | | | |
|--|---|--------------------|----------|
| | District pension contributions | \$ 9,319,190 | |
| | Cost of benefits earned net of employee contributions | <u>(9,383,585)</u> | |
| | | | (64,395) |

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

| | | | |
|--|---|----------------|-----------|
| | Repayment of Bond/Note Principal | \$ 6,129,000 | |
| | Lease Proceeds | (1,122,828) | |
| | Payment of Lease Payable | 468,545 | |
| | Interest Expense | 131,945 | |
| | Amortization and Acquisition of Bond Premium/Discount | <u>128,066</u> | |
| | | | 5,734,728 |

In the Statement of Activities, certain operating expenses-compensated absences and other post-employment benefits-are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). During this year, the total amount of the liability changed by this amount.

517,313

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 3,128,647**

BALDWIN-WHITEHALL SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND TYPES
JUNE 30, 2018

| | Food Service |
|--|---------------------|
| ASSETS | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ 737,160 |
| Due From Other Governments | 26,176 |
| Due From Other Funds | 126,335 |
| Accounts Receivable | 6,114 |
| Inventories | 35,543 |
| Total Current Assets | \$ 931,328 |
| Noncurrent Assets: | |
| Machinery & Equipment (net) | \$ 519,658 |
| Total Noncurrent Assets | \$ 519,658 |
| TOTAL ASSETS | \$ 1,450,986 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Related to Pension | \$ 358,046 |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts Payable | \$ 989 |
| Accrued Salaries and Benefits | 160 |
| Current Portion of Net Pension Liability | 204,571 |
| Unearned Revenue | 38,564 |
| Total Current Liabilities | \$ 244,284 |
| Noncurrent Liabilities: | |
| Compensated Absences Payable | \$ 56,675 |
| Net Pension Liability | 2,075,235 |
| Total Noncurrent Liabilities | \$ 2,131,910 |
| TOTAL LIABILITIES | \$ 2,376,194 |
| DEFERRED INFLOWS OF RESOURCES | |
| Related to Pensions | \$ 138,847 |
| NET POSITION | |
| Net Investment in capital assets | \$ 519,658 |
| Unrestricted | (1,225,667) |
| TOTAL NET POSITION | \$ (706,009) |

See Accompanying Notes to Financial Statements

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

| | <u>Food Service</u> |
|---|-----------------------|
| OPERATING REVENUES: | |
| Food Service Revenue | \$ <u>763,578</u> |
| TOTAL OPERATING REVENUES | |
| OPERATING EXPENSES: | |
| Salaries | \$ 640,628 |
| Employee Benefits | 360,357 |
| Food Purchases | 844,644 |
| Supplies | 1,624 |
| Repairs and Maintenance | 29,971 |
| Depreciation | 67,628 |
| Other Operating Expenses | <u>12,428</u> |
| TOTAL OPERATING EXPENSES | <u>\$ 1,957,280</u> |
| OPERATING INCOME (LOSS) | <u>\$ (1,193,702)</u> |
| NON-OPERATING REVENUES (EXPENSES): | |
| Earnings on Investments | \$ 1,931 |
| State Sources | 184,120 |
| Federal Sources | <u>1,115,329</u> |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | <u>\$ 1,301,380</u> |
| INCOME (LOSS) BEFORE OPERATING TRANSFERS | \$ 107,678 |
| Operating Transfers In (Out) | <u>0</u> |
| CHANGE IN NET POSITION | \$ 107,678 |
| TOTAL NET POSITION - JUNE 30, 2017 | <u>(813,687)</u> |
| TOTAL NET POSITION - JUNE 30, 2018 | <u>\$ (706,009)</u> |

See Accompanying Notes to Financial Statements

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

| | <u>Food Service</u> |
|--|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash Received from Users | \$ 759,355 |
| Cash Payments to Employees for Services | (1,839,163) |
| Cash Payments to Suppliers for Goods and Services | (876,665) |
| Cash Payments for Other Operating Expenses | (12,428) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>\$ (1,968,901)</u> |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | |
| State Sources | \$ 191,155 |
| Federal Sources | 1,232,545 |
| NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES | <u>\$ 1,423,700</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Acquisition of Capital Assets | \$ (27,507) |
| NET CASH PROVIDED (USED) FROM CAPITAL AND RELATED ACTIVITIES | <u>\$ (27,507)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Earnings on Investments | \$ 1,931 |
| NET CASH PROVIDED (USED) FROM INVESTING ACTIVITIES | <u>\$ 1,931</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | \$ (570,777) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>1,307,937</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 737,160</u> |
| <u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u> | |
| Operating Income (Loss) | <u>\$ (1,193,702)</u> |
| Depreciation and Net Amortization | \$ 67,628 |
| Change in Assets and Liabilities | |
| (Increase) Decrease in Inventories | (1,205) |
| (Increase) Decrease in Accounts Receivable | (4,223) |
| (Increase) Decrease in Deferred Outflows of Resources | 50,479 |
| Increase (Decrease) in Accounts Payable | 989 |
| Increase (Decrease) in Due to/from Other Funds | (896,848) |
| Increase (Decrease) in Accrued Salaries and Other Payroll Liabilities | (243) |
| Increase (Decrease) in Compensated Absences | 11,676 |
| Increase (Decrease) in Deferred Inflows of Resources | 1,554 |
| Increase (Decrease) in Net Pension Liability | (4,796) |
| Increase (Decrease) in Deferred Revenue | (210) |
| Total Adjustments | <u>\$ (775,199)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ (1,968,901)</u> |

See Accompanying Notes to Financial Statements

BALDWIN-WHITEHALL SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

| | <u>Student Activities Fund</u> |
|---|--|
| ASSETS | |
| Cash and Cash Equivalents | \$ <u>188,971</u> |
| TOTAL ASSETS | <u>\$ 188,971</u> |
| LIABILITIES | |
| Due to Student Groups | \$ <u>188,971</u> |
| TOTAL LIABILITIES | <u>\$ 188,971</u> |
| TOTAL NET POSITION | <u>\$ 0</u> |
| TOTAL LIABILITIES AND NET POSITION | <u>\$ 188,971</u> |

