

North Allegheny School District

Single Audit

June 30, 2016

MaherDuessel
Certified Public Accountants

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NORTH ALLEGHENY SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2016

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NORTH ALLEGHENY SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2016

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Independent Auditor's Report

Board of Directors
North Allegheny School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of North Allegheny School District (School District) as of and for the year ended June 30, 2016, 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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the School District as of June 30, 2016, and the respective

changes in its financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, other postemployment benefits, and pension information on pages i through ix and 54 through 59, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (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 supplementary information as listed in the table of contents and the schedule of expenditures of federal awards are the responsibility of management and were 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information as listed in the table of contents and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2016 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over

financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 School District's internal control over financial reporting and compliance.

Mahe Duessel

Pittsburgh, Pennsylvania
December 9, 2016



NORTH ALLEGHENY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplementary Information

June 30, 2016

Our Management's Discussion and Analysis of North Allegheny School District's (School District) financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2016. Please review in conjunction with the School District's financial statements that begin on page 1.

The Management's Discussion and Analysis 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.*" The intent of this Management's Discussion and Analysis is to look at the School District's financial performance as a whole.

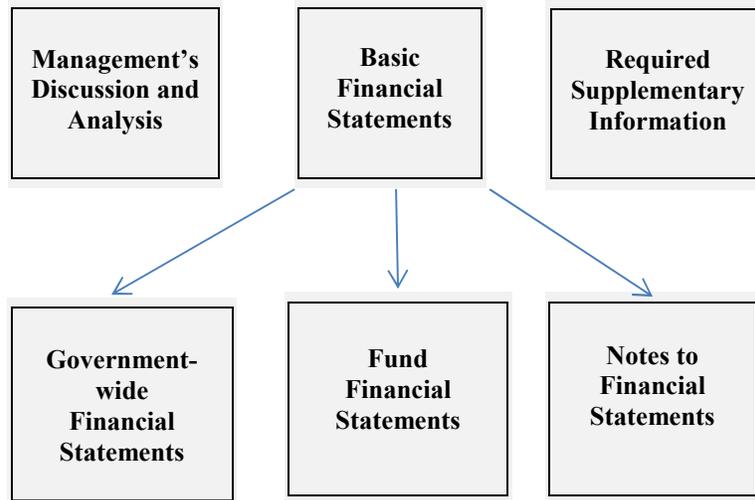
Though the intent of GASB Statement No. 34 is to produce documentation that mirrors for-profit institutions, the fact remains that the School District is not a for-profit institution. The School District is not in business to make a profit. The mission of the School District is to educate children. The reader should be aware of differences in financial statement reporting between a for-profit company and an institution such as the School District.

USING THE FINANCIAL STATEMENT REPORT

This Financial Statement Report consists of the Management's Discussion and Analysis (this section), the Basic Financial Statements, the Required Supplementary Information, and Supplementary Information. The Basic Financial Statements include the Government-Wide Financial Statements, Fund Financial Statements, and Notes to Financial Statements. The Statement of Net Position and Statement of Activities, on pages 1-2, provide information about the activities of the School District as a whole and present a long-term view of the School District's finances. Fund Financial Statements, which start on page 3, provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term, as well as what remains for future spending. The Fund Financial Statements also look at the School District's most significant funds with all other governmental funds presented in total in one column. For the School District, the General Fund is the most significant major fund. Lastly, the financial statements include notes that explain some of the information in the financial statements and provide more detailed data.

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

Figure A
**Required Components of
North Allegheny School District's
Financial Report**



OVERVIEW OF FINANCIAL STATEMENTS

Government-Wide Financial Statements

The Government-Wide Financial Statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the School District's assets, deferred outflows of resources, liabilities, and net position. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The Government-Wide Financial Statements report the School District's net position and how it has changed. Net position, the difference between the School District's assets, deferred outflows of resources, and liabilities, is one way to measure the School District's "book value" position.

Over time, increases or decreases in the School District's net position are an indication of whether its "book value" is increasing or decreasing.

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

In the Statement of Net Position and the Statement of Activities, the School District is divided into two distinct kinds of activities:

- **Governmental Activities** – Most of the School District's basic services are included here, such as instructional services, support services, operation of plant and maintenance services, student transportation services, and administration. Property taxes, state and federal subsidies, and grants finance most of these activities.

- Business-Type Activities – The School District operates a food service operation and charges fees to staff, students, and visitors to help it cover the costs of the food service operation.

REPORTING THE SCHOOL DISTRICT’S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Fund Financial Statements, which begin on page 3, provide detailed information about the most significant funds – not the School District as a whole. Some funds are required by state law and by bond requirements.

- Governmental Funds – Most of the School District’s activities are reported in Governmental Funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Funds Financial Statements provide a detailed short-term view of the School District’s operations and the services it provides. The Governmental Funds information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District’s programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and Governmental Funds is reflected in reconciliations on pages 4 and 6.
- Proprietary Fund – This Proprietary Fund is used to account for the School District’s activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. The Food Service Fund is the School District’s only Proprietary Fund and uses the same basis of accounting as Business-Type Activities; therefore, these statements will essentially match.

FINANCIAL HIGHLIGHTS

Each year the building of the School District’s budget in the fall begins a challenging process for the Administration and the Board of Directors. As in previous years, the realization that there would be significant increases in several expenditure groups, as well as decreases in several revenue streams made the balancing of academic needs and fiscal responsibility a difficult process. Measures to utilize every efficiency and economy that would not diminish programs for students was identified and implemented.

Actual results for the fiscal year were more favorable than projected due to a number of factors. As a result of the positive results, the fund balance of the General Fund increased by approximately \$2.35M from the previous year. Overall, revenues and expenditures yielded a positive operating variance in the amount of \$2.35M. Local revenue had a total positive variance in the amount of \$841K. This was due to more received for real estate taxes, earned income taxes, athletics and miscellaneous revenue than budgeted offset by negative variances in delinquent taxes and IDEA funds. State revenue had a total negative variance of \$131K. This was caused by less received than budgeted for basic ed subsidy and rental reimbursement offset by positive variances for vocational education and Ready to Learn block grants. Federal revenue experienced a slight positive variance of \$10K. The expenditure variances include savings in several expenditure line items, most notably in interest expense of \$1.2M, salaries of \$393K and professional services of \$381K. In addition, financial management controls (increased scrutiny of purchase orders) has enabled the School District to decrease expenditures in certain line items. The School District ended with a fund balance in the General Fund of approximately \$18.1M.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

Statements of Net Position

The School District's total net position was approximately negative \$176M at June 30, 2016.

