

STO-ROX SCHOOL DISTRICT

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## **FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2017**

**STO-ROX**  
**SCHOOL DISTRICT**  
ALLEGHENY COUNTY, PENNSYLVANIA

FINANCIAL STATEMENTS

AND

OTHER INFORMATION REQUIRED BY  
GOVERNMENT AUDITING STANDARDS  
AND UNIFORM GUIDANCE

WITH REPORTS OF  
CERTIFIED PUBLIC ACCOUNTANT

**FOR THE YEAR ENDED**  
**JUNE 30, 2017**

**STO-ROX SCHOOL DISTRICT**  
**ALLEGHENY COUNTY, PENNSYLVANIA**  
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**ALLEGHENY COUNTY, PENNSYLVANIA**  
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**To the Management and Board of Education  
Sto-Rox School District**

## **Independent Auditor's Report**

### **Report on Financial Statements**

I have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Sto-Rox School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Sto-Rox School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sto-Rox School District's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

## **Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Sto-Rox School District as of June 30, 2017 and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages iv-xi, and the other required supplementary information on pages 38-40, 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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.

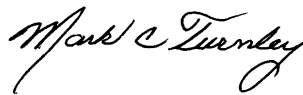
### ***Other Information***

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

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my 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*, I have also issued my report dated February 7, 2018 on my consideration of the Sto-Rox School District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Sto-Rox School District's internal control over financial reporting and compliance.

A handwritten signature in black ink, reading "Mark C. Turnley". The signature is fluid and cursive, with the first letters of each word being capitalized and prominent.

Mark C. Turnley, CPA

February 7, 2018  
New Brighton, Pennsylvania

**STO-ROX SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Required Supplementary Information (RSI)**  
**For the Year Ending June 30, 2017**

## **INTRODUCTION**

This discussion and analysis of the Sto-Rox School District's financial performance provides an overview of the fiscal year ending June 30, 2017. Its intent is to provide readers with an appreciation for the financial status of the District, challenges faced and accomplishments achieved. The financial statements and notes for this period should also be consulted for a complete understanding of the District's performance. While this discussion and analysis primarily focuses on past performance and conditions, it also includes some observations of the current fiscal year's budget execution to date and those conditions looming on the horizon.

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

## **FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2016-2017 Fiscal Year are as follows:

- The District's total governmental activities liabilities and deferred inflows of resources exceeded total assets and deferred outflows of resources as of June 30, 2017 by \$26,290,837 (net position – deficit). This was a decrease of \$544,379 over June 30, 2016. This decrease was due to a prior period adjustment totaling \$516,329 related to an adjustment to liabilities on the full accrual basis of accounting and the District's implementation of GASB 68 '*Accounting and Financial Reporting for Pensions*'. The District is now required to recognize their proportionate share of the Pennsylvania School Employees Retirement System (PSERS) overall net pension obligation. For the Sto-Rox School District, this liability stands at \$28,594,000 as of June 30, 2017.
- Total governmental activities revenues were \$26,066,194. General revenues accounted for \$18,584,649 in revenue or 71.3% of all revenues. Program revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions accounted for \$7,481,545 or 28.7% of total revenues.
- At the end of the fiscal year, the total fund balance of the general fund was -\$3,953,905 with \$5,000 in nonspendable fund balance for prepaid expenses. Total fund balance was -\$2,641,419 at June 30, 2016 (after the prior period adjustments) with a change in fund balance of -\$1,312,486 for the 2016-2017 fiscal year.



**STO-ROX SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Required Supplementary Information (RSI)**  
**For the Year Ending June 30, 2017**

**USING THE ANNUAL FINANCIAL REPORT**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Sto-Rox School District as a financial whole, an entire operating entity. The first several, referred to as "Government-Wide Financial Statements," are full accrual statements required by GASB 34. The statements then proceed to provide an increasingly detailed look at specific financial activities. These are the "Fund Financial Statements" and are essentially the modified accrual statements used before GASB 34 added the governmental-wide statements.

The "Statement of Net Position" and the "Statement of Activities" provide information about the activities of the entire school district, presenting both an aggregate view of the District's finances and longer-term view of these finances. Fund financial statements provide the next level of detail. On the governmental fund statements, the reader will see how services were financed in the short-term as well as what remains for future spending. The fund financial statements also examine the District's most significant funds. In the case of Sto-Rox School District, the general fund is by far the most significant fund.

The "Statement of Net Position" and the "Statement of Activities" include all assets and liabilities using the full accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. The two statements report the District's net position and changes to that position. This change in position is important because it tells the reader that, as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial and some not. Non-financial factors include the District's property tax base, student enrollment, facility conditions, required educational programs and others. In "The Statement of Net Position" and "The Statement of Activities" two types of activities are delineated: Governmental Activities, which include most of the District's programs and services such as instruction, support services, operation and maintenance of the physical plant and extracurricular activities; and, Business-Type Activities, which are services that are charged for, in our case, the Food Services Fund.

The fund financial reports provide detailed information about the District's major funds. The funds are classified as "Governmental Funds" and "Proprietary Funds." "Governmental Funds" cover most of the District's activities and focus on how money flows into and out of those funds, and the balances remaining at year's end which are available for spending in the future. As modified accrual reports, these measure cash and other assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. The major governmental funds are the General Fund and the Capital Project Fund. The only proprietary fund is the Food Services Fund.

This information can help the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. "Proprietary Funds" use the accrual basis of accounting; therefore, these financial statements are essentially the same on the government-wide financial statements as they are on the fund financial statements.

**STO-ROX SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Required Supplementary Information (RSI)**  
**For the Year Ending June 30, 2017**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

A comparative breakdown of assets, liabilities and net position of the District for the past two fiscal years is as follows:

Table A-1  
Fiscal Year ended June 30, 2017 and 2016  
Net Position

|                                           | ----- JUNE 30, 2017 -----  |                             |                        | JUNE 30, 2016          |
|-------------------------------------------|----------------------------|-----------------------------|------------------------|------------------------|
|                                           | GOVERNMENTAL<br>ACTIVITIES | BUSINESS-TYPE<br>ACTIVITIES | TOTAL                  | TOTAL                  |
| Current Assets                            | \$ 6,529,853               | \$ 1,091,906                | \$ 7,621,759           | \$ 7,207,879           |
| Capital Assets                            | 13,159,924                 | 22,758                      | 13,182,682             | 13,991,239             |
| Deferred Outflows of Resources            | 4,773,526                  | 122,398                     | 4,895,924              | 1,828,077              |
| <b>TOTAL ASSETS</b>                       | <b>\$ 24,463,303</b>       | <b>\$ 1,237,062</b>         | <b>\$ 25,700,365</b>   | <b>\$ 23,027,195</b>   |
| Current Liabilities                       | \$ 6,421,892               | \$ 92,513                   | \$ 6,514,405           | \$ 5,498,621           |
| Long-term Liabilities                     | 41,910,348                 | 714,850                     | 42,625,198             | 40,829,536             |
| Deferred Inflows of Resources             | 2,421,900                  | 62,100                      | 2,484,000              | 2,334,809              |
| <b>TOTAL LIABILITIES</b>                  | <b>\$ 50,754,140</b>       | <b>\$ 869,463</b>           | <b>\$ 51,623,603</b>   | <b>\$ 48,662,966</b>   |
| Net Investment in Capital Assets          | \$ (455,715)               | \$ 22,758                   | \$ (432,957)           | \$ 524,534             |
| Restricted                                | 81,759                     | -                           | 81,759                 | -                      |
| Unrestricted                              | (25,916,881)               | 344,841                     | (25,572,040)           | (26,160,305)           |
| <b>TOTAL NET POSITION &lt;Deficit&gt;</b> | <b>\$ (26,290,837)</b>     | <b>\$ 367,599</b>           | <b>\$ (25,923,238)</b> | <b>\$ (25,635,771)</b> |

The increase in deferred outflows of resources, long-term liabilities, and deferred inflow of resources, along with the decrease in the District's net position is attributed to the aforementioned implementation of GASB 68 during the 2014-2015 fiscal year. This required the District to recognize their proportionate share of the Pennsylvania School Employees Retirement System (PSERS) overall net pension obligation, which for the Sto-Rox School District, totals \$27,879,150 for its governmental activities and \$714,850 for its business-type activities at June 30, 2017.

**STO-ROX SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Required Supplementary Information (RSI)**  
**For the Year Ending June 30, 2017**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)**

Table A-2 takes the information from the Statement of Activities, presents it slightly differently, so the reader may see the District's total revenues, expenses, and change to the net position for past two fiscal years.

Table A-2  
Fiscal Year ended June 30, 2017 and June 30, 2016  
Changes in Net Position

|                                      | JUNE 30, 2017              |                             |                      | JUNE 30, 2016         |
|--------------------------------------|----------------------------|-----------------------------|----------------------|-----------------------|
|                                      | GOVERNMENTAL<br>ACTIVITIES | BUSINESS-TYPE<br>ACTIVITIES | TOTAL                | TOTAL                 |
| <b>REVENUES</b>                      |                            |                             |                      |                       |
| <b>Program Revenues:</b>             |                            |                             |                      |                       |
| Charges for Services                 | \$ 72,842                  | \$ 60,225                   | \$ 133,067           | \$ 70,762             |
| Grants and Contributions             | 7,408,703                  | 1,020,147                   | 8,428,850            | 7,250,554             |
| <b>General Revenues:</b>             |                            |                             |                      |                       |
| Property, Earned Income, Other Taxes | 7,870,662                  | -                           | 7,870,662            | 7,696,872             |
| Grants, Subsidies and Contributions  | 10,213,322                 | -                           | 10,213,322           | 8,838,824             |
| Other                                | 500,665                    | -                           | 500,665              | 232,802               |
| <b>TOTAL REVENUES</b>                | <b>\$ 26,066,194</b>       | <b>\$ 1,080,372</b>         | <b>\$ 27,146,566</b> | <b>\$ 24,089,814</b>  |
| <b>EXPENSES</b>                      |                            |                             |                      |                       |
| Instruction                          | \$ 17,683,205              | \$ -                        | \$ 17,683,205        | \$ 16,640,487         |
| Instructional Student Support        | 1,229,670                  | -                           | 1,229,670            | 1,161,127             |
| Administrative and Financial Support | 2,132,239                  | -                           | 2,132,239            | 2,115,192             |
| Operation and Maintenance of Plant   | 1,825,169                  | -                           | 1,825,169            | 1,612,713             |
| Pupil Transportation                 | 2,354,646                  | -                           | 2,354,646            | 2,337,095             |
| Student Activities                   | 283,829                    | -                           | 283,829              | 288,701               |
| Community Services                   | 5,624                      | -                           | 5,624                | 1,769                 |
| Interest on Long-term Debt           | 576,270                    | -                           | 576,270              | 606,298               |
| Other                                | 3,592                      | -                           | 3,592                | 4,324                 |
| Food Services                        | -                          | 823,460                     | 823,460              | 807,307               |
| <b>TOTAL EXPENSES</b>                | <b>\$ 26,094,244</b>       | <b>\$ 823,460</b>           | <b>\$ 26,917,704</b> | <b>\$ 25,575,013</b>  |
| <b>CHANGE IN NET POSITION</b>        | <b>\$ (28,050)</b>         | <b>\$ 256,912</b>           | <b>\$ 228,862</b>    | <b>\$ (1,485,199)</b> |

**STO-ROX SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Required Supplementary Information (RSI)**  
**For the Year Ending June 30, 2017**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)**

The increase in expenses reflects again the effects of the implementation of GASB Statement No. 68. For the fiscal year 2016-2017, the District recognized pension expense of \$2,150,139.

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, community services, long-term debt, as well as each program's net cost (total cost less revenues generated by the activities) for the past two fiscal years. 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.

Table A-3  
Fiscal Year ended June 30, 2017 and June 30, 2016  
Governmental Activities

|                                      | ----- JUNE 30, 2017----- |                      | ----- JUNE 30, 2016 ----- |                      |
|--------------------------------------|--------------------------|----------------------|---------------------------|----------------------|
|                                      | <u>TOTAL COST</u>        | <u>NET COST</u>      | <u>TOTAL COST</u>         | <u>NET COST</u>      |
|                                      | <u>OF SERVICE</u>        | <u>OF SERVICE</u>    | <u>OF SERVICE</u>         | <u>OF SERVICE</u>    |
| <b>EXPENSES</b>                      |                          |                      |                           |                      |
| Instruction                          | \$ 17,683,205            | \$ 12,815,232        | \$ 16,640,487             | \$ 12,046,332        |
| Instructional Student Support        | 1,229,670                | 812,951              | 1,161,127                 | 724,020              |
| Administrative and Financial Support | 2,132,239                | 1,884,859            | 2,115,192                 | 1,861,742            |
| Operation and Maintenance of Plant   | 1,825,169                | 1,561,419            | 1,612,713                 | 1,402,042            |
| Pupil Transportation                 | 2,354,646                | 1,590,774            | 2,337,095                 | 1,483,078            |
| Student Activities                   | 283,829                  | 252,206              | 288,701                   | 256,572              |
| Community Services                   | 5,624                    | 5,624                | 1,769                     | 1,769                |
| Interest on Long-term Debt           | 576,270                  | (313,958)            | 606,298                   | 518,924              |
| Other                                | 3,592                    | 3,592                | 4,324                     | 4,324                |
| <b>TOTAL EXPENSES</b>                | <b>\$ 26,094,244</b>     | <b>\$ 18,612,699</b> | <b>\$ 24,767,706</b>      | <b>\$ 18,298,803</b> |
| <b>Less:</b>                         |                          |                      |                           |                      |
| Unrestricted Grants, Subsidies       |                          | 10,213,322           |                           | 8,838,824            |
| <b>TOTAL NEEDS FROM LOCAL TAXES</b>  |                          |                      |                           |                      |
| <b>AND OTHER REVENUES</b>            |                          | <b>\$ 8,399,377</b>  |                           | <b>\$ 9,459,979</b>  |

**STO-ROX SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Required Supplementary Information (RSI)**  
**For the Year Ending June 30, 2017**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)**

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, 2017 and June 30, 2016  
Business-Type Activities

|                                       | ----- JUNE 30, 2017 -----        |                                | ----- JUNE 30, 2016 -----        |                                |
|---------------------------------------|----------------------------------|--------------------------------|----------------------------------|--------------------------------|
|                                       | <u>TOTAL COST<br/>OF SERVICE</u> | <u>NET COST<br/>OF SERVICE</u> | <u>TOTAL COST<br/>OF SERVICE</u> | <u>NET COST<br/>OF SERVICE</u> |
| <b>EXPENSES</b>                       |                                  |                                |                                  |                                |
| Food Service                          | \$ 823,460                       | \$ 256,912                     | \$ 807,307                       | \$ 260,564                     |
| Transfer from General Fund            |                                  | -                              |                                  | -                              |
| <b>TOTAL BUSINESS-TYPE ACTIVITIES</b> |                                  |                                |                                  |                                |
| <b>NET &lt;INCOME&gt; LOSS</b>        |                                  | <u><u>\$ 256,912</u></u>       |                                  | <u><u>\$ 260,564</u></u>       |

**GENERAL**

The Sto-Rox School District's 2016-2017 fiscal year did not appear to be adversely impacted by the national and worldwide difficulties. The District recorded increased revenues of about 5.7% (not including a \$1,500,000 tax anticipation loan), primarily due to increases in state subsidies. State subsidies increased in total by \$1,470,008. Local revenues remained fairly consisted with a slight decrease of \$74,766 and federal revenues decreased by \$8,844. The increased expenses of about 2.6%, were attributable largely to increased personnel costs (salaries and benefits). More details on revenues and expenditures will follow this paragraph.

**REVENUES**

The General Fund revenue for the District during 2016-2017 totaled \$25,523,571, not including \$1,500,000 in tax anticipation loan proceeds (a 5.7% increase over the previous year); \$471,622 above the approved budget. The difference from prior year was due mainly to an increase in state subsidies. Local sources provided \$8,266,885 of the total revenue (32.4 %, down from 34.6% the previous year); while State sources provided \$15,886,258 (62.2%, up from 59.8% the previous year); and Federal sources \$1,370,428; (5.4%, down from 5.6% the previous year).