See Accompanying Notes to Financial Statements

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

| | <u>Budgeted Amounts</u> | | <u>Actual</u> <u>(Budgetary Basis)</u> | <u>Variance with</u> <u>Final Budget</u> <u>Positive</u> | <u>Budget to</u> <u>GAAP</u> <u>Difference</u> | <u>Actual</u> <u>Amounts</u> <u>GAAP Basis</u> |
|---|-------------------------|-----------------------|---|--|--|--|
| | <u>Original</u> | <u>Final</u> | | <u>(Negative)</u> | | <u>GAAP Basis</u> |
| REVENUES | | | | | | |
| Local revenues | \$ 41,519,192 | \$ 41,519,192 | \$ 42,862,485 | \$ 1,343,293 | \$ 0 | \$ 42,862,485 |
| State program revenues | 23,360,393 | 23,360,393 | 23,245,457 | (114,936) | 0 | 23,245,457 |
| Federal program revenues | 1,237,160 | 1,237,160 | 991,373 | (245,787) | 0 | 991,373 |
| TOTAL REVENUES | <u>\$ 66,116,745</u> | <u>\$ 66,116,745</u> | <u>\$ 67,099,315</u> | <u>\$ 982,570</u> | <u>\$ 0</u> | <u>\$ 67,099,315</u> |
| EXPENDITURES | | | | | | |
| Regular Programs | \$ 27,925,546 | \$ 27,925,546 | \$ 27,663,444 | \$ 262,102 | \$ 0 | \$ 27,663,444 |
| Special Programs | 7,056,431 | 7,056,431 | 6,910,185 | 146,246 | 0 | 6,910,185 |
| Vocational Programs | 2,130,402 | 2,130,402 | 2,452,750 | (322,348) | 0 | 2,452,750 |
| Other Instructional Programs | 7,011 | 7,011 | 9,381 | (2,370) | 0 | 9,381 |
| Non-Public School Programs | 25,000 | 25,000 | 21,927 | 3,073 | 0 | 21,927 |
| Pupil Personnel Services | 1,697,738 | 1,697,738 | 1,674,681 | 23,057 | 0 | 1,674,681 |
| Instructional Staff Services | 1,327,059 | 1,327,059 | 1,370,503 | (43,444) | 0 | 1,370,503 |
| Administrative Services | 3,961,938 | 3,961,938 | 3,967,367 | (5,429) | 0 | 3,967,367 |
| Pupil Health | 564,570 | 564,570 | 529,316 | 35,254 | 0 | 529,316 |
| Business Services | 1,345,162 | 1,345,162 | 1,196,413 | 148,749 | 0 | 1,196,413 |
| Operation & Maintenance of Plant Services | 5,384,796 | 5,384,796 | 6,109,454 | (724,658) | 0 | 6,109,454 |
| Student Transportation Services | 4,269,742 | 4,269,742 | 5,712,327 | (1,442,585) | 0 | 5,712,327 |
| Central | 491,244 | 491,244 | 469,767 | 21,477 | 0 | 469,767 |
| Other Support Services | 70,000 | 70,000 | 53,264 | 16,736 | 0 | 53,264 |
| Student Activities | 1,437,467 | 1,437,467 | 1,353,163 | 84,304 | 0 | 1,353,163 |
| Community Services | 17,991 | 17,991 | 8,907 | 9,084 | 0 | 8,907 |
| Facilities Acquisition and Construction | 850,000 | 850,000 | 759,012 | 90,988 | 0 | 759,012 |
| Debt Services | 7,578,897 | 7,578,897 | 7,753,540 | (174,643) | 0 | 7,753,540 |
| TOTAL EXPENDITURES | <u>\$ 66,140,994</u> | <u>\$ 66,140,994</u> | <u>\$ 68,015,401</u> | <u>\$ (1,874,407)</u> | <u>\$ 0</u> | <u>\$ 68,015,401</u> |
| Excess (deficiency) of revenues over expenditures | \$ (24,249) | \$ (24,249) | \$ (916,086) | \$ (891,837) | \$ 0 | \$ (916,086) |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Lease Proceeds | \$ 0 | \$ 0 | \$ 1,122,828 | \$ 1,122,828 | \$ 0 | \$ 1,122,828 |
| Refund of Prior Year Expenditures | 0 | 0 | 156,303 | 156,303 | 0 | 156,303 |
| Refund of Prior Year Receipts | 0 | 0 | (70,860) | (70,860) | 0 | (70,860) |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 1,208,271</u> | <u>\$ 1,208,271</u> | <u>\$ 0</u> | <u>\$ 1,208,271</u> |
| Net change in fund balances | \$ (24,249) | \$ (24,249) | \$ 292,185 | \$ 316,434 | \$ 0 | \$ 292,185 |
| FUND BALANCE - JUNE 30, 2017 | <u>(3,683,743)</u> | <u>(3,683,743)</u> | <u>8,268,904</u> | <u>11,952,647</u> | <u>0</u> | <u>8,268,904</u> |
| FUND BALANCE - JUNE 30, 2018 | <u>\$ (3,707,992)</u> | <u>\$ (3,707,992)</u> | <u>\$ 8,561,089</u> | <u>\$ 12,269,081</u> | <u>\$ 0</u> | <u>\$ 8,561,089</u> |

See Accompanying Notes to Financial Statements

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 1 – REPORTING ENTITY

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

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

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

The Allegheny Intermediate Unit was considered as a possible component unit, but was excluded based on the above criteria.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government-wide financial statements—The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

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

B. Measurement Focus/Basis of Accounting

Fund Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement, arbitrage rebates, and post-employment healthcare benefits, are recorded only when payment is due. Property taxes and interest associated with past and current fiscal periods are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period if they are collected within 60 days of the end of the current fiscal period. All other property taxes associated with past and current fiscal periods are deferred in the Governmental fund financial statements.

The School District reports the following major governmental funds:

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

Capital Projects Funds—The Capital Projects Funds account for resources accumulated and payments made for the acquisition and improvement of sites, construction and remodel of facilities, and procurement of equipment necessary for providing educational programs for all students within the School District. There were no funds of this type in the current year.

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

The School District reports its only proprietary fund, the Food Service Fund, as major.

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

Fiduciary Funds—Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, or other governments. These include agency funds. Agency funds are purely custodial and thus do not involve measurement of results of operations. Major Fund reporting does not apply to Fiduciary Funds. Accordingly, the School District presents only a statement of fiduciary net position and does not present a statement of changes in fiduciary net position for the agency fund.

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The School District reports the Student Activity Funds as an agency fund. These Fiduciary Funds are used to account for net position held in a purely custodial capacity for specific other persons, organizations or governments.

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

C. Budgetary Process

The School District passed an appropriated original budget for the fiscal year ending June 30, 2018 with revenues totaling \$66,116,745 and expenditures totaling \$66,140,994.

The School District is required by state law to adopt an annual budget for the General Fund only. The budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles (“GAAP”).

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

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

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

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

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

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

D. Deposits and Investments

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

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

E. Interfund Balances

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

F. Inventories

On government-wide financial statements, inventories are stated at cost using the purchase method. The purchase method means that food products, materials, and supplies are charged as expenditures when acquired. Inventory on hand at the end of the period is then recorded as an

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

asset by offsetting the appropriate expense account. Inventories for governmental activities are not reported as of June 30, 2018 due to their immaterial balance.

On fund financial statements, inventories are stated at cost using the purchase method for proprietary funds. The inventory for Business-type Activities at June 30, 2018 is \$35,543. Inventories are not maintained in governmental funds for fund financial statement reporting.

G. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District capitalizes all purchases made out of debt service funds and maintains a capitalization threshold of \$4,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

H. Bond Premiums and Discounts

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

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

I. Compensated Absences/Retirement Incentives

Compensated Absences

The School District has agreed to pay unused sick leave for all employees, including business-type employees, who have attained twenty years of services in PSERS and ten years of service with Baldwin-Whitehall School District. For teachers, the value of unused sick days is measured as follows:

| <u>Days of Unused Sick Leave</u> | <u>Rate</u> |
|--|-------------|
| 1-75 days | \$53/day |
| 76-150 days | \$63/day |
| 151-200 days | \$75/day |
| Accrued sick days cannot exceed 200 days | |

The School District’s governmental liability is as follows:

| | |
|---|-----------------|
| Compensated absences liability at 6/30/17 | \$ 1,225,561 |
| Decrease in liability | <u>(18,591)</u> |
| Compensated absences liability at 6/30/18 | \$ 1,206,970 |

The School District’s liability for business-type employees is as follows:

| | |
|---|---------------|
| Compensated absences liability at 6/30/17 | \$ 44,999 |
| Increase in liability | <u>11,676</u> |
| Compensated absences liability at 6/30/18 | \$ 56,675 |

Retirement Incentives

Recently Issued and Adopted Accounting Pronouncements

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

The liabilities for the above items are reported on the government-wide financial statements. For governmental funds, the current portion of the liabilities is the amount that is normally expected

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

to be paid using expendable financial resources. In proprietary funds, if applicable, the entire amount of the liabilities is reported as a fund liability.

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Net Position

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

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

L. Fund Balance

The GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54) effective for reporting periods after June 15, 2010. The intention of the GASB Statement is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the District's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. GASB 54 provides for two major types of fund balances, which are non-spendable and spendable. Non-spendable fund balances are balances that cannot be spent because they are not expected to be converted to cash, or they are legally or contractually required to remain intact. Examples of this classification are prepaid items and inventories.

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

Assigned – Fund balances that contain self-imposed constraints of the government to be used for a particular purpose. The Board of Directors retains the authority to assign portions of the fund balance.

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

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

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

M. Use of Estimates

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

N. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District reported \$17,958,406 in the Governmental Activities and \$358,046 in the Business-type Activities as deferred outflows of resources.

In addition to liabilities, the statement of net position and/or the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

School District reported \$6,656,820 in the Governmental Activities and \$138,847 in the Business-type Activities as deferred inflows of resources.