Table 1
Condensed Statements of Net Position
Fiscal Years Ended June 30,

	2016			2015		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current assets	\$ 64,683,554	\$ 956,523	\$ 65,640,077	\$ 39,775,466	\$ 1,063,938	\$ 40,839,404
Other assets	5,105,954	29,091	5,135,045	5,363,096	31,327	5,394,423
Capital assets	137,626,371	792,845	138,419,216	128,757,290	534,639	129,291,929
Total Assets	207,415,879	1,778,459	209,194,338	173,895,852	1,629,904	175,525,756
Deferred Outflows of Resources	25,584,474	-	25,584,474	15,828,700	-	15,828,700
Current liabilities	21,975,346	292,896	22,268,242	18,713,991	297,356	19,011,347
Long-term liabilities:						
Due within one year	10,951,068	-	10,951,068	9,980,832	-	9,980,832
Due after one year	374,944,905	-	374,944,905	318,737,099	-	318,737,099
Total Liabilities	407,871,319	292,896	408,164,215	347,431,922	297,356	347,729,278
Deferred Inflows of Resources	1,394,000	-	1,394,000	13,857,000	-	13,857,000
Net investment in capital assets	21,286,639	792,845	22,079,484	20,080,521	534,639	20,615,160
Unrestricted	(197,551,605)	692,718	(196,858,887)	(191,644,891)	797,909	(190,846,982)
Total Net Position	\$ (176,264,966)	\$ 1,485,563	\$ (174,779,403)	\$ (171,564,370)	\$ 1,332,548	\$ (170,231,822)

The majority of current assets (approximately 79%) as of June 30, 2016 are made up of unrestricted and restricted cash and cash equivalents of approximately \$24.5M and \$26.4M, respectively.

Approximately \$21M of the School District's net position is invested in capital assets (buildings, land, and equipment). The School District's buildings include seven (7) elementary schools; three (3) middle schools; an intermediate school which houses 9th and 10th graders; and the senior high school which houses 11th and 12th graders. In addition, the School District has a center for student and community use and a transportation building which houses the employees of the facilities and transportation departments. In total, the School District has fourteen buildings situated on approximately 349 acres of real estate.

The majority of current liabilities are from accounts payable and other current liabilities, accrued salaries, and benefits.

Non-current liabilities consist of the following basic components: long-term debt associated with renovations of the School District's buildings, the compensated absence liability, the School District's portion of the Public School Employees' Retirement System (PSERS) unfunded liability, and liabilities related to the swap transactions discussed in Note 12 to the financial statements.

Statement of Activities

The results of this year's operations as a whole are reported in the Statement of Activities on page 2. All expenses are reported in the first column. Specific charges, grants, revenues, and subsidies that directly relate to specific expense categories are represented to determine the final amount of the School District's activities that are supported by other general revenues.

These financial statements offer a view of the financial condition of the School District on a consolidated basis. For example, investment earnings (Statement of Activities, page 2) not only include interest earnings in the General Fund, but also interest earnings in capital related funds as well.

Table 2 takes the information from the Statement of Activities and rearranges it slightly so an individual can review total revenues for the year. The School District has prepared financial statements with a comparative analysis of government-wide data to fiscal year 2016.

Table 2
Changes in Net Position
Fiscal Years Ended June 30,

	2016			2015		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Revenues						
Program revenues:						
Charges for services	\$ 893,017	\$ 2,460,181	\$ 3,353,198	\$ 822,528	\$ 2,343,863	\$ 3,166,391
Operating grants and contributions	21,631,773	518,506	22,150,279	20,095,171	534,618	20,629,789
General revenues:						
Property taxes	94,255,058	-	94,255,058	89,620,236	-	89,620,236
Other taxes	15,840,504	-	15,840,504	15,526,392	-	15,526,392
Grants, subsidies and contributions, unrestricted	11,215,059	-	11,215,059	10,992,085	-	10,992,085
Investment earnings	15,367	1,316	16,683	20,642	129	20,771
Investment gain (loss) on derivatives	(1,142,884)	-	(1,142,884)	343,886	-	343,886
Total Revenues	142,707,894	2,980,003	145,687,897	137,420,940	2,878,610	140,299,550
Expenses						
Instructional services	86,525,652	-	86,525,652	82,179,717	-	82,179,717
Support services	47,270,073	-	47,270,073	45,890,672	-	45,890,672
Non-instructional services	2,990,242	-	2,990,242	895,367	-	895,367
Facilities	331,281	-	331,281	332,573	-	332,573
Unallocated depreciation expense	5,594,610	-	5,594,610	5,817,023	-	5,817,023
Interest on long-term debt	4,530,910	-	4,530,910	3,669,049	-	3,669,049
Bond Issue Costs	165,722	-	165,722	-	-	-
Food services	-	2,826,988	2,826,988	-	2,768,802	2,768,802
Total Expenses	147,408,490	2,826,988	150,235,478	138,784,401	2,768,802	141,553,203
Change in Net Position	\$ (4,700,596)	\$ 153,015	\$ (4,547,581)	\$ (1,363,461)	\$ 109,808	\$ (1,253,653)

Governmental Activities

Table 3 shows the School District's functions/programs, as well as each program's net cost (total cost less revenues generated by the activities). This table also shows the net costs offset by the other unrestricted grants, subsidies, and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

Table 3
Governmental Activities
Fiscal Years Ended June 30,

Functions/Programs	2016		2015	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instructional services	\$ 86,525,652	\$ 72,398,372	\$ 82,179,717	\$ 68,835,659
Support services	47,270,073	41,682,506	45,890,672	40,693,017
Non-instructional services	2,990,242	2,800,882	895,367	(59,529)
Facilities	331,281	331,281	332,573	332,573
Unallocated expenses - excluding direct expenses reported as a function above:				
Depreciation expense	5,594,610	5,594,610	5,817,023	5,817,023
Interest on long-term debt	4,530,910	2,747,431	3,669,049	2,247,959
Bond Issue Costs	165,722	165,772	-	-
Total Governmental Activities	\$ 147,408,490	125,720,854	\$ 138,784,401	117,866,702
Less:				
Unrestricted grants, subsidies, and contributions		11,215,059		10,992,085
Total Needs from Local Taxes and Other Revenues		\$ 114,505,795		\$ 106,874,617

The dependence upon tax revenues for governmental activities is apparent and consistent with School District funding in the Commonwealth of Pennsylvania. The community, as a whole, is the primary support for the School District's students.

Business-Type Activity

The only Business-Type Activity of the School District is the food service operations. This program had revenues of \$2.98M and \$2.88M for the fiscal years 2016 and 2015, respectively. Food service expenses were \$2.83M and \$2.77M for the fiscal years 2016 and 2015, respectively. The contracted food service vendor guarantees a profit from their services. A profit of approximately \$153K and \$110K was realized for the fiscal years 2016 and 2015, respectively. Without depreciation, the food service operations would have had a profit of approximately \$225K and \$162K for fiscal years 2016 and 2015, respectively. The Statement of Revenues, Expenses, and Changes in Fund Net Position on page 8 for this Proprietary Fund will further detail the actual results of operations.

THE SCHOOL DISTRICT'S FUNDS

The General Fund, which accounts for the School District's operations, represents the School District's most significant major fund. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds on page 5 is summarized in **Table 4**.