**STO-ROX SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Required Supplementary Information (RSI)**  
**For the Year Ending June 30, 2017**

## **EXPENSES**

Expenses and other financing uses for the District's General Fund during 2016-2017 totaled \$26,319,728 (not including principal payment of tax anticipation loan totaling \$1,500,000), and were over the approved budget projection by \$1,267,779 attributable largely to Special Programs tuition costs being over budget by \$907,804. Direct instructional costs were \$17,100,832 (up from \$16,198,240 while instructional support costs were \$7,337,471 (up from \$7,043,077). Non-instructional services totaled \$282,354 (down slightly from \$282,633), and debt service (not including principal payment of tax anticipation loan totaling \$1,500,000) was \$1,595,478 (up from \$1,575,188). The total increase of 4.8% over the previous year's expenses mainly reflects continued increases in tuition costs and growth in personnel costs (salary and benefits), with the largest area of increase being PSERS retirement contributions.

## **MAJOR FINANCIAL ISSUES**

At the time these financial statements were prepared and audited, the District was aware of three circumstances that could significantly affect its financial health in the future:

- The District has been paying out a larger amount in Charter School Tuition however with the restructuring of the Grade Levels within the buildings and the opportunities for additional classes in Grades 7-8 the District has been to retain more students from moving to the charter schools. Propel Montour has opened a new Secondary Level building in Robinson Township as of September 2017, the District Administration as well as the Professional Staff have been working with the students to find out what changes they would like to see in order to retain them within the Sto-Rox School District. The amount of students going to Charter Schools as well as Special Education Schools has also increase the amount of transportation costs that the District has incurred and continue to incur.
- There has been substantial increase in the PSERS retirement employer rate of 25.84% in the 2015-16 school year increasing up to 30.03% for the 2016-17 school year and then an additional increase up to 32.57%. While seeing these increase the Administration and Board of School Directors are working closely together to find ways of saving money to decrease the fund balance deficit.
- The Sto-Rox School District has a very limited tax base and for the 2017-18 school year increased property tax millage by .9 mills the maximum allowed by the Index

## **LABOR RELATIONS**

Last June The Sto-Rox School District and Sto-Rox Education Association were able to come to an agreement for a contract ending in the 2020-2021 school year.

The School District has begun contract negotiations with the Support Union Employees as their current contract expires on June 30, 2018.

**STO-ROX SCHOOL DISTRICT  
Management's Discussion and Analysis  
Required Supplementary Information (RSI)  
For the Year Ending June 30, 2017**

**CONTACTING THE DISTRICT FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the School District's accountability for the money it receives. If the reader has questions about this report, or wishes to request additional financial information, please contact the District's business office at Sto-Rox School District, 298 Ewing Road, McKees Rocks, PA 15136 (412) 771-3213.

**STO-ROX SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

**EXHIBIT A**

|                                                                               | Governmental<br>Activities | Business-Type<br>Activities | Total                  |
|-------------------------------------------------------------------------------|----------------------------|-----------------------------|------------------------|
| <b>ASSETS</b>                                                                 |                            |                             |                        |
| <b>Current Assets:</b>                                                        |                            |                             |                        |
| Cash and Cash Equivalents                                                     | \$ 270,486                 | \$ 649,065                  | \$ 919,551             |
| Investments                                                                   | 820,652                    | -                           | 820,652                |
| Taxes Receivable, net                                                         | 4,678,583                  | -                           | 4,678,583              |
| Internal Balances                                                             | (346,142)                  | 346,142                     | -                      |
| Due From Other Governments                                                    | 1,094,839                  | 9,814                       | 1,104,653              |
| Prepaid Expenses                                                              | 5,000                      | -                           | 5,000                  |
| Other Receivables                                                             | 6,435                      | 65,874                      | 72,309                 |
| Inventories                                                                   | -                          | 21,011                      | 21,011                 |
| <b>Total Current Assets</b>                                                   | <b>\$ 6,529,853</b>        | <b>\$ 1,091,906</b>         | <b>\$ 7,621,759</b>    |
| <b>Noncurrent Assets:</b>                                                     |                            |                             |                        |
| Land                                                                          | \$ 2,343,900               | \$ -                        | \$ 2,343,900           |
| Land Improvements                                                             | 121,512                    | -                           | 121,512                |
| Building & Building Improvements (net)                                        | 10,516,392                 | -                           | 10,516,392             |
| Furniture & Equipment (net)                                                   | 178,120                    | 22,758                      | 200,878                |
| <b>Total Noncurrent Assets</b>                                                | <b>\$ 13,159,924</b>       | <b>\$ 22,758</b>            | <b>\$ 13,182,682</b>   |
| <b>TOTAL ASSETS</b>                                                           | <b>\$ 19,689,777</b>       | <b>\$ 1,114,664</b>         | <b>\$ 20,804,441</b>   |
| <b>DEFERRED OUTFLOW OF RESOURCES:</b>                                         |                            |                             |                        |
| Deferred Outflows Related to Pension                                          | \$ 4,773,526               | \$ 122,398                  | \$ 4,895,924           |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>                                   | <b>\$ 4,773,526</b>        | <b>\$ 122,398</b>           | <b>\$ 4,895,924</b>    |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS<br/>OF RESOURCES</b>                    | <b>\$ 24,463,303</b>       | <b>\$ 1,237,062</b>         | <b>\$ 25,700,365</b>   |
| <b>LIABILITIES</b>                                                            |                            |                             |                        |
| <b>Current Liabilities:</b>                                                   |                            |                             |                        |
| Accounts Payable                                                              | \$ 2,715,290               | \$ 74,509                   | \$ 2,789,799           |
| Due To Other Governmental Units                                               | 4,000                      | -                           | 4,000                  |
| Bonds Payable - Current Portion                                               | 1,120,000                  | -                           | 1,120,000              |
| Leases Payable - Current Portion                                              | 18,851                     | -                           | 18,851                 |
| Accrued Interest                                                              | 36,069                     | -                           | 36,069                 |
| Accrued Salaries and Benefits                                                 | 2,440,198                  | -                           | 2,440,198              |
| Payroll Deductions and Withholdings                                           | 87,484                     | -                           | 87,484                 |
| Unearned Revenue                                                              | -                          | 18,004                      | 18,004                 |
| <b>Total Current Liabilities</b>                                              | <b>\$ 6,421,892</b>        | <b>\$ 92,513</b>            | <b>\$ 6,514,405</b>    |
| <b>Noncurrent Liabilities:</b>                                                |                            |                             |                        |
| Bonds Payable - Long-term Portion (Net)                                       | \$ 11,265,375              | \$ -                        | \$ 11,265,375          |
| Capital Appreciation Notes                                                    | 1,870,737                  | -                           | 1,870,737              |
| Compensated Absences                                                          | 160,781                    | -                           | 160,781                |
| Net Pension Liability                                                         | 27,879,150                 | 714,850                     | 28,594,000             |
| Net OPEB Obligation                                                           | 734,305                    | -                           | 734,305                |
| <b>Total Noncurrent Liabilities</b>                                           | <b>\$ 41,910,348</b>       | <b>\$ 714,850</b>           | <b>\$ 42,625,198</b>   |
| <b>TOTAL LIABILITIES</b>                                                      | <b>\$ 48,332,240</b>       | <b>\$ 807,363</b>           | <b>\$ 49,139,603</b>   |
| <b>Deferred Inflows of Resources:</b>                                         |                            |                             |                        |
| Deferred Inflows Related to Pension                                           | \$ 2,421,900               | \$ 62,100                   | \$ 2,484,000           |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>                                    | <b>\$ 2,421,900</b>        | <b>\$ 62,100</b>            | <b>\$ 2,484,000</b>    |
| <b>TOTAL LIABILITIES &amp; DEFERRED INFLOWS<br/>OF RESOURCES</b>              | <b>\$ 50,754,140</b>       | <b>\$ 869,463</b>           | <b>\$ 51,623,603</b>   |
| <b>NET POSITION</b>                                                           |                            |                             |                        |
| Net Investment in Capital Assets                                              | \$ (455,715)               | \$ 22,758                   | \$ (432,957)           |
| Restricted                                                                    | 81,759                     | -                           | 81,759                 |
| Unrestricted                                                                  | (25,916,881)               | 344,841                     | (25,572,040)           |
| <b>TOTAL NET POSITION (Deficit)</b>                                           | <b>\$ (26,290,837)</b>     | <b>\$ 367,599</b>           | <b>\$ (25,923,238)</b> |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES, AND NET POSITION</b> | <b>\$ 24,463,303</b>       | <b>\$ 1,237,062</b>         | <b>\$ 25,700,365</b>   |

The accompanying notes are an integral part of these financial statements



**STO-ROX SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

**EXHIBIT B**

| Functions/Programs                                | Expenses             | Program Revenues        |                                          |                                        | Net (Expense) Revenue and<br>Changes in Net Position |                             |                        |
|---------------------------------------------------|----------------------|-------------------------|------------------------------------------|----------------------------------------|------------------------------------------------------|-----------------------------|------------------------|
|                                                   |                      | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Governmental<br>Activities                           | Business-Type<br>Activities | Total                  |
| <b>Governmental Activities:</b>                   |                      |                         |                                          |                                        |                                                      |                             |                        |
| Instruction                                       | \$ 17,683,205        | \$ 10,390               | \$ 4,857,583                             | \$ -                                   | \$ (12,815,232)                                      |                             | \$ (12,815,232)        |
| Instructional Student Support                     | 1,229,670            | -                       | 416,719                                  | -                                      | (812,951)                                            |                             | (812,951)              |
| Administrative and Financial Support Services     | 2,132,239            | -                       | 247,380                                  | -                                      | (1,884,859)                                          |                             | (1,884,859)            |
| Operation and Maintenance of Plant Services       | 1,825,169            | 55,750                  | 208,000                                  | -                                      | (1,561,419)                                          |                             | (1,561,419)            |
| Pupil Transportation                              | 2,354,646            | -                       | 763,872                                  | -                                      | (1,590,774)                                          |                             | (1,590,774)            |
| Student Activities                                | 283,829              | 6,702                   | 24,921                                   | -                                      | (252,206)                                            |                             | (252,206)              |
| Community Services                                | 5,624                | -                       | -                                        | -                                      | (5,624)                                              |                             | (5,624)                |
| Interest on Long-Term Debt                        | 576,270              | -                       | -                                        | 890,228                                | 313,958                                              |                             | 313,958                |
| Refund of Prior Year Receipts                     | 3,592                | -                       | -                                        | -                                      | (3,592)                                              |                             | (3,592)                |
| <b>Total Governmental Activities</b>              | <b>\$ 26,094,244</b> | <b>\$ 72,842</b>        | <b>\$ 6,518,475</b>                      | <b>\$ 890,228</b>                      | <b>\$ (18,612,699)</b>                               |                             | <b>\$ (18,612,699)</b> |
| <b>Business-Type activities:</b>                  |                      |                         |                                          |                                        |                                                      |                             |                        |
| Food Service                                      | \$ 823,460           | \$ 60,225               | \$ 1,020,147                             | \$ -                                   | \$ -                                                 | \$ 256,912                  | \$ 256,912             |
| <b>Total Business-Type Activities</b>             | <b>\$ 823,460</b>    | <b>\$ 60,225</b>        | <b>\$ 1,020,147</b>                      | <b>\$ -</b>                            | <b>\$ -</b>                                          | <b>\$ 256,912</b>           | <b>\$ 256,912</b>      |
| <b>Total Primary Government</b>                   | <b>\$ 26,917,704</b> | <b>\$ 133,067</b>       | <b>\$ 7,538,622</b>                      | <b>\$ 890,228</b>                      | <b>\$ (18,612,699)</b>                               | <b>\$ 256,912</b>           | <b>\$ (18,355,787)</b> |
| <b>General Revenues:</b>                          |                      |                         |                                          |                                        |                                                      |                             |                        |
| Taxes:                                            |                      |                         |                                          |                                        |                                                      |                             |                        |
| Property Taxes, Levied for General Purposes (net) |                      |                         |                                          |                                        | \$ 6,812,998                                         | \$ -                        | \$ 6,812,998           |
| Taxes Levied for Specific Purposes                |                      |                         |                                          |                                        | 1,057,664                                            | -                           | 1,057,664              |
| Property Tax Relief Payment                       |                      |                         |                                          |                                        | 852,620                                              | -                           | 852,620                |
| Grants and Contributions - Unrestricted           |                      |                         |                                          |                                        | 9,360,702                                            | -                           | 9,360,702              |
| Investment Earnings                               |                      |                         |                                          |                                        | 197,660                                              | -                           | 197,660                |
| Gain on Sale of Fixed Assets                      |                      |                         |                                          |                                        | 48,594                                               | -                           | 48,594                 |
| Miscellaneous Income                              |                      |                         |                                          |                                        | 254,411                                              | -                           | 254,411                |
| <b>Total General Revenues</b>                     |                      |                         |                                          |                                        | <b>\$ 18,584,649</b>                                 | <b>\$ -</b>                 | <b>\$ 18,584,649</b>   |
| <b>Change in Net Position</b>                     |                      |                         |                                          |                                        | <b>\$ (28,050)</b>                                   | <b>\$ 256,912</b>           | <b>\$ 228,862</b>      |
| Net Position — July 1, 2016 (Deficit)             |                      |                         |                                          |                                        | (25,746,458)                                         | 110,687                     | (25,635,771)           |
| Prior Period Adjustment                           |                      |                         |                                          |                                        | (516,329)                                            | -                           | (516,329)              |
| <b>Net Position — June 30, 2017 (Deficit)</b>     |                      |                         |                                          |                                        | <b>\$ (26,290,837)</b>                               | <b>\$ 367,599</b>           | <b>\$ (25,923,238)</b> |

The accompanying notes are an integral part of these financial statements

**STO-ROX SCHOOL DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2017**

**EXHIBIT C**

|                                                                               | <b>GENERAL<br/>FUND</b>      | <b>CAPITAL<br/>PROJECT<br/>FUND</b> | <b>TOTAL<br/>GOVERNMENTAL<br/>FUNDS</b> |
|-------------------------------------------------------------------------------|------------------------------|-------------------------------------|-----------------------------------------|
| <b>ASSETS:</b>                                                                |                              |                                     |                                         |
| Cash and Cash Equivalents                                                     | \$ 270,486                   | \$ -                                | \$ 270,486                              |
| Investments                                                                   | 79,568                       | 741,084                             | 820,652                                 |
| Taxes Receivable, net                                                         | 4,678,583                    | -                                   | 4,678,583                               |
| Due From Other Governments                                                    | 1,094,839                    | -                                   | 1,094,839                               |
| Prepaid Expenses                                                              | 5,000                        | -                                   | 5,000                                   |
| Other Receivables                                                             | 6,435                        | -                                   | 6,435                                   |
| <b>TOTAL ASSETS</b>                                                           | <b><u>\$ 6,134,911</u></b>   | <b><u>\$ 741,084</u></b>            | <b><u>\$ 6,875,995</u></b>              |
| <b>LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCES:</b>          |                              |                                     |                                         |
| <b>LIABILITIES:</b>                                                           |                              |                                     |                                         |
| Due to Other Funds                                                            | \$ 346,142                   | \$ -                                | \$ 346,142                              |
| Accounts Payable                                                              | 2,715,290                    | -                                   | 2,715,290                               |
| Due To Other Governmental Units                                               | 4,000                        | -                                   | 4,000                                   |
| Accrued Salaries and Benefits                                                 | 2,440,198                    | -                                   | 2,440,198                               |
| Payroll Deductions and Withholdings                                           | 87,484                       | -                                   | 87,484                                  |
| <b>TOTAL LIABILITIES</b>                                                      | <b><u>\$ 5,593,114</u></b>   | <b><u>\$ -</u></b>                  | <b><u>\$ 5,593,114</u></b>              |
| <b>DEFERRED INFLOW OF RESOURCES:</b>                                          |                              |                                     |                                         |
| Delinquent Real Estate Taxes                                                  | 4,495,702                    | -                                   | 4,495,702                               |
| <b>TOTAL DEFERRED INFLOW OF RESOURCES</b>                                     | <b><u>\$ 4,495,702</u></b>   | <b><u>\$ -</u></b>                  | <b><u>\$ 4,495,702</u></b>              |
| <b>FUND BALANCES:</b>                                                         |                              |                                     |                                         |
| Nonspendable                                                                  | \$ 5,000                     | \$ -                                | \$ 5,000                                |
| Restricted                                                                    | -                            | 659,325                             | 659,325                                 |
| Assigned                                                                      | -                            | 81,759                              | 81,759                                  |
| Unassigned                                                                    | (3,958,905)                  | -                                   | (3,958,905)                             |
| <b>TOTAL FUND BALANCES (Deficit)</b>                                          | <b><u>\$ (3,953,905)</u></b> | <b><u>\$ 741,084</u></b>            | <b><u>\$ (3,212,821)</u></b>            |
| <b>TOTAL LIABILITIES, DEFERRED INFLOW OF<br/>RESOURCES, AND FUND BALANCES</b> | <b><u>\$ 6,134,911</u></b>   | <b><u>\$ 741,084</u></b>            | <b><u>\$ 6,875,995</u></b>              |