O. Pensions

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

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

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

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

NOTE 3 – CASH / INVESTMENTS

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2018, \$4,032,959 of the School District's bank balance of \$4,282,959 was exposed to custodial credit risk as:

| | | |
|---|----|-----------|
| Uninsured and uncollateralized | \$ | 0 |
| Collateralized with securities held by the pledging financial institution | \$ | 0 |
| Uninsured and collateral held by the pledging bank's trust department not in the District's name | \$ | 4,032,959 |

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 3 – CASH / INVESTMENTS – CONTINUED

Other Deposits

As of June 30, 2018, the School District had the following other deposits in the Pennsylvania Local Government Investment Trust (PLGIT) and the Pennsylvania School Liquid Asset Fund (PSDLAF) which were established as 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. These funds have the characteristics of open-end mutual funds and are not subject to credit risk classification. PLGIT and PSDLAF are governed by an elected board of trustees who are responsible for the overall management of the funds. The trustees are elected from the several classes of local governments participating in them. Each fund is audited annually by independent auditors. The Funds operate in a manner consistent with the SEC's Rule 2(a)7 of the Investment Company Act of 1940. The funds use amortized cost to report net position to compute share prices. The Funds maintain net asset value of \$1 per share. Accordingly, the fair value of the position in PLGIT and PSDLAF is the same as the value of PLGIT and PSDLAF shares.

Credit Risk

The value of the funds as of June 30, 2018 is as follows:

| <u>Type</u> | <u>Fair Value</u> | <u>Standard & Poor's Rating</u> |
|--------------------------------------|---------------------|-------------------------------------|
| PA Local Government Investment Trust | \$ 3,924,866 | AAAm |
| PA School District Liquid Asset Fund | 4,631,243 | AAAm |
| Total | <u>\$ 8,556,109</u> | |

Reconciliation to Financial Statements

| | |
|---------------------------------|----------------------|
| Uncollateralized Amount Above | \$ 4,032,959 |
| Collateralized Amount Above | 250,000 |
| Other Deposits Above | <u>8,556,109</u> |
| Carrying Amount - Bank Balances | \$ 12,839,068 |
| Less: Outstanding Items | (1,256,237) |
| Less: Fiduciary Funds | <u>(188,972)</u> |
| Total | <u>\$ 11,393,859</u> |

Interest Rate Risk

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

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 3 – CASH / INVESTMENTS – CONTINUED

Custodial Credit Risk

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

Statutory Authority

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

Section 440.1(c) of the Pennsylvania School Code authorizes the types of investments school districts may have:

1. United States Treasury bills
2. Short-term obligations of the United States Government or its agencies or instrumentalities. *Short-term obligations* usually refer to investments of less than thirteen months.
3. Deposits in savings accounts or time deposits or share accounts of institutions insured by:
 - a. The Federal Deposit Insurance Corporation (FDIC), or
 - b. The Federal Savings and Loan Insurance Corporation, or
 - c. The National Credit Union Share Insurance Fund to the extent that such accounts are so insured, and for any amounts above maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository.
4. Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities. *Full faith and credit* means the obligation is backed by the government's ability to levy taxes to repay debt. These investments include any bonds issued by the Commonwealth of Pennsylvania or any municipality or school district carrying the backing of the taxation of the governmental unit issuing the debt. Some investments of the Federal government do not have full faith and credit backing. Fannie-Mae (FNMA) and Freddy-Mach (FNMC) bonds do not. Ginnie-Mae (GNMA) bonds do have full faith and credit backing.
5. Shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933 provided that the following are met:

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 3 – CASH / INVESTMENTS – CONTINUED

- a. Only investments of that company are in the authorized investments for school district funds listed in the categories above, and repurchase agreements fully collateralized by such investments
- b. The investment company is managed so as to maintain its shares as a constant net asset value in accordance with 17 CFR 270 2a-7 (money market funds)
- c. The investment company is rated in the highest category by a nationally recognized rating agency.

This classification includes pooled investments such as the Pennsylvania School District Liquid Asset Fund, Pennsylvania Local Government Investment Trust, and the Pennsylvania State Treasurer’s Invest Program.

NOTE 4 – TAXES

Property Taxes

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

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

July 1, 2017 - tax levy date
Through August 31, 2017 - 2% discount period
Through October 31, 2017 - face payment period
Beginning November 1, 2017 - 5% penalty period
April 15, 2018 - lien date

The School District tax rate for all purposes in 2017-2018 was 20.37 mills (\$20.37 per \$1,000 assessed valuation). Collections for the 2017-2018 year were \$34,627,135.

As of June 30, 2018, property taxes receivable by the School District include uncollected taxes assessed as of July 1, 2017 or earlier. It is estimated that 90% of all assessed taxes (including delinquencies plus accrued interest and penalties) will be collected; therefore, property taxes receivable reflect this estimate. Delinquent property tax receivable is recognized as revenue in the government- wide financial statements. Only the portion of property taxes receivable that meets the revenue recognition criteria is reported as revenue in the fund financial statements.

Income Taxes

The School District levies a voted continuing tax of 0.50% for general operations on the income of residents. Taxpayers are required to file an annual return. The collector makes periodic distributions to the School District after withholding amounts for administrative fees. Income tax receipts are credited to the general fund.

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 5 – CAPITAL ASSETS

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

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|-----------------------|---------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,350,777 | \$ 0 | \$ 0 | \$ 1,350,777 |
| Total Capital assets, not being depreciated | <u>\$ 1,350,777</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 1,350,777</u> |
| Capital assets, being depreciated: | | | | |
| Site Improvements | \$ 6,889,112 | \$ 334,915 | \$ 0 | \$ 7,224,027 |
| Building and building improvements | 106,211,769 | 0 | 0 | 106,211,769 |
| Furniture and equipment | <u>17,525,787</u> | <u>1,414,877</u> | <u>(575,678)</u> | <u>18,364,986</u> |
| Total capital assets, being depreciated | <u>\$ 130,626,668</u> | <u>\$ 1,749,792</u> | <u>\$ (575,678)</u> | <u>\$ 131,800,782</u> |
| Accumulated depreciation for: | | | | |
| Site Improvements | \$ (3,457,553) | \$ (289,395) | \$ 0 | \$ (3,746,948) |
| Building and building improvements | (48,996,499) | (3,927,804) | 0 | (52,924,303) |
| Furniture and equipment | <u>(13,108,851)</u> | <u>(729,372)</u> | <u>572,034</u> | <u>(13,266,189)</u> |
| Total accumulated depreciation | <u>\$ (65,562,903)</u> | <u>\$ (4,946,571)</u> | <u>\$ 572,034</u> | <u>\$ (69,937,440)</u> |
| Total capital assets, being depreciated, net | <u>\$ 65,063,765</u> | <u>\$ (3,196,779)</u> | <u>\$ (3,644)</u> | <u>\$ 61,863,342</u> |
| Governmental activities capital assets, net: | <u>\$ 66,414,542</u> | <u>\$ (3,196,779)</u> | <u>\$ (3,644)</u> | <u>\$ 63,214,119</u> |
| Business-type activities: | | | | |
| Capital assets, being depreciated: | | | | |
| Furniture and equipment | \$ 1,343,006 | \$ 27,507 | \$ 0 | \$ 1,370,513 |
| Total capital assets, being depreciated | <u>\$ 1,343,006</u> | <u>\$ 27,507</u> | <u>\$ 0</u> | <u>\$ 1,370,513</u> |
| Accumulated depreciation for: | | | | |
| Furniture and equipment | \$ (783,227) | \$ (67,628) | \$ 0 | \$ (850,855) |
| Total accumulated depreciation | <u>\$ (783,227)</u> | <u>\$ (67,628)</u> | <u>\$ 0</u> | <u>\$ (850,855)</u> |
| Total capital assets, being depreciated, net | <u>\$ 559,779</u> | <u>\$ (40,121)</u> | <u>\$ 0</u> | <u>\$ 519,658</u> |
| Business-type activities capital assets, net: | <u>\$ 559,779</u> | <u>\$ (40,121)</u> | <u>\$ 0</u> | <u>\$ 519,658</u> |
| Total Governmental & Business-type activities, net | <u>\$ 66,974,321</u> | <u>\$ (3,236,900)</u> | <u>\$ (3,644)</u> | <u>\$ 63,733,777</u> |

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 5 – CAPITAL ASSETS – CONTINUED

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

Governmental Activities:

| | |
|--|---------------------|
| Instruction: | |
| Regular Instruction | \$ 2,900,651 |
| Support Services: | |
| Instructional Staff | 143,704 |
| Administration | 415,998 |
| Pupil Health | 55,501 |
| Operation of Plant and Maintenance Services | 640,607 |
| Student Transportation Services | 598,966 |
| Central | 49,257 |
| Non-Instructional Services: | |
| Student Activities | <u>141,887</u> |
| Total Depreciation expense, Governmental Activities: | <u>\$ 4,946,571</u> |

Business-Type Activities:

| | |
|---|------------------|
| Food Services | <u>\$ 67,628</u> |
| Total Depreciation expense, Business-Type Activities: | <u>\$ 67,628</u> |

Total Depreciation expense, Governmental and Business-Type Activities: \$ 5,014,199

NOTE 6 – RISK MANAGEMENT

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

The School District's agreement permits withdrawal from the Consortium only as of the last day of a fiscal year and after having given all participating entities and the Trustees written notice by April 30th of such fiscal year. If Baldwin-Whitehall were to withdraw, the School District would be entitled to receive a prorata share of the net assets or would be required to reimburse the Consortium for their prorata share of any deficiency in net assets.