Table 4
Summary of Governmental Change in Fund Balance
Fiscal Years ended June 30,

	2016			2015		
	General Fund	Other	Total	General Fund	Other	Total
		Governmental Funds	Governmental Funds		Governmental Funds	Governmental Funds
Beginning Fund Balance	\$ 15,747,941	\$ 1,520,570	\$ 17,268,511	\$ 17,470,299	\$ 5,429,552	\$ 22,899,851
Net Change in Fund Balance	<u>2,354,355</u>	<u>19,867,925</u>	<u>22,222,280</u>	<u>(1,722,358)</u>	<u>(3,908,982)</u>	<u>(5,631,340)</u>
Ending Fund Balance	<u>\$ 18,102,296</u>	<u>\$ 21,388,495</u>	<u>\$ 39,490,791</u>	<u>\$ 15,747,941</u>	<u>\$ 1,520,570</u>	<u>\$ 17,268,511</u>

Included in the Other Governmental Funds in the above chart are the NASH/Newman Stadium Fund, BWE/Marshall Construction Fund, Capital Reserve Fund, and Technology Fund.

For 2015/2016, overall, there was an increase in fund balance across all of the School District's funds in the amount of \$22.2M. This was largely due to bond proceeds received from the General Obligation Bonds, Series of 2015 of approximately \$34.7M less construction funds spent. In addition the General Fund Balance increased \$2.35M due to positive variances for both revenues and expenses when compared to budgeted amounts for the year.

General Fund Budgeting Highlights

The School District's budget is prepared according to the Commonwealth of Pennsylvania law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. During the fiscal year, the Board of Directors authorized revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the School District. The budgeting systems are designed to tightly control budgets by controllers responsible for their individual areas.

The fund balance of the General Fund increased because of positive actual results for 2015/2016.

In total, the School District received \$720K more revenue than originally budgeted. The School District's revenues from local sources were \$842K more than budgeted. This is mainly attributable to a more real estate tax revenues collected in the current fiscal year than was budgeted. The School District realized a negative budget to actual variance for state sources in the amount of \$131K and a positive variance in federal sources in the amount of \$10K. While various state and federal funds were different than the original budget, the majority of this type of funding was to subsidize certain mandated and restricted expenditures.

Expenditures before transfers were budgeted at \$142.5M, while actual expenditures were \$140.5M. Savings were realized in many line items due to the School District's yearly commitment to decreasing expenses and curtailing spending in order to provide the best possible education in a fiscally responsible manner.

Savings included salaries, benefits, professional fees and services, transportation contracted services, repairs and maintenance and utilities.

Overall, the School District's General Fund actual revenues were greater than expenditures and other financing sources and uses (net) by \$2.35M, as displayed on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds, thus increasing the fund balance of the School District.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The School District is invested in a broad range of capital assets, including land, site improvements, buildings, equipment, and vehicles. During fiscal year 2016, the School District's capital assets increased by approximately \$8.9M, mainly due to capital additions of \$17.1M during the year for a broad range of purposes, offset by depreciation expense of approximately \$8.2M.

Table 5
Governmental Activities
Fiscal Years Ended June 30,
Capital Assets - Net of Depreciation (If Applicable)

	2016	2015
Land	\$ 429,929	\$ 429,929
Site improvements	4,808,718	4,990,147
Buildings and improvements	106,306,934	109,010,785
Machinery, equipment, and furniture	3,992,128	4,445,962
Text and library books	3,648,062	3,647,036
Vehicles	4,230,249	4,047,013
Construction in progress	14,210,351	2,186,418
	<u>\$ 137,626,371</u>	<u>\$ 128,757,290</u>

Debt Administration

As of June 30, 2016, the School District had total outstanding bond principal of \$133.8M, an increase of \$29.8M over bonds principal outstanding of \$104.0M at June 30, 2015. Other obligations include accrued vacation pay and sick leave for specific employees of the School District, and amounts recorded as liabilities relating to the swap transactions, and the District's net pension liability. More detailed information about long-term liabilities is included in Notes 5 and 6 to the financial statements.

Table 6
Long-Term Liabilities
Fiscal Years Ended June 30

	2016	2015
General obligation bonds	\$ 131,420,000	\$ 103,865,000
Unamortized discounts and premiums, net	2,360,300	119,378
Swaption borrowing (2004)	4,860,441	5,460,844
Swaption borrowing (2012)	2,636,616	3,146,258
OPEB liability	2,948,137	2,361,711
Net pension liability	218,612,000	192,916,000
Embedded derivative instrument	12,119,352	9,299,458
General Obligation Note, 2008	3,725,766	3,938,216
Capital lease obligations	4,334,270	4,965,459
Accumulated employee benefits	2,879,091	2,645,607
	<u>\$ 385,895,973</u>	<u>\$ 328,717,931</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The School District has a double 'A' (AA) bond rating by Standard & Poor's (S&P), a New York municipal rating agency. There are only a small number of School Districts in Pennsylvania that hold this rating. To have a double 'A' (AA) bond rating will enable the School District to realize savings in insurance costs and debt service payments on any up-coming bond issues. The double 'A' (AA) rating reflects the School District's stable outlook, primarily the residential nature of the School District, with easy employment access to the Pittsburgh MSA. S&P cites "...very high wealth levels and a large tax base that has exhibited ongoing healthy growth and no taxpayer concentration."

The revenue and expenditure budget for the 2016/2017 fiscal year is \$7.5M more than the budget for 2015/2016. Revenues included increases for local sources in the amount of \$3.46M, increases for state sources in the amount of \$1.97M, a decrease in federal sources of \$171K and an increase in other financing sources of \$2.25M. Included in state related mandates is retirement expense which has been budgeted at an employer contribution rate of 30.03%. While this cost is shared with the Commonwealth of Pennsylvania, retirement expense accounts for approximately 13.7% of the budget. The School District is required to contribute, by state law, to the employee retirement program. Health insurance costs continue to increase for every employer. Based on premiums and claims, the School District anticipates only a nominal increase in these costs during 2016/2017. Over the past ten fiscal years, costs have increased substantially. This is a fiscal reality that has affected every business and organization in western Pennsylvania.

The School District has committed itself to financial excellence for many years. The School District ranks the 8th lowest millage in Allegheny County (excluding the City of Pittsburgh). In addition, the School District's system of financial planning, budgeting, and internal financial controls are well regarded as represented in an "unqualified opinion" from the School District's auditors in the past several years. The School District plans to continue its sound fiscal management to meet the challenges of the future.

CONTACTING THE SCHOOL DISTRICT FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the School District's finances and to show the Board of Directors accountability for the money it receives. If you have questions about this report or wish to request additional financial information, contact Michael T. Hopkins, Treasurer, at North Allegheny School District, 200 Hillvue Lane, Pittsburgh, PA 15237.