The accompanying notes are an integral part of these financial statements

**STO-ROX SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

**Total Fund Balances - Governmental Funds** \$ (3,212,821)

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

Capital assets used in governmental activities are not financial resources, and therefore, are not reported as assets in governmental funds. The cost of assets is \$31,776,510, and the accumulated depreciation is \$18,616,586. 13,159,924

Property and wage taxes receivable in the statement of net position, which will not be available soon enough to pay for the current period's expenditures, are deferred and not recognized as revenue in governmental funds. 4,495,702

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

Deferred outflows of resources related to pensions 4,773,526

Deferred inflows of resources related to pensions (2,421,900)

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

|                              |                |                     |
|------------------------------|----------------|---------------------|
| Bonds Payable, Net           | \$ 12,385,375  |                     |
| Leases Payable               | 18,851         |                     |
| Capital Appreciation Bonds   | 1,870,737      |                     |
| Accrued Interest on Debt     | 36,069         |                     |
| Net Pension Liability        | 27,879,150     |                     |
| Accrued Compensated Absences | 160,781        |                     |
| Net OPEB Obligation          | <u>734,305</u> | <u>(43,085,268)</u> |

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES (DEFICIT)** **\$ (26,290,837)**

**STO-ROX SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

|                                                              | <b><u>GENERAL FUND</u></b>          | <b><u>CAPITAL<br/>PROJECT<br/>FUND</u></b> | <b><u>TOTAL<br/>GOVERNMENTAL<br/>FUNDS</u></b> |
|--------------------------------------------------------------|-------------------------------------|--------------------------------------------|------------------------------------------------|
| <b><u>REVENUES</u></b>                                       |                                     |                                            |                                                |
| Local Sources                                                | \$ 8,266,885                        | \$ 84,582                                  | \$ 8,351,467                                   |
| State Sources                                                | 15,886,258                          | -                                          | 15,886,258                                     |
| Federal Sources                                              | 1,370,428                           | -                                          | 1,370,428                                      |
| <b>Total Revenue</b>                                         | <b><u>\$ 25,523,571</u></b>         | <b><u>\$ 84,582</u></b>                    | <b><u>\$ 25,608,153</u></b>                    |
| <b><u>EXPENDITURES</u></b>                                   |                                     |                                            |                                                |
| Instruction                                                  | \$ 17,100,832                       | \$ -                                       | \$ 17,100,832                                  |
| Support Services                                             | 7,337,471                           | 42,357                                     | 7,379,828                                      |
| Noninstructional Services                                    | 282,354                             | -                                          | 282,354                                        |
| Capital Outlay                                               | -                                   | 2,460                                      | 2,460                                          |
| Debt Service                                                 | 3,095,478                           | -                                          | 3,095,478                                      |
| <b>Total Expenditures</b>                                    | <b><u>\$ 27,816,135</u></b>         | <b><u>\$ 44,817</u></b>                    | <b><u>\$ 27,860,952</u></b>                    |
| <b>Excess ( Deficiency) of Revenue<br/>over Expenditures</b> | <b><u>\$ (2,292,564)</u></b>        | <b><u>\$ 39,765</u></b>                    | <b><u>\$ (2,252,799)</u></b>                   |
| <b><u>OTHER FINANCING SOURCES (USES)</u></b>                 |                                     |                                            |                                                |
| Tax Anticipation Loan Proceeds                               | \$ 1,500,000                        | \$ -                                       | \$ 1,500,000                                   |
| Refund of Prior Year Receipts                                | (3,593)                             | -                                          | (3,593)                                        |
| <b>Total Other Financing Sources (Uses)</b>                  | <b><u>\$ 1,496,407</u></b>          | <b><u>\$ -</u></b>                         | <b><u>\$ 1,496,407</u></b>                     |
| <b>NET CHANGE IN FUND BALANCES</b>                           | <b><u>\$ (796,157)</u></b>          | <b><u>\$ 39,765</u></b>                    | <b><u>\$ (756,392)</u></b>                     |
| FUND BALANCE - JULY 1, 2016 (Deficit)                        | (2,641,419)                         | 701,319                                    | (1,940,100)                                    |
| Prior Period Adjustment                                      | (516,329)                           | -                                          | (516,329)                                      |
| <b>FUND BALANCE - JUNE 30, 2017 (Deficit)</b>                | <b><u><u>\$ (3,953,905)</u></u></b> | <b><u><u>\$ 741,084</u></u></b>            | <b><u><u>\$ (3,212,821)</u></u></b>            |

The accompanying notes are an integral part of these financial statements

**STO-ROX SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENT FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

**TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** **\$ (756,392)**

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 depreciation expense (\$870,122) exceeded capital outlay (\$48,637) during the fiscal year. (821,485)

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. 179,065

Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 1,110,063

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. (83,064)

Bond discount costs are reported in governmental funds as expenditures. However, in the statement of activities, these costs are capitalized and amortized over the life of the note as interest expense. (8,670)

Loss on disposal of fixed assets. (9,830)

The amortization of the borrowing and changes in fair market value of investment derivative instruments is not reported in the funds. 192,197

Because certain 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 inflow of resources decreased by this amount this year. 275,673

In the statement of activities, certain operating expenses - compensated absences, retiree benefits and health insurance consortium interests - 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 (paid). This amount represents these benefits earned in excess of the amount paid. (105,607)

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** **\$ (28,050)**

**STO-ROX SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE, BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2017**

|                                                               | Budgeted Amounts     |                      | Actual                | Variance with<br>Final Budget |
|---------------------------------------------------------------|----------------------|----------------------|-----------------------|-------------------------------|
|                                                               | Original             | Final                | (Budgetary Basis)     | Positive<br>(Negative)        |
| <b>REVENUES</b>                                               |                      |                      |                       |                               |
| Local Sources                                                 | \$ 8,063,549         | \$ 8,063,549         | \$ 8,266,885          | \$ 203,336                    |
| State Sources                                                 | 15,353,732           | 15,353,732           | 15,886,258            | 532,526                       |
| Federal Sources                                               | 1,634,668            | 1,634,668            | 1,370,428             | (264,240)                     |
| <b>Total Revenues</b>                                         | <b>\$ 25,051,949</b> | <b>\$ 25,051,949</b> | <b>\$ 25,523,571</b>  | <b>\$ 471,622</b>             |
| <b>EXPENDITURES</b>                                           |                      |                      |                       |                               |
| Regular Programs                                              | \$ 10,721,046        | \$ 10,721,046        | \$ 10,688,024         | \$ 33,022                     |
| Special Programs                                              | 4,142,070            | 4,142,070            | 5,339,149             | (1,197,079)                   |
| Vocational Programs                                           | 544,187              | 544,187              | 609,369               | (65,182)                      |
| Other Instructional Programs                                  | 192,900              | 192,900              | 397,768               | (204,868)                     |
| Non-Public School Programs                                    | 32,443               | 32,443               | 66,522                | (34,079)                      |
| Pupil Personnel Services                                      | 587,431              | 587,431              | 590,066               | (2,635)                       |
| Instructional Staff Services                                  | 416,733              | 416,733              | 315,423               | 101,310                       |
| Administrative Services                                       | 1,304,920            | 1,304,920            | 1,384,953             | (80,033)                      |
| Pupil Health                                                  | 277,245              | 277,245              | 265,939               | 11,306                        |
| Business Services                                             | 530,154              | 530,154              | 486,893               | 43,261                        |
| Operation & Maintenance of Plant Services                     | 1,806,353            | 1,806,353            | 1,768,424             | 37,929                        |
| Student Transportation Services                               | 2,091,303            | 2,091,303            | 2,354,646             | (263,343)                     |
| Central Services                                              | 279,636              | 279,636              | 160,918               | 118,718                       |
| Other Support Services                                        | 10,447               | 10,447               | 10,209                | 238                           |
| Student Activities                                            | 232,105              | 232,105              | 276,682               | (44,577)                      |
| Community Services                                            | 1,000                | 1,000                | 5,672                 | (4,672)                       |
| Debt Service (Principal & Interest)                           | 1,565,528            | 1,564,528            | 3,095,478             | (1,530,950)                   |
| <b>Total Expenditures</b>                                     | <b>\$ 24,735,501</b> | <b>\$ 24,734,501</b> | <b>\$ 27,816,135</b>  | <b>\$ (3,081,634)</b>         |
| <b>Excess ( Deficiency) of Revenues<br/>over Expenditures</b> | <b>\$ 316,448</b>    | <b>\$ 317,448</b>    | <b>\$ (2,292,564)</b> | <b>\$ (2,610,012)</b>         |
| <b>OTHER FINANCING SOURCES (USES)</b>                         |                      |                      |                       |                               |
| Tax Anticipation Loan Proceeds                                | \$ -                 | \$ -                 | \$ 1,500,000          | \$ 1,500,000                  |
| Refund of Prior Year Receipts                                 | -                    | (1,000)              | (3,593)               | (2,593)                       |
| Budgetary Reserve                                             | (316,448)            | (316,448)            | -                     | 316,448                       |
| <b>Total Other Financing Sources (Uses)</b>                   | <b>\$ (316,448)</b>  | <b>\$ (317,448)</b>  | <b>\$ 1,496,407</b>   | <b>\$ 1,813,855</b>           |
| <b>NET CHANGE IN FUND BALANCES</b>                            | <b>\$ -</b>          | <b>\$ -</b>          | <b>\$ (796,157)</b>   | <b>\$ (796,157)</b>           |
| FUND BALANCE - JULY 1, 2016 (Deficit)                         | -                    | -                    | (2,641,419)           | (2,641,419)                   |
| Prior Period Adjustment                                       | -                    | -                    | (516,329)             | (516,329)                     |
| <b>FUND BALANCE - JUNE 30, 2017 (Deficit)</b>                 | <b>\$ -</b>          | <b>\$ -</b>          | <b>\$ (3,953,905)</b> | <b>\$ (3,953,905)</b>         |

The accompanying notes are an integral part of these financial statements

**STO-ROX SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**JUNE 30, 2017**

|                                                                               | <b><u>FOOD<br/>SERVICES</u></b> |
|-------------------------------------------------------------------------------|---------------------------------|
| <b>ASSETS</b>                                                                 |                                 |
| <b>Current Assets:</b>                                                        |                                 |
| Cash and Cash Equivalents                                                     | \$ 649,065                      |
| Federal Subsidies Receivable                                                  | 9,814                           |
| Interfund Receivables                                                         | 346,142                         |
| Other Receivables                                                             | 65,874                          |
| Inventories                                                                   | 21,011                          |
| <b>TOTAL CURRENT ASSETS</b>                                                   | <b><u>\$ 1,091,906</u></b>      |
| <b>Noncurrent Assets:</b>                                                     |                                 |
| Machinery and Equipment                                                       | \$ 522,851                      |
| Accumulated Depreciation                                                      | (500,093)                       |
| <b>TOTAL NONCURRENT ASSETS</b>                                                | <b><u>\$ 22,758</u></b>         |
| <b>TOTAL ASSETS</b>                                                           | <b><u>\$ 591,813</u></b>        |
| <b>Deferred Outflows of Resources:</b>                                        |                                 |
| Deferred Outflows Related to Pension                                          | \$ 122,398                      |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>                                   | <b><u>\$ 122,398</u></b>        |
| <b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS OF RESOURCES</b>                      | <b><u>\$ 1,237,062</u></b>      |
| <b>LIABILITIES</b>                                                            |                                 |
| <b>Current Liabilities:</b>                                                   |                                 |
| Accounts Payable                                                              | \$ 74,509                       |
| Unearned Revenue                                                              | 18,004                          |
| <b>TOTAL CURRENT LIABILITIES</b>                                              | <b><u>\$ 92,513</u></b>         |
| <b>Noncurrent Liabilities:</b>                                                |                                 |
| Net Pension Liability                                                         | \$ 714,850                      |
| <b>TOTAL NONCURRENT LIABILITIES</b>                                           | <b><u>\$ 714,850</u></b>        |
| <b>TOTAL LIABILITIES</b>                                                      | <b><u>\$ 807,363</u></b>        |
| <b>Deferred Inflows of Resources:</b>                                         |                                 |
| Deferred Inflows Related to Pension                                           | \$ 62,100                       |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>                                    | <b><u>\$ 62,100</u></b>         |
| <b>TOTAL LIABILITIES &amp; DEFERRED INFLOWS OF RESOURCES</b>                  | <b><u>\$ 869,463</u></b>        |
| <b>NET POSITION</b>                                                           |                                 |
| Net Investment in Capital Assets                                              | \$ 22,758                       |
| Unrestricted                                                                  | 344,841                         |
| <b>TOTAL NET POSITION (Deficit)</b>                                           | <b><u>\$ 367,599</u></b>        |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES, AND NET POSITION</b> | <b><u>\$ 1,237,062</u></b>      |

The accompanying notes are an integral part of these financial statements

**STO-ROX SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2017**

|                                                |                             |
|------------------------------------------------|-----------------------------|
|                                                | <b><u>FOOD SERVICES</u></b> |
| <b><u>OPERATING REVENUES</u></b>               |                             |
| Food Services Revenue                          | \$ 60,225                   |
| <b>Total Operating Revenues</b>                | <b>\$ 60,225</b>            |
| <b><u>OPERATING EXPENSES</u></b>               |                             |
| Salaries                                       | \$ 178,329                  |
| Employee Benefits                              | 66,741                      |
| Purchased Property Service                     | 19,086                      |
| Travel/Training                                | 40                          |
| Supplies                                       | 554,466                     |
| Equipment                                      | 3,096                       |
| Other Operating Expenditures                   | 458                         |
| Depreciation Expense                           | 1,244                       |
| <b>Total Operating Expenses</b>                | <b>\$ 823,460</b>           |
| <b>OPERATING INCOME/(LOSS)</b>                 | <b>\$ (763,235)</b>         |
| <b><u>NONOPERATING REVENUES (EXPENSES)</u></b> |                             |
| State Sources                                  | \$ 86,867                   |
| Federal Sources                                | 933,280                     |
| <b>Total Nonoperating Revenues (Expenses)</b>  | <b>\$ 1,020,147</b>         |
| <b>CHANGE IN NET POSITION</b>                  | <b>\$ 256,912</b>           |
| NET POSITION - JULY 1, 2016                    | 110,687                     |
| <b>NET POSITION - JUNE 30, 2017</b>            | <b><u>\$ 367,599</u></b>    |