The Consortium fund balance attributable to Baldwin-Whitehall School District was \$1,582,758 as of June 30, 2018 (audited), and at this time Baldwin-Whitehall has no plans to withdraw from the Consortium. The financial statements of the Consortium for the year ended June 30, 2018 are on file with the Baldwin-Whitehall School District.

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 7 – PENSION PLAN

Public School Employees' Retirement System (PSERS)

General Information about the Pension Plan

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

Benefits Provided: PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of 5 years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after 10 years of service.

Participants are eligible for disability retirement benefits after completion of 5 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 1 year of credited service (age 65 with at least 3 years of credited service for Class T-E and Class T-F members) or who has at least 5 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.

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 7 – PENSION PLAN – CONTINUED

Contributions:

Member Contributions:

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

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

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

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

Employer Contributions:

The school districts' contractually required contribution rate for the fiscal year ended June 30, 2018 was 31.74% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$9,523,760 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$106,136,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net pension liability was calculated utilizing the employer's 1-year reported covered payroll as it related to the total 1-year reported covered payroll. At June 30, 2017, the District's proportion was 0.2149%, which was a decrease of 0.0045% from its proportion measured as of June 30, 2016.

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 7 – PENSION PLAN – CONTINUED

For the year ended June 30, 2018, the District recognized pension expense of \$9,458,000. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 1,107,000 | \$ 641,000 |
| Changes in assumptions | 2,883,000 | 0 |
| Net difference between projected and actual investment earnings | 2,459,000 | 0 |
| Changes in proportions | 696,000 | 5,823,000 |
| Difference between employer contributions and proportionate share of total contributions | 0 | 0 |
| District contributions subsequent to the measurement date | <u>9,523,761</u> | <u>0</u> |
| Total | <u>\$ 16,668,761</u> | <u>\$ 6,464,000</u> |

The District reported \$16,668,761 as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expenses as follows:

Year ended June 30:

| | |
|------|--------------|
| 2018 | \$ (132,000) |
| 2019 | 1,449,000 |
| 2020 | 115,000 |
| 2021 | (752,000) |

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

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.25% includes inflation at 2.75%
- Salary growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 7 – PENSION PLAN – CONTINUED

- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS’ experience and projected using a modified version of the MP-2015 Mortality Improvement Scale

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

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

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

The above was the Board’s adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017.

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

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 7 – PENSION PLAN – CONTINUED

Sensitivity of the School District's proportionate share of the Net Pension Liability to changes in the discount rate: The following presents the School District's proportionate share of the net pension liability, calculated using the discount rate of 7.25%, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

| | 1% Decrease 6.25% | Current Discount Rate 7.25% | 1% Increase 8.25% |
|--|----------------------|-----------------------------------|----------------------|
| School District's proportionate share of net pension liability | \$ 130,644,000 | \$ 106,136,000 | \$ 85,444,000 |

Plan Fiduciary Net Position: Detailed information about the PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the System's website at www.psers.pa.gov.

NOTE 8 – LONG-TERM DEBT

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

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|--------------|----------------|-------------------|------------------------|
| Governmental activities: | | | | | |
| Bonds/Notes Payable: | | | | | |
| General obligation bonds/notes | \$ 53,103,000 | \$ 0 | \$ (6,129,000) | \$ 46,974,000 | \$ 6,303,000 |
| Deferred amounts for issuance premium/(discount) | 662,871 | 0 | (128,066) | 534,805 | 0 |
| Total bonds/notes payable, net | \$ 53,765,871 | \$ 0 | \$ (6,257,066) | \$ 47,508,805 | \$ 6,303,000 |
| Net Pension Liability | \$ 106,443,398 | \$ 0 | \$ (2,587,204) | \$ 103,856,194 | \$ 9,319,190 |
| Lease obligations | 697,500 | 1,122,828 | (468,545) | 1,351,783 | 426,039 |
| Other post- Emp. benefit obligation/comp abs payable | 3,074,130 | 0 | (316,760) | 2,757,370 | 0 |
| Total governmental activity long-term liabilities | \$ 163,980,899 | \$ 1,122,828 | \$ (9,629,575) | \$ 155,474,152 | \$ 16,048,229 |
| Business-type Activities: | | | | | |
| Net Pension Liability | \$ 2,284,602 | \$ (4,796) | \$ 0 | \$ 2,279,806 | \$ 204,571 |
| Other post- Emp. benefit obligation/comp abs payable | 44,999 | 0 | 11,676 | 56,675 | 0 |
| Total business-type activity long-term liabilities | \$ 2,329,601 | \$ (4,796) | \$ 11,676 | \$ 2,336,481 | \$ 204,571 |

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

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 8 – LONG-TERM DEBT – CONTINUED

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

| <u>Bonds and Notes Payable</u> | | | |
|--------------------------------|----------------------|---------------------|----------------------|
| <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2019 | \$ 6,303,000 | \$ 1,024,637 | \$ 7,327,637 |
| 2020 | 6,506,000 | 816,567 | 7,322,567 |
| 2021 | 6,690,000 | 642,345 | 7,332,345 |
| 2022 | 6,696,000 | 512,536 | 7,208,536 |
| 2023 | 6,964,000 | 374,997 | 7,338,997 |
| 2024-2028 | <u>13,815,000</u> | <u>298,147</u> | <u>14,113,147</u> |
| Total | <u>\$ 46,974,000</u> | <u>\$ 3,669,229</u> | <u>\$ 50,643,229</u> |

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

| | |
|---|----------------------|
| \$4,945,000 2012 general obligation bonds, due in annual installments of \$235,000 to \$785,000, beginning September 15, 2005, through September 15, 2022, interest from 1.00 to 2.25% | \$ 1,220,000 |
| \$9,980,000 2013 general obligation bonds, due in annual installments of \$5,000 to \$3,020,000, beginning November 15, 2015, through November 15, 2022, interest from .5% to 2.55% | 9,610,000 |
| \$8,320,000 2014 general obligation bonds, due in annual installments of \$525,000 to \$1,295,000, beginning May 15, 2015, through November 15, 2021, interest from 0.20% to 5.00% | 4,675,000 |
| \$8,825,000 2014A general obligation bonds, due in annual installments of \$85,000 to \$5,745,000, beginning November 15, 2015, through November 15, 2024, interest from 0.60% to 6.20% | 8,565,000 |
| \$9,895,000 2015 general obligation bonds, due in annual installments of \$120,000 to \$6,960,000, beginning November 15, 2015, through November 15, 2024, interest from 2.00% to 5.00% | 9,525,000 |
| \$9,995,000 2016 general obligation note, due in annual installments of \$138,000 to \$3,434,000, beginning November 15, 2017, through November 15, 2022, interest at 1.54% | 9,857,000 |
| \$9,999,000 2016 general obligation note series A, due in annual installments of \$199,000 to \$4,116,000, beginning November 15, 2016, through November 15, 2019, interest at 1.875% | <u>3,522,000</u> |
| | <u>\$ 46,974,000</u> |

For the year ended June 30, 2018, total interest and debt fees incurred of \$1,199,897 were charged to expense; no interest costs were capitalized during the period.

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 8 – LONG-TERM DEBT – CONTINUED

Capital Leases

During the year ending June 30, 2016, the District entered into a capital lease agreement for buses used for transportation for a total amount of \$1,205,841. Principal lease payments expensed to the District during the current year totaled \$411,517. At the conclusion of the lease, the District will own the buses.

During the year ending June 30, 2017, the District entered into a capital lease agreement for copiers for a total amount of \$304,517. Principal lease payments expensed to the District during the current year totaled \$57,028. At the conclusion of the lease, the District will own the copiers.