NORTH ALLEGHENY SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2016

Assets	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	\$ 24,588,538	\$ 906,307	\$ 25,494,845
Restricted cash, cash equivalents, and investments for capital additions	26,407,953	-	26,407,953
Property taxes receivable, net of allowance for uncollectibles	1,998,261	-	1,998,261
Earned income taxes receivable	2,680,193	-	2,680,193
Intergovernmental receivable	8,161,114	50,216	8,211,330
Other receivables	846,535	-	846,535
Prepaid expense	960	-	960
Inventory	290,809	29,091	319,900
Net investment in joint venture	3,725,766	-	3,725,766
Derivative investment - basis swap	1,089,379	-	1,089,379
Capital assets, net of accumulated depreciation:			
Non-depreciable	14,640,280	-	14,640,280
Depreciable	122,986,091	792,845	123,778,936
Total Assets	207,415,879	1,778,459	209,194,338
Deferred Outflows of Resources			
Deferred charge on refunding	27,833	-	27,833
Pension	23,033,200	-	23,033,200
Accumulated decrease in fair value of hedging derivatives	2,523,441	-	2,523,441
Total Deferred Outflows of Resources	25,584,474	-	25,584,474
Liabilities			
Accounts payable and other current liabilities	6,780,926	182,265	6,963,191
Tax refunds payable	600,000	-	600,000
Accrued salaries and benefits	14,221,308	-	14,221,308
Accrued interest payable	334,306	-	334,306
Unearned revenue	38,806	110,631	149,437
Non-current liabilities:			
Due within one year	10,951,068	-	10,951,068
Due in more than one year	374,944,905	-	374,944,905
Total Liabilities	407,871,319	292,896	408,164,215
Deferred Inflows of Resources			
Pension	1,394,000	-	1,394,000
Net Position			
Net investment in capital assets	21,286,639	792,845	22,079,484
Unrestricted	(197,551,605)	692,718	(196,858,887)
Total Net Position	\$ (176,264,966)	\$ 1,485,563	\$ (174,779,403)

The accompanying notes are an integral part of the financial statements.

NORTH ALLEGHENY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

<u>Functions/Programs</u>	Program Revenues				Net (Expense) Revenue and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instructional services	\$ 86,525,652	\$ -	\$ 14,127,280	\$ -	\$ (72,398,372)	\$ -	\$ (72,398,372)
Support services	47,270,073	55,913	5,531,654	-	(41,682,506)	-	(41,682,506)
Non-instructional service	2,990,242	-	189,360	-	(2,800,882)	-	(2,800,882)
Facilities	331,281	837,104	-	-	505,823	-	505,823
Unallocated expenses - excluding direct expenses reported as a function above:							
Depreciation expense	5,594,610	-	-	-	(5,594,610)	-	(5,594,610)
Interest on long-term debt	4,530,910	-	1,783,479	-	(2,747,431)	-	(2,747,431)
Bond issue costs	165,722	-	-	-	(165,722)	-	(165,722)
Total governmental activities	147,408,490	893,017	21,631,773	-	(124,883,700)	-	\$ (124,883,700)
Business-Type Activities:							
Food services	2,826,988	2,460,181	518,506	-	-	151,699	151,699
Total Primary Government	\$ 150,235,478	\$ 3,353,198	\$ 22,150,279	\$ -	(124,883,700)	151,699	(124,732,001)
General revenues:							
Taxes:							
Property taxes, levied for general purposes, net of uncollectibles					94,255,058	-	94,255,058
Earned income taxes					14,054,891	-	14,054,891
Other taxes levied for general purposes					1,785,613	-	1,785,613
Grants, subsidies, and contributions not restricted to specific programs					11,215,059	-	11,215,059
Investment income					15,367	1,316	16,683
Investment gain (loss) on derivative instruments, net					(1,142,884)	-	(1,142,884)
Total general revenues and investment loss on derivative instruments					120,183,104	1,316	120,184,420
Change in Net Position					(4,700,596)	153,015	(4,547,581)
Net Position:							
Beginning of year					(171,564,370)	1,332,548	(170,231,822)
End of year					\$ (176,264,966)	\$ 1,485,563	\$ (174,779,403)

The accompanying notes are an integral part of the financial statements.

NORTH ALLEGHENY SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2016

	General Fund	BWE/Marshall Construction Fund	Other Governmental Funds	Total
Assets				
Cash and cash equivalents	\$ 24,389,052	\$ 24,160,915	\$ 2,446,524	\$ 50,996,491
Property taxes receivable, net of allowance for uncollectibles	1,998,261	-	-	1,998,261
Earned income taxes receivable	2,680,193	-	-	2,680,193
Intergovernmental receivable	6,366,086	-	-	6,366,086
Other receivables	846,535	-	-	846,535
Due from other funds	-	-	700	700
Prepaid expense	960	-	-	960
Inventory	290,809	-	-	290,809
Total Assets	\$ 36,571,896	\$ 24,160,915	\$ 2,447,224	\$ 63,180,035
Liabilities, Deferred Inflows of Resources, and Fund Balance				
Liabilities:				
Accounts payable and other current liabilities	\$ 1,561,282	\$ 4,660,948	\$ 558,696	\$ 6,780,926
Tax refunds payable	600,000	-	-	600,000
Accrued salaries and benefits	14,221,308	-	-	14,221,308
Due to other funds	700	-	-	700
Unearned revenues	38,806	-	-	38,806
Total Liabilities	16,422,096	4,660,948	558,696	21,641,740
Deferred Inflows of Resources:				
Unavailable revenue - taxes	2,047,504	-	-	2,047,504
Fund Balance:				
Nonspendable:				
Inventory and prepaid	291,769	-	-	291,769
Restricted for:				
Capital projects	-	19,499,967	1,692,639	21,192,606
Committed for:				
Future debt issuance and swaption costs	5,178,844	-	-	5,178,844
Assigned:				
Appropriation of fund balance	1,930,735	-	-	1,930,735
Capital projects - technology	-	-	195,889	195,889
Other capital projects	-	-	-	-
Unassigned	10,700,948	-	-	10,700,948
Total Fund Balance	18,102,296	19,499,967	1,888,528	39,490,791
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 36,571,896	\$ 24,160,915	\$ 2,447,224	\$ 63,180,035

The accompanying notes are an integral part of the financial statements.

NORTH ALLEGHENY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

YEAR ENDED JUNE 30, 2016

Total Fund Balance - Governmental Funds	\$	39,490,791
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.		137,626,371
Property taxes receivable will be collected next year, but are not considered available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred inflows in the funds.		2,047,504
Governmental funds report the effect of refunding gains and losses when debt is first issued, whereas these amounts are deferred and amortized in the statement of net position.		27,833
Accrued interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the funds.		(334,306)
State subsidy related to debt payments is accrued in the statement of net position, as the related debt has already been incurred and is not reported as a receivable in the funds.		1,795,028
The net investment in joint venture does not represent a financial asset that would be recorded as an asset in the governmental funds.		3,725,766
The investment in derivative instruments and deferred outflow do not represent a financial asset that would be recorded within the governmental funds.		3,612,820
The actuarially accrued other post-employment benefit (OPEB) asset, net pension liability, and deferred inflows and outflows of resources for pension for the School District's employees are not recorded on the fund financial statements.		(199,920,937)
Long-term liabilities, as denoted below, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds payable, net	\$ (133,780,300)	
Derivative instrument	(12,119,352)	
Note payable	(3,725,766)	
Swap loan	(7,497,057)	
Capital leases	(4,334,270)	
Compensated absences	(2,879,091)	
		(164,335,836)
Total Net Position - Governmental Activities	\$	<u><u>(176,264,966)</u></u>

The accompanying notes are an integral part of the financial statements.