The accompanying notes are an integral part of these financial statements



**STO-ROX SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2017**

|                                                                                                                  | <b>FOOD<br/>SERVICES</b> |
|------------------------------------------------------------------------------------------------------------------|--------------------------|
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>                                                               |                          |
| Cash Received from Users                                                                                         | \$ 60,224                |
| Cash Payments to Employees for Services                                                                          | (240,479)                |
| Cash Payments to Suppliers for Goods and Services                                                                | (481,749)                |
| <b>Net Cash Provided (Used) by Operating Activities</b>                                                          | <b>\$ (662,004)</b>      |
| <b><u>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</u></b>                                                       |                          |
| Capital Purchases                                                                                                | \$ (24,002)              |
| <b>Net Cash Provided (Used) by Capital Financing Activities</b>                                                  | <b>\$ (24,002)</b>       |
| <b><u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u></b>                                                   |                          |
| State Sources                                                                                                    | \$ 92,527                |
| Federal Sources                                                                                                  | 1,128,784                |
| Net Advances from Other Funds                                                                                    | 113,760                  |
| <b>Net Cash Provided (Used) by Non-Capital Financing Activities</b>                                              | <b>\$ 1,335,071</b>      |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                                                                 | <b>\$ 649,065</b>        |
| CASH AND CASH EQUIVALENTS - JULY 1, 2016                                                                         | -                        |
| <b>CASH AND CASH EQUIVALENTS - JUNE 30, 2017</b>                                                                 | <b>\$ 649,065</b>        |
| <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH<br/>PROVIDED (USED) BY OPERATING ACTIVITIES:</b>        |                          |
| Operating Income (Loss)                                                                                          | \$ (763,235)             |
| <b>ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS)<br/>TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b> |                          |
| Donated Commodities                                                                                              | 53,892                   |
| Depreciation Expense                                                                                             | 1,244                    |
| Accrual of GASB 68 Pension Expense                                                                               | (4,591)                  |
| (Increase) Decrease in Inventories                                                                               | (1,277)                  |
| Increase (Decrease) in Accounts Payable                                                                          | 49,244                   |
| Increase (Decrease) in Unearned Revenue                                                                          | 2,719                    |
| <b>Total Adjustments</b>                                                                                         | <b>\$ 101,231</b>        |
| <b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>                                                          | <b>\$ (662,004)</b>      |
| <b>NONCASH NONCAPITAL FINANCING ACTIVITIES:</b>                                                                  |                          |
| During the year, the District received \$53,892 of food commodities<br>from the U.S. Department of Agriculture   |                          |

The accompanying notes are an integral part of these financial statements

**STO-ROX SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2017**

|                           | <b><u>PRIVATE<br/>PURPOSE<br/>TRUST FUND</u></b> | <b><u>ACTIVITY<br/>FUNDS</u></b> |
|---------------------------|--------------------------------------------------|----------------------------------|
| <b>ASSETS</b>             |                                                  |                                  |
| Cash and Cash Equivalents | \$ 3,891                                         | \$ 47,267                        |
| Investments               | 74,842                                           | -                                |
| <b>TOTAL ASSETS</b>       | <b><u>\$ 78,733</u></b>                          | <b><u>\$ 47,267</u></b>          |
| <b>LIABILITIES</b>        |                                                  |                                  |
| Other Current Liabilities | \$ -                                             | \$ 47,267                        |
| <b>TOTAL LIABILITIES</b>  | <b><u>\$ -</u></b>                               | <b><u>\$ 47,267</u></b>          |
| <b>NET POSITION</b>       |                                                  |                                  |
| Retricted                 | \$ 78,733                                        |                                  |
| <b>TOTAL NET POSITION</b> | <b><u>\$ 78,733</u></b>                          |                                  |

The accompanying notes are an integral part of these financial statements

**STO-ROX SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN NET POSITION**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2017**

|                                     | <b><u>PRIVATE<br/>PURPOSE<br/>TRUST FUND</u></b> |
|-------------------------------------|--------------------------------------------------|
| <b>ADDITIONS</b>                    |                                                  |
| Interest                            | \$ 2,084                                         |
| Donations                           | 1,500                                            |
| <b>DEDUCTIONS</b>                   |                                                  |
| Scholarships Awarded                | (3,200)                                          |
| Unrealized Losses on Investments    | (2,264)                                          |
| Fees                                | <u>(37)</u>                                      |
| <b>CHANGE IN NET POSITION</b>       | \$ (1,917)                                       |
| <b>NET POSITION - JULY 1, 2016</b>  | <u>80,650</u>                                    |
| <b>NET POSITION - JUNE 30, 2017</b> | <b><u><u>\$ 78,733</u></u></b>                   |

The accompanying notes are an integral part of these financial statements

**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Sto-Rox School District was established under the authority of an act of the state legislature that designated a school board as the governing body. This District serves the surrounding municipalities which include the Township of Stowe and the Borough of McKees Rocks. The School District operates under a locally-elected nine member Board form of government and provides educational services as mandated by the Commonwealth of Pennsylvania and selected federal agencies. The Board of Education has complete authority over the operations and administration of the School District's activities.

The financial statements of the Sto-Rox School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

The most significant of the School District's accounting policies are as follows:

**REPORTING ENTITY**

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the Sto-Rox School District consists of all funds, departments, boards and agencies that are not legally separate from the District. As defined by GASB Statement No. 14, component units are legally separate entities that are included in the School District's reporting entity because of the significance of their operating or financial relationships with the School District. Based on the application of these criteria, the Sto-Rox School District has no component units.

The School District is associated with two jointly governed organizations (Note 11) and one public entity risk pool (Note 13). These organizations are:

- Jointly Governed Organizations:
  - Parkway West Area Vocational Technical School
  - Allegheny Intermediate Unit
- Public Entity Risk Pool:
  - Allegheny County Schools Health Insurance Consortium

**BASIS OF PRESENTATION**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS** – The statement of net position (Exhibit A) and the statement of activities (Exhibit B) 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.

The government-wide statements are prepared using the economic resources measurement focus. That is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations (Exhibits D and F) with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**BASIS OF PRESENTATION (Continued)**

The government-wide statement of activities (Exhibit B) presents a comparison between direct expenses and program revenues for the District's business-type activities (food service operations) and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants, subsidies and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which the business-type activity or government function is self-financing or draws from the general revenues of the School District.

**FUND FINANCIAL STATEMENTS** – Fund financial statements report detailed information about the School District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Major funds represent the School District's most important funds and are determined based on percentages of assets, liabilities, revenues, and expenditures/expenses. For the Sto-Rox School District, the General Fund is always considered a major fund. Each major fund is presented in a separate column. Non-major funds are segregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this 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 (revenues) and decreases (expenses) in total net position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

**FUND ACCOUNTING**

The School District uses funds to report on its financial position and the results of its operations during the year. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary and fiduciary. Fund categories are defined as follows:

**Governmental Funds** – Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**FUND ACCOUNTING (Continued)**

The following are the School District's major and non-major governmental funds:

**MAJOR GOVERNMENTAL FUNDS:**

**GENERAL FUND** - The General Fund is used to account for all financial resources not required to be accounted for in some other fund. The General Fund balance is available for any purpose provided it is expended according to the Commonwealth of Pennsylvania Public School Code.

**CAPITAL PROJECT FUND** - The Capital Project Fund accounts for financial resources used for the acquisition, construction, or improvement of capital facilities and other assets financed through the issuance of general obligation bonds.

**Proprietary Funds** - used to account for activities similar to those found in the private sector, where the determination of net income is necessary and useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies within the School District (internal service funds). The School District's major and sole enterprise fund is its Food Service Fund, which accounts for the financial transactions related to the food service operations of the District.

**Fiduciary Funds** – Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature and do not involve measuring income or any other results from operations. The School District maintains one private-purpose trust fund. The private-purpose trust fund accounts for student scholarships and is funded through the A.E. Lawson Scholarship Fund and the Trapuzzano Scholarship Fund. The School District also maintains an Agency Fund which accounts for various student organization activity accounts administered by the District on behalf of the various student organizations.

**BASIS OF ACCOUNTING AND MEASUREMENT FOCUS**

The basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Government funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

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

**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**BASIS OF ACCOUNTING AND MEASUREMENT FOCUS (Continued)**

Revenue resulting from non-exchange transactions, in which the School District receives value without directly giving equal value in return, includes property taxes, grants and contributions. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants and contributions are recognized in the fiscal year in which all eligibility requirements have been satisfied. On a modified accrual basis, revenue from non-exchange transactions must also be 'available' before it can be recognized.

The management of the Sto-Rox School District has determined that the revenues most susceptible to accrual (measurable and available) at June 30, 2017 under the modified accrual basis are **1)** delinquent real estate taxes collected by the district within 60 days following the close of the fiscal year, **2)** certain Act 511 taxes, **3)** federal and state subsidies earned in the fiscal year 2016-2017, and **4)** other miscellaneous revenues earned in fiscal year 2016-2017 but received subsequent to June 30, 2017. On the governmental fund financial statements, receivables that will not be collected within the 'available' period have been reported as 'deferred inflow of resources'.

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. The primary expenditures deemed susceptible to accrual at June 30, 2017, are those for which the Board of Education's intention was to expense these items as budgeted for the 2016-2017 official budget, and for which the District has incurred an obligation during 2017, but has not paid as of June 30, 2017.

Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds but are included as part of expenses in the government-wide statement of activities. Unused donated commodities are reported as unearned revenue.

**BUDGETS**

In May of 2016, the Sto-Rox School District adopted its fiscal year June 30, 2017 annual budget for the general fund totaling \$25,051,949 in accordance with the provisions of the Pennsylvania School Code. The budget is prepared utilizing the modified accrual method of accounting. Budgetary transfers among various expenditure line items can be performed by the District, as approved by the Board of Education, only during the last nine months of the fiscal year. The original and adjusted budgetary amounts are reflected in these financial statements (Exhibit G). All annual appropriations of the general fund lapse at fiscal year-end. Actual expenditures exceeded budgeted expenditures in the General Fund for fiscal year 2016-2017 as reflected on Exhibit G.

**CASH AND CASH EQUIVALENTS**

For the purposes of these basic financial statements, cash and cash equivalents include amounts in demand deposit accounts and any other highly liquid, short-term investments, with original maturity terms of less than three months, with the exception of those short-term investments through PSDLAF.

**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**INVESTMENTS**

Under Section 440.1 of the Pennsylvania Public School Code of 1949, as amended, and PA Act 10 of 2016, Sto-Rox School District is permitted to invest funds consistent with sound business practices in the following types of investments:

- I. Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania, or (c) of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- II. Deposits in savings accounts, time deposits and share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC) to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral, as provided by law, is pledged by the depository.
- III. U.S. government obligations, short-term commercial paper issued by a public corporation, and banker's acceptances.

Investments of the Sto-Rox School District include deposits pooled for investment purposes with the Pennsylvania School District Liquid Asset Fund (PSDLAF). Investments are reported at fair value.

**SHORT-TERM INTERFUND RECEIVABLES/PAYABLES**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as 'due from/to other funds' on the governmental funds balance sheet. For the purposes of the government-wide statement of net position, governmental interfund receivables and payables have been eliminated. Amounts due between governmental activities and business-type activities, if any, are presented as off-setting internal balances on the statement of net position.

**INVENTORIES**

Inventories on the government-wide statement of net position (Exhibit A) and the proprietary fund statement of net position (Exhibit H) are recorded at a combination of actual cost and fair value on a first-in first-out basis. This inventory consists of purchased food and supplies and donated commodities from the U.S. Department of Agriculture as part of the food service program. The School District does not inventory the cost of such items as books and supplies, but rather records these items as expenditures in the governmental funds and an expense in the government-wide statement of activities at the time of purchase.

**CAPITAL ASSETS AND DEPRECIATION**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets are reported in the governmental activities column of the government-wide statement of net position. Capital assets used by the proprietary fund are reported in both the business-type activity column of the government-wide statement of net position and on the proprietary fund statement of net position.



**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**CAPITAL ASSETS AND DEPRECIATION (Continued)**

All capital assets are recorded at cost (or estimated historical cost). Donated fixed assets are recorded at fair value at the time of receipt. The School District maintains a capitalization threshold of \$5,000. The cost of infrastructure is included as part of site improvements in the government-wide statement of net position. Routine repair and maintenance costs that do not add to the value of the asset or extend its useful life are charged as an expense in the government-wide statement of activities.

All reported capital assets, except land and construction in progress (if applicable), are depreciated using the straight-line method over the following useful lives:

| <u>CATEGORY</u>          | <u>GOVERNMENTAL<br/>ACTIVITIES</u> | <u>BUSINESS<br/>TYPE<br/>ACTIVITIES</u> |
|--------------------------|------------------------------------|-----------------------------------------|
| Buildings & Improvements | 25 years                           | N/A                                     |
| Equipment & Vehicles     | 8-15 years                         | 5-15 years                              |
| Library & Text Books     | 15 years                           | N/A                                     |

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets purchased by governmental funds are recorded as expenditures in the fund financial statements (Exhibit E). The results of capitalizing fixed assets net of depreciation on the government-wide statement of net position and statement of activities, as opposed to recording these same assets as an expenditure in the fund financial statements (Exhibit E), is reflected in the required reconciliations of fund balance to net position (Exhibit D) and the changes in fund balances to the changes in net position (Exhibit F).

**LONG-TERM DEBT FINANCING COSTS**

Bond issue costs are recorded as expenditures in the governmental activities and governmental fund financial statements in the year paid. The District did not incur any bond issuance costs during the 2016-2017 fiscal year.

**COMPENSATED ABSENCES**

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, 'Accounting for Compensated Absences'. Sick leave benefits are accrued as a liability at the rate of \$40 per day for Administrators up to a maximum of \$6,000 (150 days). Teachers sick leave benefits are accrued at \$35 per day with no maximum, full-time support staff accrue at \$30 per day with no maximum and part-time support staff accrue at a rate of \$10 per day for the first 50 days, \$12 per day for the second 50 days and \$15 per day over 100 days. In addition to the above sick day pay policy, administrators and support staff can accumulate and receive compensation for unused vacation pay. Any unused vacation days will be paid at a daily rate commensurate to the employee's current salary.

The entire compensated absences liability of \$160,781 is shown as a non-current liability in the government-wide statement of net position. For governmental fund financial statements, compensated absences are recorded as expenditures when paid rather than accrued when earned as the likelihood of payment in the immediate fiscal year with available expendable resources is not assured.

**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**PENSIONS**

For the 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 the benefit terms. Investment assets are reported at fair value. More information on pension activity is included in Note 10.

**ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. For the business-type activities, these obligations and all similar obligations are reported again on the proprietary fund statement of net position (Exhibit H).

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of compensated absences, retirement incentives, retiree health benefits and health insurance consortium liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, liabilities that mature or come due for payment during the fiscal year are considered to have been paid with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements when due. The District's General Fund is typically used to liquidate long-term liability obligations.

The results of recognizing these long-term obligations as liabilities on the government-wide statement of net position and statement of activities, as opposed to recording these same obligations as an expenditure in the fund financial statements (Exhibit E) only when paid, is reflected in the required reconciliations of fund balance to net position (Exhibit D) and the changes in fund balances to the changes in net position (Exhibit F).

**UNEARNED REVENUE**

Unearned revenue arises when the District receives resources before it has legal claim to them. This occurs when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the School District has a legal claim to the resources, the unearned revenue liability is removed and revenue is recognized.

**DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES**

In addition to assets and liabilities, the statement of net position and/or the balance sheet will sometimes report a separate section for deferred outflows and/or inflows of resources. These separate financial statement elements represent a decrease and/or increase in net position that applies to a future period and will not be recognized as an outflow and/or inflow of resources (expense/expenditure or income/revenue) in the current period.

**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**NET POSITION**

Net position is classified into three categories according to external donor or legal restrictions or availability of assets to satisfy District obligations. Net position is classified as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets net of accumulated depreciation, and reduced by the outstanding balances of debt that is attributable to the acquisition, construction and improvement of the capital assets, plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted Net Position – This component of net position consists of restricted assets reduced by liabilities and deferred inflows related to those assets.
- Unrestricted – Consists of net position that does not meet the definition of ‘restricted’ or ‘net investment in capital assets’.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the School District’s policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

**FUND EQUITY**

In the Balance Sheet – Governmental Funds (Exhibit C), fund balances are reported in specific categories to make the nature and extent of the constraints placed on any entity’s fund balance more transparent in accordance with GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact. At June 30, 2017 the nonspendable fund balance was \$5,000 for prepaid expenses.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and high levels of government), through constitutional provisions, or by enabling legislation
- Committed fund balance – amounts constrained to specific purposes by the School District itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the School District takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the School District intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. There is no assigned fund balance for the General Fund of Sto-Rox School District as of June 30, 2017.
- Unassigned fund balance – amounts that are available for any purpose

**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**FUND EQUITY (Continued)**

Act 48 of 2003 prohibits school districts from increasing real property taxes for the school year 2006-2007 or any subsequent school year, unless the school district has adopted a budget for such school year that includes an estimated ending unassigned fund balance which is not more than a specified percentage of the district's total budgeted expenditures. For the Sto-Rox School District, estimated ending unassigned fund balance must not exceed 8% of total budgeted expenditures.