During the year ending June 30, 2018, the District entered into a capital lease agreement for buses used for transportation for a total amount of \$1,122,828. Principal lease payments expensed to the District during the current year totaled \$411,517. At the conclusion of the lease, the District will own the buses.

Future minimum lease payments are as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------|---------------------|------------------|---------------------|
| June 30, 2019 | \$ 426,039 | \$ 31,255 | \$ 457,294 |
| June 30, 2020 | 436,032 | 21,261 | 457,293 |
| June 30, 2021 | 445,414 | 11,018 | 456,432 |
| June 30, 2022 | 44,298 | 637 | 44,935 |
| | <u>\$ 1,351,783</u> | <u>\$ 64,171</u> | <u>\$ 1,415,954</u> |

NOTE 9 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

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

| | <u>Receivables</u> | <u>Payables</u> |
|-------------------------------|--------------------|-----------------|
| General Fund: Enterprise Fund | \$ 0 | \$ 126,335 |
| Enterprise Fund: General Fund | 126,335 | 0 |

The interfund balance resulted from subsidies collected by the General Fund that are due to the Enterprise Fund. The interfund balance between the General Fund and Enterprise Fund is expected to be collected in the subsequent year.

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 10 – CONTINGENCIES

A. Litigation

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

B. Grants

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

NOTE 11 – SCHOOL DISTRICT OTHER POST-EMPLOYMENT BENEFITS

Plan description

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

Currently, there are no early retirement incentives in place for any of the employee groups. However, as with any school district, employees can retire and elect to continue in the medical program provided they contribute the full premium rate in accordance with Act 110/43.

Below is a description of the former incentives that had been in place:

Classified

In past years, there were various incentives for retiring classified employees. Generally, these incentives provided post-retirement medical benefits up to the age of 65. As of March 1, 2017, any retired classified employee who has remained on the medical plan is contributing 100% of the premium rate.

Professional/Teachers

As mentioned above, there is no early retirement incentive currently in place for the Teachers. There are, however, some existing retirees who had retired under a prior early retirement incentive. A brief description of those incentives is as follows:

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 11 – SCHOOL DISTRICT OTHER POST-EMPLOYMENT BENEFITS – CONT'D

2015 Incentive

Teachers who retired under this incentive are eligible for medical and prescription drug benefits for a period up to the point in which they became eligible for Medicare or June 30, 2021, whichever occurs first.

During the incentive period, the District will pay a maximum of \$14,000 per year towards retiree medical coverage.

Incentives prior to 2015

Teachers who retired under any incentive prior to the 2015 incentive were eligible for medical and prescription drug benefits for various durations. For example, one incentive provided benefits for a 5-year period whereas another provided benefits for a period up to the point in which they became eligible for Medicare or attained age 65, whichever occurred first.

Any teachers who retired under these prior incentives are now required to contribute 100% of the premium rate in order to maintain coverage.

Retired Administrators

In past years, there were various incentives for retiring administrators. Generally, these incentives provided post-retirement medical benefits for a 10-year period. On June 30, 2017, the 10-year period expired for all existing retired administrators.

Any retired administrators who remain on the medical plan after June 30, 2017 will be required to contribute 100% of the premium rate.

Special Contracts

There are no current retirees who retired under a special contract.

Medical

Employees who retire and remain in the medical plan are enrolled in either a PPO program or an EPO program. The programs are provided through the Allegheny County Schools Health Insurance Consortium (ACSHIC) and are administered by Highmark.

Dental

Retirees are also eligible for dental benefits. Retirees with dental coverage must contribute 100% of the premium rate. Dental benefits are provided up to the age of 65 only.

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 11 – SCHOOL DISTRICT OTHER POST-EMPLOYMENT BENEFITS – CONT'D

Vision

Retirees are also eligible for vision benefits. Retirees with vision coverage must contribute 100% of the premium rate. Vision benefits are provided up to the age of 65 only.

Life Insurance

Post-retirement life insurance is not provided.

Membership in the plan consisted of the following at July 1, 2016, the date of the last actuarial valuation.

| | |
|---|-------------------|
| Retirees and beneficiaries receiving benefits | 46 |
| Active plan members | <u>332</u> |
| Total | <u>378</u> |

The OPEB liability is calculated as follows:

| | |
|--|------------------------------------|
| | <u>Total OPEB Liability</u> |
| Balance at 6/30/2017 | \$ 1,848,569 |
| Changes for the year: | |
| Interest | \$ 52,684 |
| Service cost | \$ 59,926 |
| Changes of assumptions or other inputs | (47,857) |
| Benefit payments | <u>(362,922)</u> |
| Net changes | <u>\$ (298,169)</u> |
| Balance at 6/30/2018 | <u>\$ 1,550,400</u> |

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

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

| | | | |
|----------------------|------------------------|--------------------------|------------------------|
| | 1% Decrease (2.58%) | Discount Rate (3.58%) | 1% Increase (4.58%) |
| Total OPEB Liability | \$ 1,592,991 | \$ 1,550,400 | \$ 1,485,378 |

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 11 – SCHOOL DISTRICT OTHER POST-EMPLOYMENT BENEFITS – CONT'D

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

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

| | <u>1% Decrease</u> | <u>Trend Rate</u> | <u>1% Increase</u> |
|----------------------|--------------------|-------------------|--------------------|
| Total OPEB Liability | \$ 1,459,314 | \$ 1,550,400 | \$ 1,655,023 |

Actuarial assumptions used were as follows:

| | |
|---------------------------|---|
| Cost Method: | Entry age normal as a level percentage of pay |
| Mortality: | RPH-2014 Total Dataset Mortality Table projected using Scale MP-2016 |
| Discount Rate: | 3.58%-Based on the Bond Buyers 20-Bond Index |
| Inflation Rate: | 3.00% |
| Investment Return: | Investment return was not utilized in this valuation since there are no assets. |
| Salary Increases: | 2.50% |

| | | |
|---------------------------|------------------------|--------------|
| Health Care Trend: | <u>Time Period</u> | <u>Trend</u> |
| | 7/1/18-6/30/19 | 7.00% |
| | 7/1/19-6/30/20 | 6.75% |
| | 7/1/20-6/30/21 | 6.50% |
| | 7/1/21-6/30/22 | 6.25% |
| | 7/1/22-6/30/23 | 6.00% |
| | 7/1/23-6/30/24 | 5.50% |
| | 7/1/24-6/30-25 | 5.00% |
| | 7/1/25-6/30/26 & later | 4.50% |

The changes of assumptions and other inputs includes:

1. Changed the discount rate from 2.85% to 3.58%.
2. June 30, 2017 – Changes were made to the aging factors and the mortality table.

The OPEB expense for the fiscal year ended June 30, 2018 was:

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 11 – SCHOOL DISTRICT OTHER POST-EMPLOYMENT BENEFITS – CONT'D

| | <u>Amount</u> |
|--|--------------------------|
| Service cost | \$ 59,926 |
| Interest | 52,684 |
| Differences between expected and actual experience | 47,630 |
| Changes of assumptions or other inputs | <u>53,714</u> |
| OPEB expense | <u>\$ 213,954</u> |

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

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 619,186 | \$ 0 |
| Changes of assumptions | 739,751 | 44,667 |
| Benefit payments | <u>283,754</u> | <u>0</u> |
| Total | <u>\$ 1,642,691</u> | <u>\$ 44,667</u> |

Amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

| <u>Year Ended June 30</u> | |
|-------------------------------|------------|
| 2019 | \$ 101,344 |
| 2020 | 101,344 |
| 2021 | 101,344 |
| 2022 | 101,344 |
| 2023 | 101,344 |
| 2024 and beyond | 807,550 |

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS – PSERS

1. Summary of Significant Accounting Policies

Other Post-employment Benefits

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS – PSERS – CONTINUED

they are reported by PSERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Health Insurance Premium Assistance Program

Health Insurance Premium Assistance Program

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

Premium Assistance Eligibility Criteria

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

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

Pension Plan description

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

Benefits provided

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

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS – PSERS – CONTINUED

Employer Contributions:

The school districts’ contractually required contribution rate for the fiscal year ended June 30, 2017 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$173,000 for the year ended June 30, 2017.