NORTH ALLEGHENY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2016

	General Fund	BWE/Marshall Construction Fund	Other Governmental Funds	Total
Revenues:				
Local sources	\$ 112,365,633	\$ 59,230	\$ 197,923	\$ 112,622,786
State sources	30,861,949	-	-	30,861,949
Federal sources	1,089,016	-	-	1,089,016
Total revenues	144,316,598	59,230	197,923	144,573,751
Expenditures:				
Current:				
Instruction	82,471,928	-	413,046	82,884,974
Support services	41,101,191	8,246	3,077,986	44,187,423
Operation of non-instructional services	3,390,846	390,590	-	3,781,436
Facilities acquisition, construction, and improvement services	192,497	-	1,471,443	1,663,940
Debt service:				
Principal	8,576,284	-	-	8,576,284
Interest	4,788,179	-	-	4,788,179
Bond issue costs	-	165,722	-	165,722
Capital outlays	-	13,982,982	-	13,982,982
Total expenditures	140,520,925	14,547,540	4,962,475	160,030,940
Excess (Deficiency) of Revenues Over Expenditures	3,795,673	(14,488,310)	(4,764,552)	(15,457,189)
Other Financing Sources (Uses):				
Transfer in	-	-	1,036,616	1,036,616
Transfer out	(1,025,850)	-	(10,766)	(1,036,616)
Proceeds from capital lease	-	-	730,095	730,095
Bond premium	-	2,594,842	-	2,594,842
Proceeds from bond issuance	-	34,770,000	-	34,770,000
Proceeds from sale of assets	22,526	-	-	22,526
Refund of prior year receipts	(437,994)	-	-	(437,994)
Total other financing sources (uses)	(1,441,318)	37,364,842	1,755,945	37,679,469
Net Change in Fund Balance	2,354,355	22,876,532	(3,008,607)	22,222,280
Fund Balance:				
Beginning of year	15,747,941	(3,376,565)	4,897,135	17,268,511
End of year	\$ 18,102,296	\$ 19,499,967	\$ 1,888,528	\$ 39,490,791

The accompanying notes are an integral part of the financial statements.

NORTH ALLEGHENY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2016

Net Change in Fund Balance - Governmental Funds \$ 22,222,280

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of some of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount is the net effect of these items in the current period:

	Capital asset additions	\$ 17,118,730	
	Less: depreciation expense	<u>(8,238,473)</u>	8,880,257

Capital assets used in governmental activities are not current financial resources and therefore, are not reported as assets in governmental funds. The net effect of the gain on sale and loss on the disposal of the assets is shown here. (11,176)

The actuarially accrued other postemployment benefits (OPEB) obligation, and net pension liability for the School District's employees and retirees are not recorded on the fund financial statements. The value of this obligation changed by this amount during the year. (4,869,226)

Some taxes and state grants will not be collected for several months after the School District's year-end; they are not considered "available" revenues in the governmental funds. Unearned revenues changed by this amount during the year. (284,979)

The issuance of long-term obligations (e.g., bonds, leases, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and refunding gains and losses when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term obligations and related items. (29,337,306)

Interest on long-term obligations 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, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest accrued in the statement of activities over the amount due is shown here. (211,254)

Investment income and loss related to derivative instruments is recognized as revenue within the statement of activities. This amount represents the change in the investment in derivative instruments during the year. (855,708)

In the statement of activities, certain operating expenses, specifically accumulated employee benefits (vacations, sick days, and early retirement) 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. This amount represents the difference between the amount earned versus the amount used. (233,484)

Change in Net Position of Governmental Activities \$ (4,700,596)

The accompanying notes are an integral part of the financial statements.

NORTH ALLEGHENY SCHOOL DISTRICT

STATEMENT OF NET POSITION PROPRIETARY FUND

JUNE 30, 2016

	<u>Enterprise Fund Food Service</u>
Assets	
<hr/>	
Current assets:	
Cash and cash equivalents	\$ 906,307
Intergovernmental receivable	50,216
Inventory	29,091
	<hr/>
Total current assets	985,614
	<hr/>
Non-current assets:	
Machinery and equipment	2,597,696
Less accumulated depreciation	(1,804,851)
	<hr/>
Total non-current assets	792,845
	<hr/>
Total Assets	\$ 1,778,459
	<hr/> <hr/>
Liabilities and Net Position	
<hr/>	
Liabilities:	
Accounts payable	\$ 182,265
Unearned revenue	110,631
	<hr/>
Total Liabilities	292,896
	<hr/>
Net Position:	
Net investment in capital assets	792,845
Unrestricted	692,718
	<hr/>
Total Net Position	1,485,563
	<hr/>
Total Liabilities and Net Position	\$ 1,778,459
	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements.

NORTH ALLEGHENY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUND

YEAR ENDED JUNE 30, 2016

	Enterprise Fund Food Service
Operating Revenue:	
<u>Sale of food</u>	<u>\$ 2,460,181</u>
Operating Expenses:	
Supplies	156,731
Depreciation	72,222
Other purchased services	<u>2,598,035</u>
Total operating expenses	<u>2,826,988</u>
Net Operating Loss	<u>(366,807)</u>
Non-operating Revenues:	
State subsidies	62,473
Federal revenues:	
Subsidies	329,423
Donated commodities	126,610
Earnings on investments	<u>1,316</u>
Total non-operating revenues	<u>519,822</u>
Change in Net Position	153,015
Net Position:	
<u>Beginning of year</u>	<u>1,332,548</u>
End of year	<u><u>\$ 1,485,563</u></u>

The accompanying notes are an integral part of the financial statements.

NORTH ALLEGHENY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS PROPRIETARY FUND

YEAR ENDED JUNE 30, 2016

	Food Service Fund
Cash Flows From Operating Activities:	
Receipts from users	\$ 2,458,277
Payments to suppliers for goods and services	(2,628,476)
Net cash provided by (used in) operating activities	(170,199)
Cash Flows From Non-Capital Financing Activities:	
Grants and subsidies received:	
State	71,900
Federal	376,449
Net cash provided by (used in) non-capital financing activities	448,349
Cash Flows From Capital and Related Financing Activities:	
Purchase of fixed assets	(330,428)
Cash Flows From Investing Activities:	
Earnings on investments	1,316
Net Increase (Decrease) in Cash and Cash Equivalents	(50,962)
Cash and Cash Equivalents:	
Beginning of year	957,269
End of year	\$ 906,307
Reconciliation of Net Operating Loss to Net Cash Provided by (Used in) Operating Activities:	
Net operating loss	\$ (366,807)
Adjustments to reconcile net operating loss to net cash provided by (used in) operating activities:	
Depreciation expense	72,222
Donated commodities	126,610
Change in assets and liabilities:	
Inventory	2,236
Unearned revenue	(1,904)
Accounts payable	(2,556)
Total adjustments	196,608
Net cash provided by (used in) operating activities	\$ (170,199)
Non-Cash Financing Transaction:	

The School District received donated commodities of \$126,610 from the U.S. Department of Agriculture

The accompanying notes are an integral part of the financial statements.