The School District establishes (and modifies and rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. The Board of Education has given authority to assign fund balance to the Business Manager.

When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the District's general policy to spend the committed resources first, followed by assigned amounts and then unassigned amounts.

**ESTIMATES**

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

**OPERATING REVENUES AND EXPENSES**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Sto-Rox School District, these revenues are food service charges for lunch and breakfast service. Operating expenses are the necessary costs incurred to provide the aforementioned food service. Non-operating revenues of the District's food service proprietary fund are state and federal subsidies, including donated commodities, received from the U.S. Department of Agriculture.

**ADOPTION OF GASB PRONOUNCEMENTS**

The requirements of the following GASB Statements were adopted for the School District's 2016-2017 financial statements. Except where noted, the adoption of these pronouncements did not have a significant impact on the School District's financial statements.

GASB issued Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*". The primary objective of this Statement is to address reporting by OPEB plans that administer benefits on behalf of governments. This Statement replaces Statement No. 43. Currently, the School District does not offer any postemployment benefits that require reporting under GASB 74.

GASB issued Statement No. 77, "*Tax Abatement Disclosures*". The primary objective of this Statement is to require state and local governments for the first time to disclose information about tax abatement agreements, and is designed to provide financial statement users with essential information about these agreements and the impact that they have on a government's finances. The School District does not have any Tax Abatement Agreements as of June 30, 2017.

**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**ADOPTION OF GASB PRONOUNCEMENTS (Continued)**

GASB issued Statement No. 78, "*Pensions Provided through Certain Multiple- Employer Defined Benefit Pension Plans*". The primary objective is to address a practice issue regarding the scope and applicability of Statement No. 68, "Accounting and Financial Reporting for Pensions." The issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local government employers whose employees are provided with such pensions.

GASB issued Statement No. 79, "*Certain External Investment Pools and Pool Participants*". The primary objective of this Statement is to address accounting and reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for the election to measure all of its investments at amortized costs for financial reporting purposes. This pronouncement required additional disclosures related to investments, which have been incorporated into Note 2.

GASB issued Statement No. 80, "*Blending Requirements for Certain Component Units- an amendment of GASB Statement No. 14*". The primary objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units.

GASB issued Statement No. 82, '*Pension Issues- an amendment of GASB Statements No. 67, No. 68, and No. 73*'. The primary objective of this Statement is to address certain issues that have been raised with respect to GASB Statements No. 67, "Financial Reporting for Pension Plans," No. 68, "Accounting and Financial Reporting for Pensions," and No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68."

**PENDING GASB PRONOUNCEMENTS**

In June of 2015, the GASB issued Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". The primary objective of this Statement is to address reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This Statement replaces the requirements of Statement No. 45. The provisions of this Statement are effective for the School District's June 30, 2018 financial statements.

In March of 2016, the GASB issued Statement No. 81, "Irrevocable Split-Interest Agreement". The primary objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of this Statement are effective for the School District's June 30, 2018 financial statements.

In November of 2016, the GASB issued Statement No. 83, '*Certain Asset Retirement Obligations*'. The primary objective of this Statement is to provide financial statement users with information about 'asset retirement obligations (ARO) that were not addressed in GASB Standards by establishing uniform accounting and financial reporting requirements for these obligations. The provisions of this Statement are effective for the School District's June 30, 2019 financial statements.

In January of 2017, the GASB issued Statement No. 84, '*Fiduciary Activities*'. The primary objective of this Statement is to enhance the consistency and comparability of fiduciary activity reporting by state and local governments. This Statement also is intended to improve the usefulness of fiduciary activity information primarily for assessing the accountability of governments in their roles as fiduciaries. The provisions of this Statement are effective for the School District's June 30, 2020 financial statements.

**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**PENDING GASB PRONOUNCEMENTS (Continued)**

In March of 2017, the GASB issued Statement No. 85, '*Omnibus 2017*'. The primary objective of this Statement is to improve consistency in accounting and financial reporting by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The provisions of this Statement are effective for the School District's June 30, 2018 financial statements.

In May of 2017, the GASB issued Statement No. 86, '*Certain Debt Extinguishment Issues*'. The primary objective of this Statement is to improve consistency in accounting and financial reporting for certain debt extinguishments and to enhance the decision-usefulness of that information. The provisions of this Statement are effective for the School District's June 30, 2018 financial statements.

In June of 2017, the GASB issued Statement No. 87, '*Leases*'. The primary objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability (representational faithfulness), and consistency of information about the leasing activities of governments. The provisions of this Statement are effective for the School District's June 30, 2021 financial statements.

The effects of implementing the aforementioned GASB Statements on the School District's financial statements have not yet been determined.

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS**

**CASH DEPOSITS:**

At June 30, 2017, Sto-Rox School District had the following bank deposit balances and carrying values on its cash and cash equivalents:

|                           | <b><u>BANK<br/>BALANCE</u></b> | <b><u>CARRYING<br/>VALUE</u></b> |
|---------------------------|--------------------------------|----------------------------------|
| General Fund              | \$ 1,872,840                   | \$ 270,486                       |
| Enterprise Fund           | 649,065                        | 649,065                          |
| Fiduciary Funds           | 51,158                         | 51,158                           |
|                           | <b><u>\$ 2,573,063</u></b>     | <b><u>\$ 970,709</u></b>         |
| CD's shown as investments | 50,000                         | 50,000                           |
| <b>TOTALS</b>             | <b><u>\$ 2,623,063</u></b>     | <b><u>\$ 1,020,709</u></b>       |

The difference between the bank balance and carrying value represents year-end reconciling items such as deposits in transit and outstanding checks. The Federal Deposit Insurance Corporation (FDIC) coverage threshold for government accounts is \$250,000 per official custodian. This coverage includes checking and savings accounts, money market deposits accounts, and certificates of deposit.

**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS**

**CASH DEPOSITS: (Continued)**

**Custodial Credit Risk:**

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy complies with Section 440.1 of the Public School Code of 1949 with the primary objectives being safety, liquidity and yield. As of June 30, 2017, \$2,319,172 of the School District's bank balance total is exposed to custodial credit risk as this amount represents uninsured deposits collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the School District's name. The District's investment policy requires a written safe keeping agreement and/or Act 72 agreement with each financial institution acting as depository.

In accordance with Act Number 72-1971 Session of the Commonwealth of Pennsylvania, the aforementioned deposits, in excess of \$250,000, are collateralized by securities pledged to a pooled public funds account with the Federal Reserve System.

**INVESTMENTS:**

The fair value and maturity term of the District's investments as of June 30, 2017 is as follows:

|                            | <b><u>Fair Value</u></b> | <b><u>No Stated<br/>Maturity</u></b> | <b><u>Credit<br/>Rating</u></b> |
|----------------------------|--------------------------|--------------------------------------|---------------------------------|
| <b>Governmental Funds:</b> |                          |                                      |                                 |
| PSDLAF                     | \$ 820,652               | \$ 820,652                           | AAAm                            |
|                            | <u>\$ 820,652</u>        | <u>\$ 820,652</u>                    |                                 |
| <b>Fiduciary Funds:</b>    |                          |                                      |                                 |
| Money Market Mutual Funds  | \$ 24,842                | \$ 24,842                            | n/a                             |
|                            | <u>\$ 24,842</u>         | <u>\$ 24,842</u>                     |                                 |

The purpose of the Pennsylvania School District Liquid Asset Fund (PSDLAF) is to enable governmental units to pool their available funds for investments authorized under the Intergovernmental Cooperation Act of 1972. 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. These funds maintain net asset values of \$1 per share. Accordingly, the fair value of the position in these funds is the same as the value of these shares. These funds are rated by a nationally recognized statistical rating organization as shown above. PSDLAF does not put any limitation or restrictions on withdrawals.

**Custodial Credit Risk:**

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. PSDLAF has characteristics of open-end mutual funds and are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. These Trusts purchase only money market instruments of the type in which PA Local Governments are permitted to invest funds and comply with all regulations.

**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS**

**INVESTMENTS: (Continued)**

**Interest Rate Risk:**

Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The 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.

**Credit Risk:**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The School District does not have a formal investment policy that addresses credit risk.

**Concentration of Credit Risk:**

The School District does not have a formal investment policy that limits maximum investments in certain investment types.

**Fair Value Measurements:**

The Sto-Rox School District's investments are reported at fair value within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No 72, *Fair Value Measurement and Application*, provides a framework for measuring fair value which establishes a three-level fair value hierarchy that prioritizes the inputs to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes

Level 2 – Includes inputs other than level 1 inputs that are directly or indirectly observable in the marketplace such as yield curves or other market data

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk such as bid/ask spreads and liquidity discounts.

The following schedule presents the Investments of the District by level within the fair value hierarchy:

|                         | Value<br>at 6/30/17 | Fair Value Measurements |         |         |
|-------------------------|---------------------|-------------------------|---------|---------|
|                         |                     | Level 1                 | Level 2 | Level 3 |
| PSDLAF                  | \$ 820,652          | \$ -                    | \$ -    | \$ -    |
|                         | \$ 820,652          | \$ -                    | \$ -    | \$ -    |
| <b>Fiduciary Funds:</b> |                     |                         |         |         |
| Money Market Funds      | \$ 24,842           | \$ -                    | \$ -    | \$ -    |
|                         | \$ 24,842           | \$ -                    | \$ -    | \$ -    |

Investments held in external investment pools such as PSDLAF and money market funds are not subject to the provisions of fair value measurements as they are recorded at amortized cost.



**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 3 - PROPERTY TAXES**

The Sto-Rox School District levies property taxes July 1 of each fiscal year. The tax millage assessment for the 2016-2017 fiscal year was 23.19 mills, which represents \$23.19 of revenue for every \$1,000 of assessed property value. Taxpayers are entitled to a 2% discount if taxes are paid prior to September 1. Collections beginning November 1 are assessed a 10% penalty. Tax collectors are required under Act 169 of the Commonwealth of Pennsylvania to submit a reconciliation of their tax duplicate to the District by January 15<sup>th</sup> of the year following levy. Unpaid taxes are submitted to the Law Offices of Weiss, Burkhardt, Kramer for collection. The final tax collector reconciliations reflected \$954,308 in unpaid 2016 property taxes, which represents 14.0% of the total assessed property taxes (\$6,814,732) for the current fiscal year.

Taxes receivable as shown in the government-wide statement of net position includes delinquent property taxes of \$4,495,702. For purposes of the governmental fund financial statements, the above property taxes receivable, although measurable, does not meet the available criteria to finance current fiscal year operations. Accordingly, this amount is equally off-set as a credit to deferred inflow of resources in the fund financial statements.

The effect of recognizing property tax revenue when taxes are levied, as opposed to when they are received using the 'measurable and available' criteria under the modified accrual basis of accounting, is reflected in the required reconciliations of fund balance to net position (Exhibit D) and the changes in fund balances to the changes in net position (Exhibit F).

Taxes receivable are comprised of the following at June 30, 2017:

|                                       |                            |
|---------------------------------------|----------------------------|
| Delinquent Property Taxes             | \$ 4,495,702               |
| Delinquent Property Taxes - Collected |                            |
| within 60 Days of Fiscal Year-End     | 159,373                    |
| Real Estate Transfer Tax              | 5,007                      |
| Wage Tax                              | 18,501                     |
|                                       | <b><u>\$ 4,678,583</u></b> |

**NOTE 4 – DUE FROM OTHER GOVERNMENTS**

The amount of 'due from other governments', as reflected on the government-wide statement of net position and the governmental funds balance sheet, is comprised of the following:

|                               | <b><u>GOVERNMENTAL<br/>ACTIVITIES</u></b> | <b><u>BUSINESS<br/>TYPE<br/>ACTIVITIES</u></b> |
|-------------------------------|-------------------------------------------|------------------------------------------------|
| Commonwealth of Pennsylvania: |                                           |                                                |
| State Subsidies               | \$ 936,407                                | \$ -                                           |
| Federal Pass-Through Grants   | 155,711                                   | 9,814                                          |
| Allegheny Intermediat Unit    | 2,721                                     | -                                              |
|                               | <b><u>\$ 1,094,839</u></b>                | <b><u>\$ 9,814</u></b>                         |

**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 5 – OTHER ACCOUNTS RECEIVABLE**

The amount of 'other accounts receivable', as reflected on the government-wide statement of net position for governmental activities and business-type activities, is comprised of the following amounts due to the District at June 30, 2017:

|                                       | <b>Governmental<br/>Activities</b> | <b>Business-Type<br/>Activities</b> |
|---------------------------------------|------------------------------------|-------------------------------------|
| Miscellaneous Amounts Due to District | \$ 6,435                           | \$ -                                |
| Nutrition Inc.                        | -                                  | 65,874                              |
|                                       | <u>\$ 6,435</u>                    | <u>\$ 65,874</u>                    |

**NOTE 6 – INTER-FUND RECEIVABLES/PAYABLES/TRANSFERS**

Inter-fund receivables and payables as reflected on the governmental and proprietary funds balance sheets (Exhibits C & H) are as follows:

|                   | <b>RECEIVABLE</b> | <b>PAYABLE</b>    |
|-------------------|-------------------|-------------------|
| General Fund      | \$ -              | \$ 346,142        |
| Food Service Fund | 346,142           | -                 |
|                   | <u>\$ 346,142</u> | <u>\$ 346,142</u> |

These inter-fund obligations are shown as "internal balances" in the government-wide statement of net position.

**NOTE 7 - CAPITAL ASSETS**

A summary of the governmental fixed asset activity for the 2016-2017 fiscal year is as follows:

|                                                         | <b>Balance<br/>7/1/2016</b> | <b>Additions</b>           | <b>Deductions</b>      | <b>Balance<br/>6/30/2017</b> |
|---------------------------------------------------------|-----------------------------|----------------------------|------------------------|------------------------------|
| <b>Governmental Activities</b>                          |                             |                            |                        |                              |
| Land                                                    | \$ 2,343,900                | \$ -                       | \$ -                   | \$ 2,343,900                 |
| Land Improvements                                       | 1,131,151                   | -                          | -                      | 1,131,151                    |
| Buildings and Improvements                              | 27,326,562                  | 19,320                     | 14,042                 | 27,331,840                   |
| Equipment & Vehicles                                    | 957,116                     | 29,317                     | 16,814                 | 969,619                      |
|                                                         | <u>\$ 31,758,729</u>        | <u>\$ 48,637</u>           | <u>\$ 30,856</u>       | <u>\$ 31,776,510</u>         |
| <b>Less: Accumulated depreciation</b>                   |                             |                            |                        |                              |
| Land Improvements                                       | \$ (971,710)                | \$ (37,929)                | -                      | \$ (1,009,639)               |
| Buildings and Improvements                              | (16,035,475)                | (784,185)                  | (4,212)                | (16,815,448)                 |
| Equipment & Vehicles                                    | (760,305)                   | (48,008)                   | (16,814)               | (791,499)                    |
|                                                         | <u>\$ (17,767,490)</u>      | <u>\$ (870,122)</u>        | <u>\$ (21,026)</u>     | <u>\$ (18,616,586)</u>       |
| <b>Governmental Activities<br/>Capital Assets, Net</b>  | <u><u>\$ 13,991,239</u></u> | <u><u>\$ (821,485)</u></u> | <u><u>\$ 9,830</u></u> | <u><u>\$ 13,159,924</u></u>  |
| <b>Business-Type Activities</b>                         |                             |                            |                        |                              |
| Furniture and Equipment                                 | \$ 498,849                  | \$ 24,002                  | \$ -                   | \$ 522,851                   |
| Less: Accumulated Depreciation                          | (498,849)                   | (1,244)                    | -                      | (500,093)                    |
| <b>Business-Type Activities<br/>Capital Assets, Net</b> | <u><u>\$ -</u></u>          | <u><u>\$ 22,758</u></u>    | <u><u>\$ -</u></u>     | <u><u>\$ 22,758</u></u>      |

**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 7 - CAPITAL ASSETS (Continued)**

Depreciation expense was charged to governmental functions as follows:

|                                             |                   |
|---------------------------------------------|-------------------|
| Instruction                                 | \$ 631,747        |
| Instructional Student Support               | 73,976            |
| Administrative and Financial Support        | 89,324            |
| Operation and Maintenance of Plant Services | 66,077            |
| Student Activities                          | 8,998             |
|                                             | <u>\$ 870,122</u> |

**NOTE 8 – UNEARNED REVENUE**

Unearned revenue totaling \$18,004, as reflected on the proprietary fund statement of net position (Exhibit H) is comprised of donated commodities inventory of the District's Food Service Fund.