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

At June 30, 2018, the District reported a liability of \$4,378,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System’s total OPEB liability as of June 30, 2016 to June 30, 2017. The District’s proportion of the net OPEB liability was calculated utilizing the employer’s one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District’s proportion was 0.2149%, which was an decrease of 0.0045% from its proportion measured as of June 30, 2017.

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Difference between expected and actual experience | \$ 0 | \$ 0 |
| Changes in assumptions | 0 | 204,000 |
| Net difference between projected and actual investment earnings | 5,000 | 0 |
| Changes in proportion | 0 | 83,000 |
| Difference between employer contributions and proportionate share of total contributions | 0 | 0 |
| Contributions subsequent to the measurement date | 0 | 0 |
| | \$ 5,000 | \$ 287,000 |

\$5,000 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS – PSERS – CONTINUED

Year ended June 30:

| | | |
|------------|----|----------|
| 2018 | \$ | (15,262) |
| 2019 | \$ | (15,262) |
| 2020 | \$ | (15,262) |
| 2021 | \$ | (15,264) |
| 2022 | \$ | (15,801) |
| Thereafter | \$ | (15,804) |

3. Actuarial Assumptions

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

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

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015 determined the employer contribution rate for fiscal year 2017.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS – PSERS – CONTINUED

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

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

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

The above was the Board’s adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017.

Discount rate

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

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

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2017, retirees’ Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2016, 91,797 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2016, 1,354 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on Healthcare Cost Trends as depicted below.

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS – PSERS – CONTINUED

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

| | Dollar Amounts in Thousands | | |
|---------------------------|-----------------------------|--------------|--------------|
| | | Current | |
| | 1% Decrease | Trend Rate | 1% Increase |
| System net OPEB liability | \$ 4,377,000 | \$ 4,378,000 | \$ 4,379,000 |

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

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

| | 1% Decrease | Current | 1% Increase |
|--|--------------|---------------|--------------|
| | 2.13% | Discount Rate | 4.13% |
| | 2.13% | 3.13% | 4.13% |
| District's proportionate share of the net OPEB liability | \$ 4,977,000 | \$ 4,378,000 | \$ 3,881,000 |

OPEB plan fiduciary net position

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

NOTE 13 – RECENT/FUTURE GASB PRONOUNCEMENTS

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

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

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

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, is effective for reporting periods beginning after June 15, 2018. The

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2018

NOTE 13 – RECENT/FUTURE GASB PRONOUNCEMENTS – CONTINUED

primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

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

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

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

NOTE 14 – SUBSEQUENT EVENTS

On July 31, 2018, the School District issued General Obligation Bonds in the amount of \$8.8 million to finance various capital projects. The bonds mature on November 15, 2029, paid out in annual installments ranging from \$5,000 to \$1,820,000 beginning in November 15, 2019.

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

NOTE 15 – PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2018, in relation to PSERS, the School District implemented GASB No. 75 *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions*. Reporting under the above GASB standard was not reflected in the Governmental Activities for the year ended June 30, 2017. The net position at July 1, 2017 has been restated to include implementation of GASB No. 75, in relation to PSERS, as follows:

| | |
|---------------------------------------|----------------------------|
| | Governmental Activities |
| Net Position at June 30, 2017 | \$ (70,906,484) |
| Less GASB No. 75 Implementation | <u>(4,726,000)</u> |
| Restated Net Position at July 1, 2017 | <u>\$ (75,632,484)</u> |

REQUIRED SUPPLEMENTARY INFORMATION

BALDWIN-WHITEHALL SCHOOL DISTRICT

**SCHEDULE OF CHANGE IN THE DISTRICT'S NET OPEB LIABILITY AND
RELATED RATIOS**

YEAR ENDING JUNE 30, 2018

The schedule below reports the funding progress made by the School District.

| | <u>2017</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Total OPEB liability - beginning | \$ 326,122 | \$ 1,848,569 |
| Interest | \$ 14,675 | \$ 52,684 |
| Service cost | 0 | 59,926 |
| Changes of benefit terms | 853,559 | 0 |
| Differences between expected and actual experience | 714,446 | 0 |
| Changes in assumptions or other inputs | 0 | (47,857) |
| Benefit payments | <u>(60,233)</u> | <u>(362,922)</u> |
| Net change in total OPEB liability | <u>1,522,447</u> | <u>(298,169)</u> |
| Total OPEB liability - end of year | <u>\$ 1,848,569</u> | <u>\$ 1,550,400</u> |
| | | |
| Covered payroll | \$ 20,913,437 | \$ 21,436,273 |
| Net OPEB liability as a percentage of covered payroll | 8.84% | 7.23% |

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

BALDWIN-WHITEHALL SCHOOL DISTRICT

**POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEBs)
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

YEAR ENDING JUNE 30, 2018

| Year Ended <u>June 30</u> | <u>Employer Contributions</u> | |
|------------------------------|---|-----------------------------------|
| | <u>Annual Required Contribution</u> | <u>Percentage Contributed</u> |
| 2017 | \$ 398,752 | 100% |
| 2018 | \$ 362,922 | 100% |

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

BALDWIN-WHITEHALL SCHOOL DISTRICT

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

YEAR ENDING JUNE 30, 2018

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

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

| | 2018 | 2017 | 2016 | 2015 |
|--|----------------|----------------|----------------|---------------|
| District's Proportion of the Net Pension Liability (Asset) | 0.2149% | 0.2194% | 0.2351% | 0.2310% |
| District's Proportionate Share of the Net Pension Liability (Asset) | \$ 106,136,000 | \$ 108,728,000 | \$ 101,834,000 | \$ 91,432,001 |
| District's Covered-Employee Payroll | \$ 28,606,467 | \$ 28,417,493 | \$ 30,246,071 | \$ 29,478,387 |
| District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll | 371.02% | 382.61% | 336.69% | 310.17% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 51.84% | 50.14% | 54.36% | 57.24% |

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

BALDWIN-WHITEHALL SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT CONTRIBUTIONS
TO THE PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (PSERS)
YEAR ENDING JUNE 30, 2018

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

| | 2018 | 2017 | 2016 | 2015 |
|---|---------------|---------------|---------------|---------------|
| Contractually Required Contribution | \$ 9,523,760 | \$ 8,414,393 | \$ 8,680,528 | \$ 6,548,431 |
| Contributions in Relation to Contractually Required Contribution | (9,523,760) | (8,414,393) | (8,680,528) | (6,548,431) |
| Contribution Deficiency (Excess) | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| District's Covered Employee Payroll | \$ 28,606,467 | \$ 28,417,493 | \$ 30,246,071 | \$ 31,636,370 |
| Contribution as a Percentage of Covered Employee Payroll | 33.29% | 29.61% | 28.70% | 20.70% |

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

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDING JUNE 30, 2018

NOTE 1 – CHANGES OF BENEFIT TERMS/ASSUMPTIONS

Changes of benefit terms. There were no changes of benefit terms for the year ended June 30, 2018.

Changes of assumptions. There were no changes of benefit assumptions for the year ended June 30, 2018.

SINGLE AUDIT SUPPLEMENTARY REPORTS

BALDWIN-WHITEHALL SCHOOL DISTRICT

LIST OF REPORT DISTRIBUTION

| | |
|------------------|---|
| 1 copy | Bureau of Audits Special Audit Services Division 555 Walnut Street Forum Place – Eighth Floor Harrisburg, PA 17101 Online Submission |
| 1 copy | Federal Audit Clearinghouse Bureau of Census Online Submission Included Data Collection Form |
| 1 copy | Allegheny County Prothonotary City County Building 414 Grant Street, First Floor Pittsburgh, PA 15219 |
| 30 copies | Baldwin-Whitehall School District 4900 Curry Road Pittsburgh, PA 15236 |
| 1 copy | Cottrill, Arbutina & Associates, P.C. 525 Third Street Beaver, PA 15009 |