NORTH ALLEGHENY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2016

	<u>Agency Fund</u>
<hr/>	
Assets	
<hr/>	
Cash and cash equivalents	\$ 735,179
	<u><u>735,179</u></u>
Liabilities	
<hr/>	
Other current liabilities	\$ 735,179
	<u><u>735,179</u></u>

The accompanying notes are an integral part of the financial statements.

NORTH ALLEGHENY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with the accounting system and procedures prescribed for school districts by the Commonwealth of Pennsylvania, Department of Education, which conforms to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

North Allegheny School District (School District) is a public school system operating under the authority of the Pennsylvania School Code of 1949 and is governed by an elected nine-member Board of Directors (Board). The criteria set forth by the Governmental Accounting Standards Board (GASB) are followed by the School District to determine which governmental organizations should be included or excluded from the reporting entity. Criteria for inclusion of any entity (component unit) into a primary governmental unit's financial statements include but are not limited to legal standing, fiscal dependency, imposition of will, financial benefit or burden, and appointment of a voting majority of the governing Board. The School District presently has no component units that meet the above criteria.

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

NORTH ALLEGHENY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function self-finances or draws from the general revenues of the School District.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

The School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary fund is reported by type. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types" as follows:

Governmental Funds:

The School District presents the following major governmental funds:

General Fund

The General Fund is the general operating fund of the School District which is utilized to account for all revenues and expenditures except those required to be accounted for in another fund. For financial reporting purposes, the Athletic Fund, a separate accounting fund, is presented as part of the General Fund.

NORTH ALLEGHENY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

BWE/Marshall Construction Fund

The BWE/Marshall Construction Fund is utilized to account for the expenditures and financial resources to be used for the renovations of Bradford Woods and Marshall Elementary and Middle Schools.

Additionally, the School District reports the following other governmental funds as capital project funds:

Capital Reserve Fund

The Capital Reserve Fund is utilized to account for financial resources to be used for the acquisition, construction, or repair of major capital facilities and equipment.

1999 Technology and NASH Newman Stadium Construction Funds

Capital Projects Funds are utilized to account for financial resources to be used for the acquisition, construction, or repair of major capital facilities and equipment.

Capital Financing Fund

The Capital Financing Fund is utilized to account for the proceeds from capital lease financing that are to be used for ongoing projects.

Proprietary Fund:

Enterprise Fund (Food Service Fund)

The Food Service Fund is authorized under Section 504 of the Public School Code of 1949 to account for all revenues and expenses pertaining to cafeteria operations and is presented as a major fund. The Food Service Fund is utilized to account for operations that are financed and operated in a manner similar to private business enterprises where the stated intent is that the costs of providing goods or services to the students on a continuing basis are financed or recovered primarily through user charges and government subsidies.

NORTH ALLEGHENY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Fiduciary Fund:

Agency Fund

The Student Activities Fund is used to account for assets held by the School District in a trustee capacity or as agent for individuals or private organizations.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for earned income taxes, for which the period is within 90 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Real estate taxes, earned income taxes, rents, fees, and state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual as revenue of the current fiscal period. Real estate tax revenue for interim assessments is recognized when collected. All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net position. Fund equity (i.e., net total position) is segregated into unrestricted net position and net investment in capital assets. The operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

NORTH ALLEGHENY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Operating revenues and expenses of the proprietary fund consists of those revenues and expenses that result from the ongoing principal operations of the School District. Operating revenues consist primarily of user charges. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities.

The proprietary fund follows the accrual basis of accounting, in which revenues are recorded when earned and expenses as incurred.

Deferred inflows are reported on the governmental funds statements when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the School District before it has a legal claim to them, as when intergovernmental funds are received prior to the occurrence 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 liability for unearned revenue is removed and the revenue is recognized.

Budgets and Budgetary Accounting

The Board approves, prior to the beginning of each fiscal year, an annual budget on the modified accrual basis for the General Fund, as required by state law.

The School District follows these procedures for establishment of their annual budget:

1. Prior to May of the preceding fiscal year, the School District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. At least 20 days prior to the date set for budget adoption, the budget is made available for public inspection.
3. A meeting of the Board is then called for the purpose of adopting the proposed budget. This meeting may only be held after 10 days of public notification.
4. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board.
5. The budget must be filed with the Commonwealth of Pennsylvania, Department of Education by July 15 of the fiscal year or within 30 days of adoption.

The Public School Code allows the Board to authorize budget transfer amendments between functions and objects during the year. The budget data reflected in the required

NORTH ALLEGHENY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

supplementary information includes the effect of such approved budget transfer amendments and, for comparative purposes; the actual results have also been presented. The level of budgetary control is at the object level within each function and fund. Function is defined as a program area such as instructional services, and object is defined as the nature of the expenditure such as salaries or supplies.

Annual appropriations lapse at year-end. No supplemental appropriations were required during the current fiscal year.

Budgetary control for other governmental funds is maintained through enforcement of the related grant provisions or through provisions of various debt agreements.

Cash and Investments

For purposes of the statement of cash flows, the School District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition and pooled funds investments subject to daily withdrawal to be cash equivalents.

Investments are stated at fair value, which approximates market.

Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statement as "internal balances."

Property tax receivables are shown net of an allowance for uncollectible amounts. Property taxes are levied as of July 1 on property values assessed as of the same date. The billings are considered past due on November 1, and penalties and interest are assessed.

Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost and donated fixed assets are recorded at their fair market values at the time of donation. The School District maintains a capitalization

NORTH ALLEGHENY SCHOOL DISTRICT

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threshold of \$5,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

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

Site improvements	15 years
Buildings and improvements	20-50 years
Machinery, equipment, and furniture	3-15 years
Vehicles	15 years
Text and library books	5-20 years

Compensated Absences

The School District accrues for certain accumulated employee benefits, such as unpaid vacation, sick pay, and retirement lump sum payments. The amount of the accrual is based on the vacation, sick, and retirement lump-sum payments, which are expected to be paid to employees upon their termination or retirement from the School District. The entire accumulated employee benefits liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid accumulated employee benefits is the amount of early retirement and severance pay expected to be paid using expendable available resources within the next fiscal year.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium and discount.

The excess of the reacquisition price over the net carrying amount of refunded debt is recorded as a deferred charge on refunding in the governmental activities. The deferred charge on refunding is reported as a component of deferred outflows, and is amortized using

NORTH ALLEGHENY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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the straight-line method, which approximates the effective interest method over the shorter of the term of the refunding or refunded bonds.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses.

In both the fund and government-wide financial statements, issue costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures and expenses, respectively.

Deferred Inflows and Outflows of Resources Related to Pensions

In conjunction with pension accounting requirements, the effect of the change in the School District's proportion, the difference between expected and actual investment earnings, and payments made to PSERS subsequent to the measurement date are recorded as a deferred inflow or outflow of resources related to pensions on the government-wide financial statements. These amounts are determined based on the actuarial valuation performed for the PSERS plan. The effect of the change in the School District's proportion is recognized over the average expected remaining service lives of active and inactive members. The difference between expected and actual investment earnings is recognized over 5 years. Payments subsequent to the measurement date will be recorded as a reduction to the pension liability in the next fiscal year. Note 6 presents additional information about the PSERS plan.