**NOTE 9 - LONG-TERM LIABILITIES**

**CAPITAL APPRECIATION NOTES – REFUNDING SERIES A OF 2009**

On June 29, 2009, the Sto-Rox School District issued Capital Appreciation Notes, Series of 2009 with a maturity value of \$2,230,000 to provide funds for currently refunding the Series of 1998 bond issue and to pay for the costs of issuance of the notes. The notes were issued in denominations of \$5,000 and mature between December 15, 2019 and December 15, 2022. Interest rates range between 4.6% and 4.9%.

**GENERAL OBLIGATION BONDS - SERIES B of 2009**

On June 15, 2009, the Sto-Rox School District issued General Obligation Bonds – Series B of 2009 in the amount of \$3,000,000 to pay unfunded debt of the District and pay the costs of issuing and insuring the bonds. The bonds were issued in denominations of \$5,000 with interest payable on June 15 and December 15 each year through maturity. Interest rates range between 3.0 and 3.40% with the bonds maturing on June 15, 2019. The bonds provide for early redemption options for the school district as detailed in the official statement of issue.

**GENERAL OBLIGATION BONDS - SERIES 2011B**

On September 15, 2011, the Sto-Rox School District issued General Obligation Bonds – Series B of 2011 in the amount of \$14,295,000 to currently refund the outstanding General Obligation Bonds, Series of C of 2003 and pay the costs of issuing and insuring the bonds. The bonds were issued in denominations of \$5,000 with interest payable on June 15 and December 15 each year through maturity. Interest rates range between 2.0 and 4.25% with the bonds maturing on December 15, 2029. The bonds provide for early redemption options for the school district as detailed in the official statement of issue.

**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 9 - LONG-TERM LIABILITIES (Continued)**

A summary of the Sto-Rox School District's general obligation bonds outstanding at June 30, 2017 is as follows:

| <b>YEAR END<br/>JUNE 30,</b> | <b>-----SERIES-----</b>    |                            |                             | <b>INTEREST</b>            | <b>TOTAL</b>                |
|------------------------------|----------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|
|                              | <b>2009A<br/>PRINCIPAL</b> | <b>2009B<br/>PRINCIPAL</b> | <b>2011B<br/>PRINCIPAL</b>  |                            |                             |
| 2018                         | \$ -                       | \$ 395,000                 | \$ 725,000                  | \$ 432,377                 | \$ 1,552,377                |
| 2019                         | -                          | 410,000                    | 745,000                     | 403,766                    | 1,558,766                   |
| 2020                         | 645,000                    | -                          | 775,000                     | 369,969                    | 1,144,969                   |
| 2021                         | 645,000                    | -                          | 790,000                     | 347,462                    | 1,137,462                   |
| 2022                         | 940,000                    | -                          | 820,000                     | 322,800                    | 1,142,800                   |
| 2023-2027                    | -                          | -                          | 4,585,000                   | 1,139,788                  | 5,724,788                   |
| 2028-2030                    | -                          | -                          | 3,275,000                   | 210,331                    | 3,485,331                   |
| Less Deferred Interest       | (359,263)                  | -                          | -                           | 359,263                    | -                           |
|                              | <b><u>\$ 1,870,737</u></b> | <b><u>\$ 805,000</u></b>   | <b><u>\$ 11,715,000</u></b> | <b><u>\$ 3,585,756</u></b> | <b><u>\$ 15,746,493</u></b> |

In connection with the School District's various general obligation bond issues, the District received bond discounts. These discounts are being amortized on a straight-line basis over the life of the bond issue. The unamortized amount of bond discount totaling \$134,625 is reflected as a component of 'Bonds Payable – Long-Term Portion (Net)' in the governmental activities column on the government-wide statement of net position. Amortization expense for the year ended June 30, 2017 was \$8,670. This amount was charged to the 'Interest on Long-Term Debt' expense category in the statement of activities.

**CAPITAL LEASE AGREEMENTS**

In April of 2015, the Sto-Rox School District entered into a capital lease agreement with PNC Equipment Leasing for computer equipment in the amount of \$59,893.25. The terms of the lease call for thirty-six (36) monthly payments of principal and interest totaling \$1,745.73. The balance on the lease as of June 30, 2017 is \$18,851 and the lease is scheduled to expire on April 10, 2018.

The following represents the changes in the district's long-term liabilities during the 2016-2017 fiscal year:

|                            | <b>Balance<br/>7/1/2016</b> | <b>Additions</b>           | <b>Reductions</b>          | <b>Balance<br/>6/30/2017</b> | <b>Due Within<br/>One Year</b> |
|----------------------------|-----------------------------|----------------------------|----------------------------|------------------------------|--------------------------------|
| General Obligation Bonds   | \$ 13,610,000               | \$ -                       | \$ 1,090,000               | \$ 12,520,000                | \$ 1,120,000                   |
| Capital Appreciation Bonds | 1,785,448                   | 85,289                     | -                          | 1,870,737                    | -                              |
| Leases Payable             | 38,914                      | -                          | 20,063                     | 18,851                       | 18,851                         |
| Net Pension Liability      | 25,859,000                  | 2,735,000                  | -                          | 28,594,000                   | -                              |
| Net OPEB Liability         | 669,254                     | 65,051                     | -                          | 734,305                      | -                              |
| Compensated Absences       | 120,225                     | 40,556                     | -                          | 160,781                      | -                              |
|                            | <b><u>\$ 42,082,841</u></b> | <b><u>\$ 2,925,896</u></b> | <b><u>\$ 1,110,063</u></b> | <b><u>\$ 43,898,674</u></b>  | <b><u>\$ 1,138,851</u></b>     |

**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 10 - PENSION PLAN**

**PSERS**

The Sto-Rox School District participates in the Public School Employees' Retirement System (PSERS). PSERS is a component unit of the Commonwealth of Pennsylvania. A brief description of the plan, and summary of the plan's provisions, are as follows:

**Plan Description**

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

**Benefits Provided**

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with a 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 three years of service or attain a total combination of age and service that is equal to or greater than ninety-two with a minimum of thirty-five years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service.

For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

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

**Member Contributions** - Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class TC) or at 6.5% (Membership Class TD) 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 6.25% (Membership Class TC) or at 7.5% (Membership Class TD) of the members qualifying compensation.

**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 10 - PENSION PLAN (Continued)**

**Contribution Rates**

**Member Contributions (Continued)**

Members who joined the System after June 30, 2001 and before June 1, 2011, contribute at 7.5% (automatic Membership Class TD). 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 10.30% (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 years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.30%.

**Employer Contributions** – The School District's contractually required contribution rate for fiscal year ended June 30, 2017 was 29.20% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the employer were \$2,334,446 for the year ended June 30, 2017.

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

At June 30, 2017, the School District reported a liability of \$28,594,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2015 to June 30, 2016. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the School District's proportion was .0577%, which was a decrease of .0020% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the School District recognized pension expense of \$2,150,139. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|                                                                                          | <b><u>Deferred Outflows<br/>of Resources</u></b> | <b><u>Deferred Inflows<br/>of Resources</u></b> |
|------------------------------------------------------------------------------------------|--------------------------------------------------|-------------------------------------------------|
| Difference between expected and actual experience                                        | \$ -                                             | \$ 238,000                                      |
| Changes in assumptions                                                                   | 1,032,000                                        | -                                               |
| Net difference between projected and actual investment earnings                          | 1,594,000                                        | -                                               |
| Changes in proportions                                                                   | -                                                | 2,246,000                                       |
| Difference between employer contributions and proportionate share of total contributions | -                                                | -                                               |
| Contributions subsequent to the measurement date                                         | 2,269,924                                        | -                                               |
|                                                                                          | <b><u>\$ 4,895,924</u></b>                       | <b><u>\$ 2,484,000</u></b>                      |

**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 10 - PENSION PLAN (Continued)**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

The \$2,269,924 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

| <b>Measurement<br/>Date<br/>Year ended<br/>June 30,</b> | <b>Reporting<br/>Date<br/>Year ended<br/>June 30,</b> | <b>Amortization<br/>Amount</b> |
|---------------------------------------------------------|-------------------------------------------------------|--------------------------------|
| 2016                                                    | 2017                                                  | \$ (328,000)                   |
| 2017                                                    | 2018                                                  | (328,000)                      |
| 2018                                                    | 2019                                                  | 371,000                        |
| 2019                                                    | 2020                                                  | 427,000                        |

**Changes in Actuarial Assumptions**

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

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

- The Investment Rate of Return was adjusted from 7.50% to 7.25%
- The inflation assumption was decreased from 3.0% to 2.75%
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases
- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three (3) years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MD-2015 Mortality Improvement Scale. The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the Board at its June 10, 2016 Board meeting, and were effective beginning with the June 30, 2016 actuarial valuation.

**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 10 - PENSION PLAN (Continued)**

**Investment Asset Allocation**

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<br/>Allocation</u> | <u>Long-Term<br/>Expected Real<br/>Rate of Return</u> |
|-------------------------|------------------------------|-------------------------------------------------------|
| Global public equity    | 22.5%                        | 5.30%                                                 |
| Fixed Income            | 28.5%                        | 2.10%                                                 |
| Commodities             | 8.0%                         | 2.50%                                                 |
| Absolute return         | 10.0%                        | 3.30%                                                 |
| Risk parity             | 10.0%                        | 3.90%                                                 |
| Infrastructure/MLP's    | 5.0%                         | 4.80%                                                 |
| Real estate             | 12.0%                        | 4.00%                                                 |
| Alternative investments | 15.0%                        | 6.60%                                                 |
| Cash                    | 3.0%                         | 0.20%                                                 |
| Financing (LIBOR)       | -14.0%                       | 0.50%                                                 |
|                         | <u>100%</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, 2016.

**Discount Rate**

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

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

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



**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 10 - PENSION PLAN (Continued)**

**Sensitivity of the School's proportionate share of the net pension liability to changes in the discount rate (Continued)**

|                                                                       | <b>1%<br/>Decrease<br/>6.25%</b> | <b>Current<br/>Discount<br/>Rate<br/>7.25%</b> | <b>1%<br/>Increase<br/>8.25%</b> |
|-----------------------------------------------------------------------|----------------------------------|------------------------------------------------|----------------------------------|
| School District's proportionate share of<br>the net pension liability | <u>\$ 34,979,000</u>             | <u>\$ 28,594,000</u>                           | <u>\$ 23,230,000</u>             |

**Pension plan fiduciary net position**

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

**NOTE 11 – JOINTLY GOVERNED ORGANIZATIONS**

**PARKWAY WEST CAREER & TECHNOLOGY CENTER**

The Sto-Rox School District, in conjunction with eleven other Western Pennsylvania School Districts, fund the operating budget of the Parkway West Career & Technology Center. The technical school is designed to teach students trade related professions. Each district's share of tuition is based on the percentage of the district's enrollment to the total enrollment at the Parkway West Career & Technology Center. In addition to tuition, the district makes rental payments based on the percentage of 11th and 12th graders enrolled in all twelve districts. The percentage is applied to the rental budget. A representative from each district's school board sits on the board of the technical school. The Parkway West Career & Technology Center issues separate financial statements annually which can be obtained by contacting the Parkway West Career & Technology Center directly.

**ALLEGHENY INTERMEDIATE UNIT**

The Sto-Rox School District participates with 42 other School Districts and 5 Vocational-Technical schools located in Allegheny County in the Allegheny Intermediate Unit #3 (AIU3). The AIU3 was established in 1971 by Act 102 of the Commonwealth of Pennsylvania to function as a regional educational service agency for 42 school districts, as well as nonpublic schools and other institutions, located within the aforementioned counties. The AIU3 provides services relative to curriculum development, continuing education, educational planning, instructional materials, pupil personnel, state and federal agency liaison and managerial oversight.

The Allegheny Intermediate Unit is governed by a thirteen (13) member board appointed by the 42 participating school districts on a rotating basis. The School District contributed \$93,713 to AIU3 for operating contributions, transportation recovery and institutionalized children through state subsidy withholdings for the year ended June 30, 2017. Allegheny Intermediate Unit issues separate financial statements annually which can be obtained by contacting the AIU directly.

**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 12 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION**

**HEALTH BENEFITS**

**ANNUAL OPEB COST AND NET OPEB OBLIGATION**

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following show the components of the Sto-Rox School District's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the Sto-Rox School District's net OPEB obligation:

|                                            |                          |
|--------------------------------------------|--------------------------|
| Annual required contribution               | \$ 160,298               |
| Interest on net OPEB obligation            | 26,770                   |
| Adjustment to annual required contribution | <u>(60,193)</u>          |
| Annual OPEB cost (expense)                 | 126,875                  |
| Contributions made (estimate)              | <u>(61,824)</u>          |
| Increase in net OPEB obligation            | 65,051                   |
| Net OPEB obligation at July 1, 2016        | 669,254                  |
| Net OPEB obligation at June 30, 2017       | <u><b>\$ 734,305</b></u> |

The Net OPEB liability of \$734,305 is reflected as part of Noncurrent Liabilities in the government-wide financial statement of net position (Exhibit A).

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

| <b><u>FISCAL YEAR<br/>ENDED</u></b> | <b><u>ANNUAL OPEB<br/>COST</u></b> | <b><u>PERCENTAGE<br/>CONTRIBUTED</u></b> | <b><u>NET OPEB<br/>OBLIGATION</u></b> |
|-------------------------------------|------------------------------------|------------------------------------------|---------------------------------------|
| 2017                                | \$ 126,875                         | 48.7%                                    | \$ 734,305                            |
| 2016                                | 126,993                            | 98.1%                                    | 669,254                               |
| 2015                                | 363,002                            | 83.7%                                    | 666,888                               |
| 2014                                | 345,780                            | 127.0%                                   | 607,649                               |

**FUNDED STATUS AND FUNDING PROGRESS**

As of July of 2015, the most recent actuarial valuation date, the plan obligation was unfunded. The unfunded actuarial accrued liability (UAAL) for benefits was \$1,102,746. The annual payroll for active employees covered by the plan in the actuarial valuation was \$7,587,754 for a ratio of UAAL to covered payroll of 14.5%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarial amounts determined regarding the funded status of the plan and the annual required contributions of the school district are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about actuarial value of plan assets and actuarial accrued liabilities for benefits.

**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 12 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

**HEALTH BENEFITS (Continued)**

**ACTUARIAL METHODS AND ASSUMPTIONS**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used to include techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The July 2015 actuarial valuation report utilized the Projected Unit Credit Actuarial Cost Method. The actuarial assumptions included a 4% discount rate and an annual healthcare cost trend of 7% initially, decreasing .5% per year to an ultimate rate of 4.5% in 2024. The UAAL is being amortized over a fifteen year period for the most recent actuarial valuation.