BALDWIN-WHITEHALL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

| Federal Grantor/Pass-Through Grantor/Project Title | Source Code | Federal CFDA Number | Pass Through Grantor's Number | Grant Period From - To | Program or Award Amount | Total Received For Year | Accrued (Deferred) Revenue @ 7/1/17 | Revenue Recognized | Expenditures | Accrued (Deferred) Revenue @ 6/30/18 | Passed Through to Subrecipients |
|---|-------------|---------------------|-------------------------------|------------------------|-------------------------|-------------------------|-------------------------------------|---------------------|---------------------|--------------------------------------|---------------------------------|
| U.S. Department of Education: | | | | | | | | | | | |
| Passed through the PA Dept. of Education: | | | | | | | | | | | |
| Title I Grants to Local Education Agencies | I | 84.010 | 013-170020 | 07/01/16-09/30/17 | \$ 777,740 | \$ 272,584 | \$ 18,780 | \$ 253,804 | \$ 253,804 | \$ 0 | \$ 0 |
| Title I Grants to Local Education Agencies | I | 84.010 | 013-180020 | 07/01/17-09/30/18 | 664,363 | 488,181 | 0 | 210,723 | 210,723 | (277,458) | 0 |
| Total CFDA 84.010 | | | | | <u>\$ 1,442,103</u> | <u>\$ 760,765</u> | <u>\$ 18,780</u> | <u>\$ 464,527</u> | <u>\$ 464,527</u> | <u>\$ (277,458)</u> | <u>\$ 0</u> |
| Improving Teacher Quality State Grants | I | 84.367 | 020-170020 | 07/01/16-09/30/17 | 120,251 | 17,079 | 17,079 | 0 | 0 | 0 | 0 |
| Improving Teacher Quality State Grants | I | 84.367 | 020-180020 | 07/01/17-09/30/18 | 119,333 | 107,372 | 0 | 119,333 | 119,333 | 11,961 | 0 |
| Total CFDA 84.367 | | | | | <u>\$ 239,584</u> | <u>\$ 124,451</u> | <u>\$ 17,079</u> | <u>\$ 119,333</u> | <u>\$ 119,333</u> | <u>\$ 11,961</u> | <u>\$ 0</u> |
| English Language Acquisition Grants | I | 84.365 | 010-170020 | 07/01/16-09/30/17 | 70,967 | 3,914 | 3,914 | 0 | 0 | 0 | 0 |
| English Language Acquisition Grants | I | 84.365 | 010-180020 | 07/01/17-09/30/18 | 67,617 | 67,617 | 0 | 67,617 | 67,617 | 0 | 0 |
| Total CFDA 84.365 | | | | | <u>\$ 138,584</u> | <u>\$ 71,531</u> | <u>\$ 3,914</u> | <u>\$ 67,617</u> | <u>\$ 67,617</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| Student Support and Academic Enrichment | I | 84.424 | 144-180020 | 07/01/17-09/30/18 | 15,012 | 15,012 | 0 | 15,012 | 15,012 | 0 | 0 |
| Total CFDA 84.424 | | | | | <u>\$ 15,012</u> | <u>\$ 15,012</u> | <u>\$ 0</u> | <u>\$ 15,012</u> | <u>\$ 15,012</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| Total PA Department of Education: | | | | | <u>\$ 1,835,283</u> | <u>\$ 971,759</u> | <u>\$ 39,773</u> | <u>\$ 666,489</u> | <u>\$ 666,489</u> | <u>\$ (265,497)</u> | <u>\$ 0</u> |
| Passed through the Allegheny Intermediate Unit: | | | | | | | | | | | |
| IDEA - Special Education - Grants to States | I | 84.027 | N/A | 07/01/16-06/30/17 | \$ 494,483 | \$ 123,620 | \$ 123,620 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| IDEA - Special Education - Grants to States | I | 84.027 | N/A | 07/01/17-06/30/18 | 515,203 | 515,203 | 0 | 515,203 | 515,203 | 0 | 0 |
| Total CFDA 84.027 | | | | | <u>\$ 1,009,686</u> | <u>\$ 638,823</u> | <u>\$ 123,620</u> | <u>\$ 515,203</u> | <u>\$ 515,203</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| IDEA 619B - Special Education - Grants to States | I | 84.173 | N/A | 07/01/17-06/30/18 | 3,072 | 3,072 | 0 | 3,072 | 3,072 | 0 | 0 |
| Total Special Education Cluster (IDEA) | | | | | <u>\$ 1,012,758</u> | <u>\$ 641,895</u> | <u>\$ 123,620</u> | <u>\$ 518,275</u> | <u>\$ 518,275</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| Total Department of Education: | | | | | <u>\$ 2,848,041</u> | <u>\$ 1,613,654</u> | <u>\$ 163,393</u> | <u>\$ 1,184,764</u> | <u>\$ 1,184,764</u> | <u>\$ (265,497)</u> | <u>\$ 0</u> |
| U.S. Department of Agriculture: | | | | | | | | | | | |
| Passed through the PA Dept. of Education: | | | | | | | | | | | |
| National School Lunch Program | I | 10.555 | N/A | 07/01/16-06/30/17 | N/A | F \$ 141,896 | \$ 141,896 | \$ 0 | \$ 0 | * \$ 0 | \$ 0 |
| National School Lunch Program | I | 10.555 | N/A | 07/01/17-06/30/18 | N/A | F 757,786 | 0 | 782,466 | 782,466 | * 24,680 | 0 |
| Passed through the PA Dept. of Agriculture: | | | | | | | | | | | |
| National School Lunch Program: Value of Donated Commodities | I | 10.555 | N/A | 07/01/17-06/30/18 | N/A | F 140,797 | a 0 | b 140,797 | 140,797 | *c 0 | d 0 |
| Total CFDA 10.555 | | | | | | <u>\$ 1,040,479</u> | <u>\$ 141,896</u> | <u>\$ 923,263</u> | <u>\$ 923,263</u> | <u>\$ 24,680</u> | <u>\$ 0</u> |
| Passed through the PA Dept. of Education: | | | | | | | | | | | |
| National School Breakfast Program | I | 10.553 | N/A | 07/01/17-06/30/18 | N/A | F \$ 192,066 | \$ 0 | \$ 192,066 | \$ 192,066 | * \$ 0 | \$ 0 |
| Total Child Nutrition Cluster | | | | | | <u>\$ 1,232,545</u> | <u>\$ 141,896</u> | <u>\$ 1,115,329</u> | <u>\$ 1,115,329</u> | <u>\$ 24,680</u> | <u>\$ 0</u> |
| Total Department of Agriculture | | | | | <u>\$ 0</u> | <u>\$ 1,232,545</u> | <u>\$ 141,896</u> | <u>\$ 1,115,329</u> | <u>\$ 1,115,329</u> | <u>\$ 24,680</u> | <u>\$ 0</u> |
| Total Federal Assistance | | | | | <u>\$ 2,848,041</u> | <u>\$ 2,846,199</u> | <u>\$ 305,289</u> | <u>\$ 2,300,093</u> | <u>\$ 2,300,093</u> | <u>\$ (240,817)</u> | <u>\$ 0</u> |

BALDWIN-WHITEHALL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Source Codes:
 I=Indirect Funding
 F=Federal Share

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

Test of 40% rule:

| | | | |
|----------------------------|---------------------|---|--|
| Total Federal Expenditures | <u>\$ 2,300,093</u> | | |
| *Child Nutrition Cluster | <u>\$ 1,115,329</u> | = | <u>48.49%</u> (High risk auditee 40% required) |

BALDWIN-WHITEHALL SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF

EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Baldwin-Whitehall School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - BUDGETARY DATA

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

NOTE 3 – DE MINIMUS RATE FOR INDIRECT COSTS

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

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

To the Board of Directors
Baldwin-Whitehall School District
4900 Curry Road
Pittsburgh, PA 15236

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Baldwin-Whitehall School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Baldwin-Whitehall School District’s basic financial statements and have issued our report thereon dated October 12, 2018.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. Material weaknesses include items 2018-1 through 2018-2.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with

governance. We identified no significant deficiencies in the accompanying schedule of findings and questioned.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Baldwin-Whitehall 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*.

Baldwin-Whitehall School District's Response to Findings

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

Purpose of this Report

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

Cottrill, Arbutina and Assoc.

Beaver, PA 15009
October 12, 2018

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

To the Board of Directors
Baldwin-Whitehall School District
4900 Curry Road
Pittsburgh, Pennsylvania 15236

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Baldwin-Whitehall 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 Baldwin-Whitehall School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Other Matters

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

Report on Internal Control over Compliance

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

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

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

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

Cottrill, Arbutina and Assoc.