Postemployment Benefits

In the government-wide financial statements, long-term liabilities related to postemployment benefits, including pensions, health insurance, and life insurance, are calculated based on actuarial valuations as described in Notes 6 and 8.

Inventory

Textbooks, library books, and other educational supplies are recorded as instructional expenditures of the General Fund when purchased in the fund statements and recorded as capital assets in the government-wide financial statements.

Transportation inventory is accounted for under the consumption method. Inventories of repair parts and supplies are carried and expended within the General Fund at average cost.

NORTH ALLEGHENY SCHOOL DISTRICT

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Inventories of the Food Service Fund are also carried and expended at average cost.

Adoption of Accounting Pronouncements

The requirements of the following Governmental Accounting Standards Board (GASB) Statements were adopted for the School District's 2016 financial statements:

GASB Statement No. 72, "*Fair Value Measurement and Application*," is effective for the period beginning after June 15, 2015 (the School District's 2016 fiscal year). This statement addresses accounting and financial reporting issues related to fair value measurements. This statement had no impact to the School District's financial statements for the year ended June 30, 2016.

GASB Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*," is effective for the period beginning after June 15, 2015 (the School District's 2016 fiscal year) – except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of GASB Statement 68, which are effective for financial statements for the period beginning after June 15, 2016 (the School District's 2017 fiscal year). This statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (those not covered by GASB Statements No. 67 and 68). This statement had no impact to the School District's financial statements for the year ended June 30, 2016.

GASB Statement No. 79, "*Certain External Investment Pools and Pool Participants*," effective for fiscal years beginning after December 15, 2015 (the School District's 2017 fiscal year). This statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This statement had no significant impact to the School District's financial statements for the year ended June 30, 2016.

Pending Accounting Pronouncements

GASB has issued several statements that will become effective in future years, including Statement Nos. 74 (OPEB Plans), 75 (OPEB Employer), 77 (Tax Abatement), 80 (Component Units), 81 (Split-Interest Agreements), and 82 (Pensions). Management has not yet determined the impact of these statements on the School District's financial statements.

NORTH ALLEGHENY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Fund Balance

In the fund financial statements, governmental funds report fund balance in categories based on the level of restriction placed upon the funds. These levels are as follows:

- Nonspendable – This category represents funds that are not in spendable form and consists of inventory.
- Restricted – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties. This category includes funds that are restricted for capital expenditures under a bond indenture.
- Committed – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending imposed by the Board. Such commitment is made via a Board resolution and must be made prior to the end of the fiscal year. Removal of this commitment requires a Board resolution.
- Assigned – This category represents intentions of the Board to use the funds for specific purposes. The Board has delegated the authority to assign amounts to be used for specific purposes to the Business Manager of the School District.
- Unassigned – This category includes the residual classification for the School District's General Fund and includes all spendable amounts not contained in other classifications.

The School District's policy is to use funds in the order of the most restrictive to the least restrictive. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Net Position

The government-wide and proprietary funds financial statements are required to report three components of net position:

Net Investment in Capital Assets - This component of net position consists of capital assets net of accumulated depreciation and is reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and

NORTH ALLEGHENY SCHOOL DISTRICT

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deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflow of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

Restricted - This component of net position consists of constraints placed on net position use through external restrictions.

Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

2. CASH AND CASH EQUIVALENTS

Under Section 440.1 of the Public School Code for 1949, as amended, the School District is permitted to invest funds consistent with sound business practices in the following types of investments:

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, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts, time deposits, or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured

NORTH ALLEGHENY SCHOOL DISTRICT

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and, for any amounts above the insured maximum, provided that approved collateral, as provided by law, is pledged by the depository.

In March 2016, Act 10 was passed, which expanded the scope of investment options available to school districts, including repurchase agreements, commercial paper, negotiable certificates of deposit, and bankers' acceptances. The School District elected to maintain its current investment policy due to the additional risk and oversight associated with the expanded investment options under Act 10.

The deposit and investment policy of the School District adheres to state statutes and prudent business practices. Deposits of the governmental funds are either maintained in demand deposits or savings accounts, certificates of deposit, or cash equivalents. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the School District.

The following is a description of the School District's deposit and investment risks:

Credit Risk. The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The majority of the School District's investments is held in U.S. Government Obligations and is therefore not exposed to this type of risk. Investments in PLGIT, PSDLAF, and Federated Investors (described below) have received an AAA rating from Standard & Poor's.

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 does not have a formal deposit policy for custodial credit risk. As of June 30, 2016, \$50,887,312 of the School District's bank balance of \$51,436,971 was exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. These deposits have carrying amounts of \$50,689,315 as of June 30, 2016.

Investments

PLGIT and PSDLAF were established as common law trusts organized under laws of the Commonwealth of Pennsylvania. Shares of the funds are offered to certain Pennsylvania school districts, intermediate units, area vocational-technical schools, and municipalities. The purpose of these funds is to enable such governmental units to pool their available funds for investment in instruments authorized by Section 440.1 of the Pennsylvania Public School Code of 1949, as amended. US Bank and Federated Investors Money Market Fund are

NORTH ALLEGHENY SCHOOL DISTRICT

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pooled investment funds, which invest in U.S. Government Agency Obligations with an average maturity of 90 days or less. Investments in these funds cannot be classified because they are not evidenced by securities that exist in physical or book entry form. The fair value of the School District's position in the external investment pools is the same as the value of the pool shares. All investments in an external investment pool that is not SEC-registered are subject to oversight by the Commonwealth of Pennsylvania. Pooled investments are short-term in nature and are included in cash and cash equivalents on the statement of net position and balance sheet. The School District can withdraw funds from most of its external investment pools without restriction. However, certain limitations can be placed on withdrawals from a few of its pooled accounts, including a provision that only permits withdrawals on a certain day of the week and restrictions related to the redemption of certificates of deposit.

The School District's investments included on the statement of net position and balance sheet at June 30, 2016 consisted of:

	<u>Fair Value</u>
Pooled investment funds:	
PLGIT	\$ 1,002,818
PSDLAF	96,903
Federated Investors - Money Market Fund	<u>113,762</u>
	<u>\$ 1,213,483</u>

As of June 30, 2016, the carrying amount of the School District's investments was \$1,213,483, and all investments have a maturity of less than one year.

As further described in Note 12, the School District also has a derivative instrument that is accounted for as an investment. Investment risks related to this investment are described in Note 12.

Fiduciary Fund

The School District maintains bank accounts for the various student activities funds. The balance of these accounts is reflected in the statement of fiduciary net position. Additions and deletions for student activities were \$1,589,108 and \$1,468,755, respectively, for the year ended June 30, 2016. The carrying amount of deposits for the student activities funds was \$636,498 and the bank balance was \$664,414. Of the bank balance, \$9,109 was covered by federal depository insurance. The remaining balance of \$655,305 was collateralized in accordance with Act 72 of the Pennsylvania state legislature. Furthermore, the School

NORTH ALLEGHENY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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District held investments in PLGIT for the student activities funds. The total bank and book balance of these investments at year-end was \$98,681. These investments are included as cash and cash equivalents on the statement of fiduciary net position.