**NOTE 13 - RISK MANAGEMENT**

**GENERAL INSURANCE**

The Sto-Rox School District is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

**HEALTH INSURANCE**

The Sto-Rox School District is a one of forty-six members of the Allegheny County Schools Health Insurance Consortium (Consortium) which purchases health benefits on behalf of participating public school districts. The School District is billed monthly based on employee count and coverage information at rates established by the Consortium at the beginning of each fiscal year. As the Consortium is self-insured, rates are established with the objective of satisfying estimated claims and other costs, as well as maintaining working capital requirements.

Contributions to the Consortium by all member school districts totaled \$250,946,705 for the year ended June 30, 2017, with Sto-Rox School District contributing \$1,726,539 for the 2016-2017 fiscal year.

Participating school districts are permitted to withdraw from the Consortium under terms specified in the agreement. Withdrawing participants are entitled to, or responsible for, a proportionate share of the Consortium's net position, as determined on the fiscal year-end after withdrawal. As of June 30, 2017, the net position available for benefits of the Consortium was \$47,685,965, of which \$328,079 was attributable to the Sto-Rox School District.

**STO-ROX SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 14 - CONTINGENCIES**

**STATE AND FEDERAL SUBSIDIES**

The Sto-Rox School District state and federally funded programs are subject to audit by various governmental agencies. The District is potentially liable for any expenditure disallowed by the results of these audits. Management is not aware of any items of noncompliance which would result in the disallowance of program expenditures.

**NOTE 15 – PRIOR PERIOD ADJUSTMENT**

The prior period adjustment totaling \$516,329 to the July 1, 2016 fund balance of the District's General Fund, as reflected on Exhibits E and G, and the net position of the District as reflected on Exhibit B, represents an adjustment for PSERS amounts due for the prior year that the District became aware of in the 2016-2017 fiscal year.

**NOTE 16 – SUBSEQUENT EVENTS**

On July 5, 2017, the Sto-Rox School District entered into a loan agreement with PNC Bank in the form of a Tax and Revenue Anticipation Loan in the amount of \$1,500,000 with an interest rate of 1.99%. The original maturity date on the loan was December 31, 2017 which has since been extended to June 30, 2018.

On September 6, 2017, the Sto-Rox School District issued General Obligation Bonds – Series of 2017 in the amount of \$8,345,000 to currently refund a portion of the outstanding General Obligation Bonds, Series of B of 2011 and pay the costs of issuing and insuring the bonds. The bonds were issued in denominations of \$5,000 with interest payable on June 15 and December 15 each year through maturity. Interest rates range between 3.0 and 3.75% with the bonds maturing on December 15, 2029. The bonds provide for early redemption options for the school district as detailed in the official statement of issue.

Management has determined that there are no events, other than those listed above, subsequent to June 30, 2017 through the February 7, 2018 date of the 'Independent Auditor's Report' date, which is the date the financial statements were available to be issued, that require additional disclosure in the financial statements.

# **REQUIRED SUPPLEMENTARY INFORMATION**

**STO-ROX SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF SCHOOL DISTRICT'S CONTRACTUALLY REQUIRED CONTRIBUTIONS**  
**DEFINED BENEFIT PENSION PLAN**  
**JUNE 30,**

|                                                                        | <b><u>2017</u></b> | <b><u>2016</u></b> | <b><u>2015</u></b> | <b><u>2014</u></b> | <b><u>2013</u></b> |
|------------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Contractually Required Contributions                                   | \$ 2,334,446       | \$ 1,889,501       | \$ 1,528,191       | \$ 1,312,688       | \$ 1,022,680       |
| Contribution in relation to the contractually<br>required contribution | <u>(2,334,446)</u> | <u>(1,889,501)</u> | <u>(1,528,191)</u> | <u>(1,312,688)</u> | <u>(1,022,680)</u> |
| Contribution deficiency (excess)                                       | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        |
| District's covered payroll                                             | 7,910,002          | 7,507,546          | 7,664,388          | 8,025,039          | 8,620,020          |
| Contributions as a percentage of<br>covered-employee payroll           | 29.51%             | 25.17%             | 19.94%             | 16.36%             | 11.86%             |

This schedule is intended to illustrate information for a ten (10) year period. Information for that ten year period will be presented as information becomes available.

**STO-ROX SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**DEFINED BENEFIT PENSION PLAN**  
**JUNE 30,**

| <b>As of the measurement date of June 30,</b>                                                                  | <b><u>2016</u></b> | <b><u>2015</u></b> | <b><u>2014</u></b> | <b><u>2013</u></b> |
|----------------------------------------------------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
| District's proportion of the net pension liability                                                             | 0.0577%            | 0.0597%            | 0.0629%            | 0.0672%            |
| District's proportionate share of the net pension liability                                                    | \$ 28,594,000      | \$ 25,859,000      | \$ 24,897,000      | \$ 27,510,000      |
| District's covered-employee payroll                                                                            | \$ 7,507,546       | \$ 7,664,388       | \$ 8,025,039       | \$ 8,620,020       |
| District's proportionate share of the net pension liability<br>as a percentage of its covered-employee payroll | 380.87%            | 337.39%            | 310.24%            | 319.14%            |
| Plan fiduciary net position as a percentage of<br>the total pension liability                                  | 50.14%             | 54.36%             | 57.24%             | 54.49%             |

The amounts presented for each fiscal year were determined as of the measurement date, which is June 30 of the preceding fiscal year. This schedule is intended to illustrate information for a ten (10) year period. Information for that ten year period will be presented as information becomes available.

**STO-ROX SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFIT PLANS**  
**JUNE 30, 2017**

The schedule of funding progress, as shown below, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

|                                | (A)                             | (B)                               | (B-A)<br>(UAAL)<br>UNFUNDED       | (A/B)           | (C)                | (B-A)/C                                 |
|--------------------------------|---------------------------------|-----------------------------------|-----------------------------------|-----------------|--------------------|-----------------------------------------|
| ACTUARIAL<br>VALUATION<br>DATE | ACTUARIAL<br>VALUE OF<br>ASSETS | ACTUARIAL<br>ACCRUED<br>LIABILITY | ACTUARIAL<br>ACCRUED<br>LIABILITY | FUNDED<br>RATIO | COVERED<br>PAYROLL | UAAL AS A<br>% OF<br>COVERED<br>PAYROLL |
| 7/1/15                         | \$ -                            | \$ 1,102,746                      | \$ 1,102,746                      | 0%              | \$ 7,587,754       | 14.5%                                   |
| 7/1/13                         | -                               | 1,826,983                         | 1,826,983                         | 0%              | 8,351,298          | 21.9%                                   |
| 7/1/12                         | -                               | 1,857,486                         | 1,857,486                         | 0%              | 8,931,590          | 20.8%                                   |



# **STO-ROX SCHOOL DISTRICT**

***AS REQUIRED BY  
GOVERNMENT AUDITING STANDARDS  
AND UNIFORM GUIDANCE***

**Mark C. Turnley**

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Certified Public Accountant

**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 Management and Board of Education  
Sto-Rox School District**

I 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 Standard* 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 Sto-Rox School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Sto-Rox School District's basic financial statements, and have issued my report thereon dated February 7, 2018.

**Internal Control over Financial Reporting**

In planning and performing my audit of the financial statements, I considered the Sto-Rox 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 my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sto-Rox School District's internal control. Accordingly, I do not express an opinion on the effectiveness of the Sto-Rox School District's internal control.

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

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

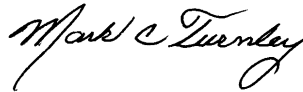
**To the Management and Board of Education  
Sto-Rox School District**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Sto-Rox School District's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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



Mark C. Turnley  
Certified Public Accountant

February 7, 2018  
New Brighton, Pennsylvania

**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 Education  
Sto-Rox School District**

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

I have audited the Sto-Rox 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 Sto-Rox School District's major federal programs for the year ended June 30, 2017. The Sto-Rox 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**

My responsibility is to express an opinion on compliance for each of the Sto-Rox School District's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 I 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 Sto-Rox School District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination on the Sto-Rox School District's compliance.

**Opinion on Each Major Federal Program**

In my opinion, Sto-Rox School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

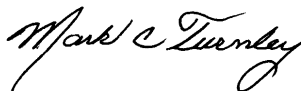
## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of Sto-Rox 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 my audit of compliance, I considered the Sto-Rox 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 my 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, I do not express an opinion on the effectiveness of the Sto-Rox School District's internal control over compliance.

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

My 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. I did not identify any deficiencies in internal control over compliance that I 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 my testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Mark C. Turnley  
Certified Public Accountant

February 7, 2018  
New Brighton, Pennsylvania

**STO-ROX SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

| FEDERAL GRANTOR /<br>PROJECT TITLE                                | FUNDING SOURCE | FEDERAL<br>CFDA<br>NUMBER | PASS-<br>THROUGH<br>GRANTOR<br>NUMBER | GRANT<br>PERIOD<br>BEGINNING /<br>ENDING DATE | PROGRAM<br>AWARD<br>AMOUNT | TOTAL<br>RECEIVED<br>THIS PERIOD | ACCRUED<br>(DEFERRED)<br>REVENUE<br>JULY 1 | REVENUE<br>RECOGNIZED | EXPENDITURES        | ACCRUED<br>(DEFERRED)<br>REVENUE<br>JUNE 30 |
|-------------------------------------------------------------------|----------------|---------------------------|---------------------------------------|-----------------------------------------------|----------------------------|----------------------------------|--------------------------------------------|-----------------------|---------------------|---------------------------------------------|
| <b>U.S. Department of Education:</b>                              |                |                           |                                       |                                               |                            |                                  |                                            |                       |                     |                                             |
| <b>Passed through Pa. Dept. of Education:</b>                     |                |                           |                                       |                                               |                            |                                  |                                            |                       |                     |                                             |
| Title I                                                           | Indirect       | 84.010                    | 013-170421                            | 7/1/16-9/30/17                                | \$ 1,313,697               | \$ 769,832                       | \$ -                                       | \$ 905,576            | \$ 905,576          | \$ 135,744                                  |
| Title I                                                           | Indirect       | 84.010                    | 013-160421                            | 7/1/15-9/30/16                                | 1,093,987                  | 221,023                          | 19,760                                     | 201,263               | 201,263             | -                                           |
| Title I Program Improvement                                       | Indirect       | 84.010                    | 042-160421                            | 7/1/15-6/30/16                                | 66,653                     | 69,832                           | 19,604                                     | 50,228                | 50,228              | -                                           |
| Title I Program Improvement                                       | Indirect       | 84.010                    | 042-150421                            | 7/1/14-6/30/15                                | 69,832                     | 19,604                           | 7,080                                      | 12,524                | 12,524              | -                                           |
| <b>Title I Cluster Subtotal</b>                                   |                |                           |                                       |                                               |                            | <b>\$ 1,080,291</b>              | <b>\$ 46,444</b>                           | <b>\$ 1,169,591</b>   | <b>\$ 1,169,591</b> | <b>\$ 135,744</b>                           |
| Title II - Improving Teacher Quality                              | Indirect       | 84.367                    | 020-170421                            | 7/1/16-6/30/17                                | 188,344                    | 175,902                          | -                                          | 188,344               | 188,344             | 12,442                                      |
| <b>Total passed through Pa. Department of Education</b>           |                |                           |                                       |                                               |                            | <b>\$ 1,256,193</b>              | <b>\$ 46,444</b>                           | <b>\$ 1,357,935</b>   | <b>\$ 1,357,935</b> | <b>\$ 148,186</b>                           |
| <b>Passed through Allegheny Intermediate Unit: (IDEA Cluster)</b> |                |                           |                                       |                                               |                            |                                  |                                            |                       |                     |                                             |
| IDEA                                                              | Indirect       | 84.027                    | 062-17-0-003                          | 7/1/16-6/30/17                                | 357,192                    | \$ 357,192                       | \$ -                                       | \$ 357,192            | \$ 357,192          | (1) \$ -                                    |
| IDEA                                                              | Indirect       | 84.027                    | 062-16-0-003                          | 7/1/15-6/30/16                                | 285,962                    | 212,821                          | 212,821                                    | -                     | -                   | -                                           |
| IDEA - Section 619                                                | Indirect       | 84.173                    | 131-16-0-003                          | 7/1/15-6/30/16                                | 2,721                      | -                                | -                                          | 2,721                 | 2,721               | (1) 2,721                                   |
| <b>Total passed through Allegheny Intermediate Unit</b>           |                |                           |                                       |                                               |                            | <b>\$ 570,013</b>                | <b>\$ 212,821</b>                          | <b>\$ 359,913</b>     | <b>\$ 359,913</b>   | <b>\$ 2,721</b>                             |
| <b>TOTAL DEPARTMENT OF EDUCATION</b>                              |                |                           |                                       |                                               |                            | <b>\$ 1,826,206</b>              | <b>\$ 259,265</b>                          | <b>\$ 1,717,848</b>   | <b>\$ 1,717,848</b> | <b>\$ 150,907</b>                           |
| <b>U.S. Department of Health and Human Services:</b>              |                |                           |                                       |                                               |                            |                                  |                                            |                       |                     |                                             |
| <b>Passed through Pa. Dept. of Public Welfare:</b>                |                |                           |                                       |                                               |                            |                                  |                                            |                       |                     |                                             |
| Title 19 - Medical Assistance                                     | Indirect       | 93.778                    | N/A                                   | 7/1/16-6/30/17                                | N/A                        | \$ 4,967                         | \$ -                                       | \$ 12,493             | \$ 12,493           | \$ 7,526                                    |
| Title 19 - Medical Assistance                                     | Indirect       | 93.778                    | N/A                                   | 7/1/15-6/30/16                                | N/A                        | 6,797                            | 6,797                                      | -                     | -                   | -                                           |
| <b>TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>              |                |                           |                                       |                                               |                            | <b>\$ 11,764</b>                 | <b>\$ 6,797</b>                            | <b>\$ 12,493</b>      | <b>\$ 12,493</b>    | <b>\$ 7,526</b>                             |
| <b>U.S. Department of Agriculture:</b>                            |                |                           |                                       |                                               |                            |                                  |                                            |                       |                     |                                             |
| <b>Passed through Pa. Dept. of Education:</b>                     |                |                           |                                       |                                               |                            |                                  |                                            |                       |                     |                                             |
| National School                                                   |                |                           |                                       |                                               |                            |                                  |                                            |                       |                     |                                             |
| Lunch Program                                                     | Indirect       | 10.555                    | N/A                                   | 7/1/16-6/30/17                                | N/A                        | \$ 576,471                       | \$ -                                       | \$ 576,471            | \$ 576,471          | (1) \$ -                                    |
| Lunch Program                                                     | Indirect       | 10.555                    | N/A                                   | 7/1/15-6/30/16                                | N/A                        | 163,268                          | 163,268                                    | -                     | -                   | -                                           |
| Breakfast Program                                                 | Indirect       | 10.553                    | N/A                                   | 7/1/16-6/30/17                                | N/A                        | 251,872                          | -                                          | 251,872               | 251,872             | (1) -                                       |
| Breakfast Program                                                 | Indirect       | 10.553                    | N/A                                   | 7/1/15-6/30/16                                | N/A                        | 80,633                           | 80,633                                     | -                     | -                   | -                                           |
| <b>Passed through Pa. Dept. of Agriculture:</b>                   |                |                           |                                       |                                               |                            |                                  |                                            |                       |                     |                                             |
| National School Lunch Program                                     | Indirect       | 10.555                    | N/A                                   | 7/1/16-6/30/17                                | N/A                        | (53,892) *                       | (15,285) **                                | (56,611)              | (56,611)            | (1) (18,004) ***                            |
| <b>Total Child Nutrition Program Cluster</b>                      |                |                           |                                       |                                               |                            | <b>\$ 1,018,352</b>              | <b>\$ 228,616</b>                          | <b>\$ 771,732</b>     | <b>\$ 771,732</b>   | <b>\$ (18,004)</b>                          |
| <b>Passed through Pa. Dept. of Education:</b>                     |                |                           |                                       |                                               |                            |                                  |                                            |                       |                     |                                             |
| Fresh Fruit and Vegetable Program                                 | Indirect       | 10.582                    | N/A                                   | 7/1/16-6/30/17                                | N/A                        | 41,230                           | -                                          | 51,044                | 51,044              | 9,814                                       |
| Fresh Fruit and Vegetable Program                                 | Indirect       | 10.582                    | N/A                                   | 7/1/15-6/30/16                                | N/A                        | 15,310                           | 15,310                                     | -                     | -                   | -                                           |
| <b>TOTAL DEPARTMENT OF AGRICULTURE</b>                            |                |                           |                                       |                                               |                            | <b>\$ 1,074,892</b>              | <b>\$ 243,926</b>                          | <b>\$ 822,776</b>     | <b>\$ 822,776</b>   | <b>\$ (8,190)</b>                           |
| <b>TOTAL FEDERAL ASSISTANCE</b>                                   |                |                           |                                       |                                               |                            | <b>\$ 2,912,862</b>              | <b>\$ 509,988</b>                          | <b>\$ 2,553,117</b>   | <b>\$ 2,553,117</b> | <b>\$ 150,243</b>                           |
| # <b>Reconciliation with federal subsidy confirmation:</b>        |                |                           |                                       |                                               |                            |                                  |                                            |                       |                     |                                             |
| Per above                                                         |                |                           |                                       |                                               |                            | 2,912,862                        |                                            |                       |                     |                                             |
| School Lunch/Breakfast matching subsidy                           |                |                           |                                       |                                               |                            | 42,407                           |                                            |                       |                     |                                             |
| Title 19 - Medical Assistance                                     |                |                           |                                       |                                               |                            | (11,764)                         |                                            |                       |                     |                                             |
| Allegheny Intermediate Funding (IDEA)                             |                |                           |                                       |                                               |                            | (570,013)                        |                                            |                       |                     |                                             |
| Medical Assistance - ACCESS                                       |                |                           |                                       |                                               |                            | 104,974                          |                                            |                       |                     |                                             |
| Donated commodities                                               |                |                           |                                       |                                               |                            | 53,892                           |                                            |                       |                     |                                             |
| Per confirmation                                                  |                |                           |                                       |                                               |                            | <b>\$ 2,532,358</b>              |                                            |                       |                     |                                             |
|                                                                   |                |                           |                                       |                                               |                            |                                  | * Total USDA Commodity Received            |                       |                     |                                             |
|                                                                   |                |                           |                                       |                                               |                            |                                  | ** Represents beginning inventory - 7/1/16 |                       |                     |                                             |
|                                                                   |                |                           |                                       |                                               |                            |                                  | *** Represents ending inventory - 6/30/17  |                       |                     |                                             |
|                                                                   |                |                           |                                       |                                               |                            |                                  | (1) Denotes Major Program                  |                       |                     |                                             |