Beaver, PA 15009
October 12, 2018

BALDWIN-WHITEHALL SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2018

A. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued:

Internal control over financial reporting:

Material weakness identified: Yes No

Significant deficiencies identified that are not considered to be material weakness(es): Yes No

Noncompliance material to financial statement noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness identified: Yes No

Significant deficiencies identified that are not considered to be material weakness(es): Yes No

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? Yes No

Identification of the major programs:

| CFDA Number(s) | Name of Federal Program |
|----------------|-------------------------|
| 10.553, 10.555 | Child Nutrition Cluster |

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? Yes No

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

MATERIAL WEAKNESSES

2018-1 Preparation of Financial Statements

Criteria: The District's annual financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The District relies on Cottrill, Arbutina & Associates, P.C., as its auditors, to prepare its annual financial statements in order to conform to accounting principles generally accepted in the United States of America. We realize that additional staffing costs would be needed to acquire the internal expertise to perform this function which could significantly outweigh the benefits derived. We, as your auditors, can propose adjustments and assist the District in assembling or drafting of the financial statements; however, we cannot establish or maintain the District's controls over preventing or detecting material misstatements in the preparation of financial statements. We proposed and you approved 29 various

BALDWIN-WHITEHALL SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2018

B. FINDINGS - FINANCIAL STATEMENTS AUDIT – CONTINUED

adjusting journal entries to properly report on the modified accrual basis of accounting, and 17 journal entries to convert District books from modified accrual to full accrual in order to properly report in accordance with GASB 34. All of these journal entries were presented to the District along with the letter of representation, in which you took responsibility and approved each of these entries.

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

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

Effect: District Financial Statements could be materially misstated according to accounting principles generally accepted in the United States of America.

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

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

2018-2 Best Practices

SEGREGATION OF DUTIES

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

An individual can process payroll, generate payroll liabilities, generate signed payroll checks, initiate ACH payments and edit the master payroll file.

An individual can accept cash receipts, enter transactions in the accounting system, initiate deposits, make deposits at the bank and reconcile bank statements.

Condition: The School District has a limited number of staff responsible for or access to various stages of the accounting processes.

BALDWIN-WHITEHALL SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2018

B. FINDINGS - FINANCIAL STATEMENTS AUDIT – CONTINUED

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

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

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

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

SERVICE ORGANIZATION REPORT

Criteria: The American Institute of CPAs recently released a new series of reporting options, called SERVICE ORGANIZATION CONTROL REPORTSSM (SOC), that enables CPAs to provide assurance on internal controls over subject matter other than financial reporting while filling the marketplace's need to demonstrate reliability and mitigation of risk. The earned income tax collector and delinquent real estate tax collector should have the necessary procedures performed over their internal controls in order to obtain a SOC report.

Condition: The School District was not able to obtain a Service Organization Report from the earned income tax collector.

Cause: The tax collectors referenced above do not have the necessary procedures performed to produce a SOC report.

Recommendation: We recommend that the District strongly encourage the tax collectors to obtain a SOC report in order to ensure proper controls are in place.

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

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

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD AUDIT

None noted.

BALDWIN-WHITEHALL SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2018

A. PRIOR YEAR FINDINGS – FINANCIAL STATEMENTS AUDIT

2017-1 Preparation of Financial Statements

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

Current Status: The District continues to work at reducing the number of adjustments required of the auditor's each year.

2017-2 Best Practices

SEGREGATION OF DUTIES

Condition: The School District has a limited number of staff responsible for or access to various stages of the accounting processes. Because of limited staff, we realize segregation of duties is not practical, if not impossible. Because of this internal control situation, the responsibility of the Business Manager is greatly increased because the Board must rely on his knowledge of the everyday operations to discover any material changes in the School District's financial position.

Current Status: The School District recognizes that the limited number of staff adds to the risk associated with the daily operations. To mitigate this risk, the Business Manager has taken an active role in the day to day operations of the Business Unit. He actively reviews all reconciliations and receipts to ensure they are posted to the accounting system properly. In addition, he approves all check disbursements through the Positive Pay process and physically signs every accounts payable check that is issued by the School District.

SERVICE ORGANIZATION REPORT

Condition: The School District was not able to obtain a Service Organization Report from the earned income tax collector.

Current Status: The School District understands the importance of obtaining SOC reports from service organizations and will continue to inquire of the appropriate entities to ensure they obtain the proper reports.

B. PRIOR YEAR FINDINGS - MAJOR FEDERAL AWARD AUDIT

None noted.



BALDWIN-WHITEHALL SCHOOL DISTRICT

District Administration

4900 Curry Road • Pittsburgh, Pennsylvania 15236-1817
Telephone: 412-884-6300 • FAX: 412-885-7802 • www.bwschools.net

CORRECTIVE ACTION PLAN

Department of Education:

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

Name and address of the independent public accounting firm:

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

Audit period: June 30, 2018

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

Section B – Financial Statement Findings

2018-1 Financial Statements

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

Management's Response: The School District understands and takes responsibility for the financial statement preparation and the internal controls within the District. Current and on-going evaluations are necessary to increase effective internal controls and to enhance the reporting standards and financial statement preparation in accordance with GAAP.

2018-2 Best Practices

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

Management's Response: The School District recognizes that the limited number of staff adds to the risk associated with the daily operations. To mitigate this risk, the Business Manager has taken

an active role in the day to day operations of the Business Unit. He actively reviews all reconciliations and receipts to ensure they are posted to the accounting system properly. In addition, he approves all check disbursements through the Positive Pay process and physically signs every accounts payable check that is issued by the School District.

Recommendation: We recommend that the District strongly encourage the tax collectors to obtain a SOC report in order to ensure proper controls are in place.

Management's Response: The School District understands the importance of obtaining SOC reports from service organizations and will continue to inquire of the appropriate entities to ensure they obtain the proper reports. In discussion with the Delinquent Tax Collector, they notified the District that it is extremely cost prohibitive for them to go through a review that would end with the issuance of a SOC report.

If you have questions about this report or need additional financial information, please contact Mark Cherpak, Business Manager at:

4900 Curry Road
Pittsburgh, PA 15236
412-884-6300

To the Board of Directors
Baldwin-Whitehall School District
4900 Curry Road
Pittsburgh, PA 15236

As a result of the audit of the financial statements and in accordance with *Government Auditing Standards*, we are required to report to you internal control matters that were identified during our audit that we felt did not rise to the level of a significant deficiency or material weakness as defined in our audit report dated October 12, 2018. You are not required to respond to any of these matters. We are simply communicating these items to you in an effort to assist you in strengthening your internal controls over financial reporting. For a list of material weaknesses and significant deficiencies, see the Schedule of Findings and Questioned Costs in the audit report dated October 12, 2018. Please contact us if you need assistance in implementing these items for future audits. They are as follows:

1. We noted the District does not have an official, written disaster recovery plan. We recommend the District begin putting a plan together to ensure the proper steps have been discussed, thought through and planned for.

Please note that these comments are not part of the audit report. If you have any questions, please feel free to contact Chad Agnew at cagnew@cottrillarbutina.com or 724.683.3428.

Cottrill, Arbutina and Assoc.

Beaver, PA 15009
October 12, 2018

October 12, 2018

To the Board of Directors
Baldwin-Whitehall School District
4900 Curry Road
Pittsburgh, Pennsylvania 15236

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Baldwin-Whitehall School District for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 11, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Baldwin-Whitehall School District are described in Note 2 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2018. We noted no transactions entered into by Baldwin-Whitehall School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the School District's financial statements were:

The estimate for the earned income tax receivable and delinquent real estate tax receivable. This was discussed and agreed upon by the Business Manager.

Management's estimate of the liability for other post-employment benefits is based on an actuarial valuation report issued by a third party. We evaluated the key factors and assumptions used to develop the liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the liability for pension benefits is based on an actuarial valuation report issued by a third party. We evaluated the key factors and assumptions used to develop the liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of capital assets in Note 5 to the financial statements;
The disclosure of risk management in Note 6 to the financial statements;

The disclosure of pension benefits in Note 7 to the financial statements;
The disclosure of long-term debt in Note 8 to the financial statements;
The disclosure of other post-employment benefits in Notes 11 and 12 to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 12, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Baldwin-Whitehall School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Baldwin-Whitehall School District's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis (MD&A), post-employment benefit and pension information, which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the schedule of expenditures of federal awards, which accompany the financial statements and is required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation

to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of the Board of Directors and management of Baldwin-Whitehall School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Cattrill, Arbutina and Assoc.

Beaver, PA 15009

October 12, 2018