**STO ROX SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2017**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the 'Schedule') includes the federal grant activity administered by the Sto-Rox School District for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Grant Guidance – UGG)*. Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position or changes in net position of the Sto-Rox School District.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF ACCOUNTING**

Expenditures reported on the Schedule are presented using the accrual method of accounting. Under this method, grant revenue is recognized to the extent expenditures are incurred. Expenditures are recognized when the liability for the expenditure is incurred rather than when the disbursement is actually made.

The federal expenditures are recognized, as applicable, under the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or limited to reimbursement.

**NOTE 3 - RELATIONSHIP TO FINANCIAL STATEMENTS**

Federal financial award revenues are included in the financial statements as 'local source' and 'federal source' revenues.

**NOTE 4 – RECEIVABLES AND UNEARNED REVENUE**

Federal grants receivable are included as part of 'due from other governments' in Exhibit A and Exhibit C as referenced in Note 4 to the Financial Statements. Unearned federal grant revenue, if any, is included as part of 'unearned revenue' in Exhibit A and Exhibit C, and is referenced in Note 8 to the Financial Statements.

**NOTE 5 - NON-CASH ASSISTANCE**

The Sto-Rox School District received donated commodities from the Department of Agriculture in connection with its food service program. The amount of non-cash assistance expended in the accompanying schedule of expenditures of federal awards reflects the fair market value of the commodities used during the 2016-2017 fiscal year.

**NOTE 6 – INDIRECT COST RATE**

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

**STO-ROX SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

**Section I – Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_yes    Xno
- Significant deficiency(ies) identified? \_\_\_yes    Xno

Noncompliance material to financial statements noted? \_\_\_yes    Xno

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? \_\_\_yes    Xno
- Significant deficiency(ies) identified? \_\_\_yes    Xno

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

Any audit findings disclosed that are required to be reported in  
accordance with 2 CFR 200.516(a)? \_\_\_yes    Xno

Identification of major programs:

| <u>CFDA number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|-------------------------------------------|
| 84.027                | IDEA                                      |
| 84.173                | IDEA – Section 619                        |
| 10.555                | National School Lunch Program             |
| 10.553                | National School Breakfast Program         |

The dollar threshold for distinguishing type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? \_\_\_yes    Xno

**Section II – Financial Statement Findings**

Findings related to the financial statements which are required to be report in accordance with Government Auditing Standards.

None

**Section III – Federal Award Findings and Questioned Costs**

Findings and questioned costs related to Federal Awards which are required to be reported in accordance with the Uniform Guidance 2 CFR 200.516(a):

None



**STO-ROX SCHOOL DISTRICT**  
**STATUS OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDING JUNE 30, 2017**

The audit report of the Sto-Rox School District for the year ended June 30, 2016 dated February 9, 2017, contained no audit findings.

February 19, 2018

**Board of Education and Management of  
Sto Rox School District**

In planning and performing my audit of the financial statements of the Sto Rox School District (the School District) as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, I considered the School District's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, I do not express an opinion on the effectiveness of the School District's internal control.

However, during my audit, I became aware of other matters that are opportunities for strengthening internal controls and operating efficiency. Listed below are my comments and suggestions regarding those matters. This letter does not affect my report dated February 7, 2018, on the financial statements of the Sto Rox School District.

**UNIFORM GUIDANCE**

- The Office of Management and Budget (OMB) issued an Addendum to the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) on May 17, 2017. The addendum allows nonfederal entities (the School District in this case) an additional year to implement the Uniform Guidance requirements related to Procurement. These procurement policies and procedures were previously on a delayed implementation timeframe, as this extension allows an additional year. Therefore the new standards will apply with fiscal years beginning on or after December 26, 2017. The procurement standards also require entities that choose to utilize the extension to document this decision. I would recommend that the School District review their current procurement policy for compliance with the current Uniform Guidance standards and update or revise as necessary if not done already.

**GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 75**

- In June of 2015, the GASB issued Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"*. The primary objective of this Statement is to address reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This Statement replaces the requirements of Statement No. 45. The provisions of this Statement are effective for the School District's June 30, 2018 financial statements. Accordingly the District will need to contract with its Actuarial Firm to conduct this study and analysis to meet the requirements of GASB Statement No. 75.

### **MEAL CHARGE POLICY**

- If the School District has not already done so, direct your attention to the October 3, 2016 memo from the PA Department of Education, Child Nutrition Programs related to USDA regulations stipulating that all School Food Authorities have a 'meal charge policy' in place by July 1, 2017. This directive updates a previous memo from PDE dated January 29, 2015 regarding bad debts for food service operations. Contrary to its prior recommendation, a School District may now carry outstanding accounts receivable due from students on the books of the Food Service Fund until such time as the debt is considered uncollectable. Our interpretation of this directive is, unless the District receives funding from an outside source to fund that debt, the District would need to reimburse the Food Service Fund from its General Fund for those uncollectable debts. The District should incorporate a policy for actively and consistently pursuing delinquent debt, and incorporate this language into the aforementioned local meal charge policy.

### **SCHOOL DISTRICT POLICIES**

- Annually I encourage my School District clientele to review the School District's policies with regard to financial management and update as necessary based on available personnel at the School District. In specific, as it relates to the Sto Rox School District, I would encourage them to formalize in writing the process for performing daily accounting functions such as general ledger accounting, banking and bank reconciliations, accounts payable and disbursements, fixed asset inventory and payroll. In the event of any extended unanticipated absences of key District business office personnel, these formalized procedures would enable the District's temporary replacement personnel to continue to operate important District functions in an efficient and uninterrupted manner.

### **SEGREGATION OF DUTIES – REAL ESTATE TAX COLLECTORS**

- As discussed in prior year management letters to the management of the School District, although the collection of the District's largest tax source is performed by separately elected tax collectors outside the control of the business office, it is important to remember that each tax collector is responsible for the billing, collection, banking and reporting of real estate taxes for the Sto Rox School District. The concept of segregation of duties suggests that no one individual should be responsible for both the handling of an entity's assets (cash, etc.) and the recording and reporting for those same assets.

This lack of segregation of duties can result in the risk of errors or irregularities occurring, and not being detected by someone independent of the real estate tax office, in a timely manner. This situation is common in the school districts we audit, where, similar to the Sto Rox School District, there usually is only one person in the tax collection office. However, we routinely encourage the business office to carefully monitor collection amounts and collection patterns on a monthly basis, in comparison to previous years and expected current collections, in order to insure no unanticipated problems in this area. Any irregularities should be investigated immediately in order to insure no unanticipated problems in this area and to minimize any potential loss of District assets through misappropriation or other means.

If the District suspects any irregular collection patterns or any other irregularities of any concern, management may want to consider contracting for a detailed independent audit of the tax collector's office on a cyclical basis as it relates to real estate tax collections to further minimize the risk of loss.

Following are certain financial highlights contained in the audit report of the School District for the year ending June 30, 2017, along with certain comparative information from prior years.

### **OPERATING RESULTS**

- On the following page, I have provided the Board with comparative information from the body of the audit report to highlight some of the more important overall operating results of the District from a financial perspective, for the years ended June 30, 2016 and 2015. Of important note, is the effect on the District's net position as a result of recognition their proportionate share of the Pennsylvania School Employees Retirement System (PSERS) overall net pension obligation, which was implemented at June 30, 2015. For the Sto Rox School District, this liability stands at \$27,879,150 for its governmental activities and \$714,850 for its business-type activities as of June 30, 2017.

|                                                           | <u>6/30/2017</u> | <u>6/30/2016</u> | <u>INCREASE<br/>(DECREASE)</u> | <u>PERCENT<br/>CHANGE</u> |
|-----------------------------------------------------------|------------------|------------------|--------------------------------|---------------------------|
| <b>FULL ACCRUAL FINANCIAL STATEMENTS:</b>                 |                  |                  |                                |                           |
| NET POSITION (Deficit)                                    | \$ (25,923,238)  | \$ (26,152,100)  | \$ 228,862                     | -0.9%                     |
| CHANGE IN NET POSITION (Deficit)                          | (287,467)        | (413,838)        | 126,371                        | -30.5%                    |
| <b>MODIFIED ACCRUAL FINANCIAL STATEMENTS:</b>             |                  |                  |                                |                           |
| FUND BALANCE - GENERAL FUND                               | (3,953,905)      | (3,157,748)      | (796,157)                      | 25.2%                     |
| FUND BALANCE - UNASSIGNED                                 | (3,953,905)      | (3,157,748)      | (796,157)                      | 25.2%                     |
| EXCESS REVENUES OVER<br>EXPENSES - GENERAL FUND (Deficit) | (796,157)        | (966,287)        | 170,130                        | -17.6%                    |
| FUND BALANCE - CAPITAL PROJECT FUND                       | 741,084          | 701,319          | 39,765                         | 100.0%                    |
| <b>FOOD SERVICE OPERATIONS:</b>                           |                  |                  |                                |                           |
| NET POSITION (Deficit)                                    | 367,599          | 110,687          | 256,912                        | 232.1%                    |
| CHANGE IN NET POSITION (Deficit)                          | 256,912          | 264,054          | (7,142)                        | -2.7%                     |
| FOOD SERVICE OPERATING REVENUE                            | 60,225           | 51,727           | 8,498                          | 16.4%                     |
| FOOD SERVICE OPERATING EXPENSES                           | 823,460          | 807,307          | 16,153                         | 2.0%                      |
| FEDERAL AND STATE SUBSIDIES                               | 1,020,147        | 1,016,144        | 4,003                          | 0.4%                      |

Other **key financial information** and information relative to budget versus actual results for the General Fund for the fiscal year 2016-2017 are as follows:

- General Fund actual revenues exceeded budgeted revenues by \$471,622.
- General Fund actual expenditures exceeded budgeted expenditures by \$3,081,634 excluded other financing uses.
- Projected (budgeted) General Fund balance at June 30, 2017 exceeded the actual General Fund Balance by \$3,953,905.

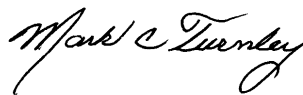
**FIVE-YEAR HISTORY OF GENERAL FUND BALANCE**

The following represents a three-year history of the General Fund balance of the School District starting with the fiscal year 2014-2015 through the current 2016-2017 fiscal year:

| <u>FISCAL YEAR</u> | <u>BALANCE</u> | <u>INCREASE<br/>(DECREASE)</u> | <u>PERCENT<br/>CHANGE</u> |
|--------------------|----------------|--------------------------------|---------------------------|
| 2014-2015          | (1,675,132)    | unknown                        | 0.0%                      |
| 2015-2016          | (3,157,748)    | (1,482,616)                    | 88.5%                     |
| 2016-2017          | (3,953,905)    | (796,157)                      | 25.2%                     |

I will be available to the Board of Education and management of the Sto Rox School District to discuss any of the aforementioned issues and ideas on their implementation, if feasible. I would like to thank the School District for their cooperation and assistance during the audit and appreciate the District's trust in our Firms' audit services.

Sincerely,



Mark C. Turnley, CPA

February 19, 2018

**To the Board of Education  
Sto Rox School District**

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Sto Rox School District (the School District) for the year ended June 30, 2017. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my letter to you dated August 3, 2017. Professional standards also require that I communicate to you the following information related to my audit.

**Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 to the financial statements. During the 2016-2017 year, the School District adopted the provisions of the following Government Accounting Standards Board (GASB) Statements where applicable:

- GASB issued Statement No. 74, *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"*.
- GASB issued Statement No. 77, *"Tax Abatement Disclosures"*.
- GASB issued Statement No. 78, *"Pensions Provided through Certain Multiple- Employer Defined Benefit Pension Plans"*.
- GASB issued Statement No. 79, *"Certain External Investment Pools and Pool Participants"*.
- GASB issued Statement No. 80, *"Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14"*.
- GASB issued Statement No. 82, *'Pension Issues- an amendment of GASB Statements No. 67, No. 68, and No. 73'*.

The application of other existing policies was not changed during the 2016-2017 year. I noted no transactions entered into by 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:

- Management's estimate of the expected life of its capital assets for the purpose of calculating depreciation is based on Internal Revenue Service guidelines for fixed asset useful lives.
- Management's estimate of allocating depreciation expense to the District's various functional expenditure categories is based on intended instructional use of fixed asset.

- Management's estimates made in the actuarial valuation to determine the District's Net OPEB Obligation.
- Management's estimates made in the actuarial valuation to determine the District's Net Pension Obligation, Deferred Outflows, and Deferred Inflows related to Pensions.
- Management's estimate of the provision for uncollectable delinquent real estate taxes receivable is based on an estimate of past collection experience.

I evaluated the key assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Difficulties Encountered in Performing the Audit**

I encountered no significant difficulties in dealing with management in performing and completing my audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has made all adjusting journal entries as recommended by the Audit Firm.

### **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 my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

### **Management Representations**

I have requested certain representations from management that are included in the management representation letter dated February 7, 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 the School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

### **Other Audit Findings or Issues**

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

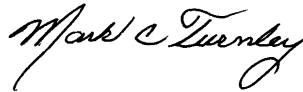
**Other Matters**

I applied certain limited procedures to the Management's Discussion and Analysis, the defined benefit pension information and OPEB information, which is required supplementary information (RSI) that supplements the basic financial statements. My procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during our audit of the basic financial statements. I did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

**Restrictions on Use**

This information is intended solely for the information and use of the Board of Education and Management of the Sto Rox School District, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads "Mark C. Turnley". The signature is written in a cursive, flowing style.

Mark C. Turnley, CPA