3. PROPERTY TAXES RECEIVABLE

Based upon assessed valuations provided by Allegheny County, the School District bills and collects its property taxes through tax collectors for each constituent municipality. The schedule for property taxes levied for the fiscal year ended June 30, 2016 is as follows:

July 1, 2015 - tax date
July 1, 2015 - August 31, 2015 – 2% discount period
September 1, 2015 - October 31, 2015 – face payment period
November 1, 2015 - Collection – 10% penalty period

Property taxes were levied at the rate of 18.0011 mills in fiscal year 2015-2016 based on assessed values provided by Allegheny County. The assessed valuation was approximately \$5.4 billion for the 2015-2016 levy. The property taxes receivable amount is net of an uncollectible allowance of approximately \$854,900.

NORTH ALLEGHENY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance at June 30, 2015	Increases	Decreases	Ending Balance at June 30, 2016
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 429,929	\$ -	\$ -	\$ 429,929
Construction in progress	2,186,418	15,635,457	(3,611,524)	14,210,351
Total capital assets, not being depreciated	2,616,347	15,635,457	(3,611,524)	14,640,280
Capital assets, being depreciated:				
Site improvements	9,556,639	423,409	-	9,980,048
Building and improvements	206,249,378	1,870,507	-	208,119,885
Machinery, equipment, and furniture	12,474,281	1,317,608	-	13,791,889
Text and library books	10,869,591	754,971	(324,378)	11,300,184
Vehicles	8,768,239	728,302	(41,910)	9,454,631
Total capital assets, being depreciated	247,918,128	5,094,797	(366,288)	252,646,637
Less: accumulated depreciation for:				
Site improvements	(4,566,492)	(604,838)	-	(5,171,330)
Building and improvements	(97,238,593)	(4,574,357)	-	(101,812,950)
Machinery, equipment, and furniture	(8,028,319)	(1,771,441)	-	(9,799,760)
Text and library books	(7,222,555)	(753,945)	324,378	(7,652,122)
Vehicles	(4,721,226)	(533,892)	30,734	(5,224,384)
Total accumulated depreciation	(121,777,185)	(8,238,473)	355,112	(129,660,546)
Capital assets being depreciated, net	126,140,943	(3,143,676)	(11,176)	122,986,091
Governmental activities capital assets, net	\$ 128,757,290	\$ 12,491,781	\$ (3,622,700)	\$ 137,626,371

Included above in the statement of net position is equipment of approximately \$8,059,000 that was capitalized under leasing arrangements.

NORTH ALLEGHENY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

	Beginning Balance at June 30, 2015	Increases	Decreases	Ending Balance at June 30, 2016
Business-Type Activities:				
Capital assets, being depreciated:				
Machinery and equipment	\$ 2,267,268	\$ 330,428	\$ -	\$ 2,597,696
Less: accumulated depreciation for:				
Machinery and equipment	(1,732,629)	(72,222)	-	(1,804,851)
Business-type activities capital assets, net	\$ 534,639	\$ 258,206	\$ -	\$ 792,845

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

Governmental Activities:

Instructional services:	
Regular instruction	\$ 775,487
Special instruction	1,642
Vocational instruction	20,845
Support services	
Administration:	
Operation of plant and maintenance services	520
Student transportation services	1,099,571
Central	1,129
Central	597,087
Non-instructional services:	
Student activities	15,282
Facilities acquisition, construction, and improvement services	132,300
Unallocated building depreciation	5,594,610
	\$ 8,238,473

Business-type Activities:

Food service	\$ 72,222
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NORTH ALLEGHENY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

5. LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

Changes in the School District's long-term obligations during fiscal year 2016 were as follows:

	Beginning Balance at July 1, 2015	Additions	Amortization, Retirements, and Refunding	Ending Balance at June 30, 2016	Amounts Due Within One Year
General obligation bonds:					
Series of 2012, net of unamortized discount	\$ 9,280,000 (108,460)	\$ - -	\$ (150,000) 18,077	\$ 9,130,000 (90,383)	\$ 150,000 -
Series B of 2013	7,645,000	-	(235,000)	7,410,000	235,000
Series A of 2014, net of unamortized premium	13,405,000 227,838	-	(6,610,000) (227,838)	6,795,000 -	6,795,000 -
Series of 2015, net of unamortized premium	- -	34,770,000 2,594,842	- (144,159)	34,770,000 2,450,683	- -
Revenue bonds:					
Series of 2008	18,115,000	-	(5,000)	18,110,000	5,000
Series A of 2011	14,150,000	-	(175,000)	13,975,000	180,000
Series B of 2011	10,220,000	-	-	10,220,000	-
Series of 2014	31,050,000	-	(40,000)	31,010,000	50,000
	<u>103,984,378</u>	<u>37,364,842</u>	<u>(7,568,920)</u>	<u>133,780,300</u>	<u>7,415,000</u>
Swap borrowing (2004)	5,460,844	-	(600,403)	4,860,441	623,422
Swap borrowing (2012)	3,146,258	-	(509,642)	2,636,616	509,642
OPEB liability	2,361,711	586,426	-	2,948,137	-
Net pension liability	192,916,000	25,696,000	-	218,612,000	-
Embedded derivative instruments	9,299,458	2,819,894	-	12,119,352	-
General obligation note payable	3,938,216	-	(212,450)	3,725,766	220,948
Capital lease obligations	4,965,459	730,095	(1,361,284)	4,334,270	1,375,911
Accumulated employee benefits	2,645,607	233,484	-	2,879,091	806,145
	<u>\$ 328,717,931</u>	<u>\$ 67,430,741</u>	<u>\$ (10,252,699)</u>	<u>\$ 385,895,973</u>	<u>\$ 10,951,068</u>

General obligation and revenue bonds and notes are described below; other long-term obligations noted above are detailed further in Notes 8, 11, and 12.

Revenue Bonds, Series of 2008

In May 2008, the School District issued \$18,145,000 of Variable Rate Demand Revenue Bonds, Series of 2008 (Series 2008 Bonds) with various maturity dates through May 1, 2021, to current refund \$18,100,000 of outstanding General Obligation Bonds, Series D of 1997 Bonds. The variable interest rate is based upon SIFMA; however, the interest payments in

NORTH ALLEGHENY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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the future maturities schedule below were calculated using the synthetic fixed rate as described in Note 12.

Series 2008 Bonds are subject to redemption prior to maturity, at the option of the School District, in whole at any time or in part on any interest payment date, at a redemption price of 100% of the principal amount, together with interest accrued to the redemption date.

Revenue Bonds, Series A of 2011

In November 2011, the School District issued \$14,245,000 of Variable Rate Demand Revenue Bonds, Series A of 2011 (Series A 2011 Bonds) with various maturity dates through November 1, 2021, to current refund \$14,245,000 of outstanding Series A of 2001 Bonds. The variable interest rate is based upon SIFMA; however, the interest payments in the future maturities schedule below were calculated using the synthetic fixed rate as described in Note 12.

Series A 2011 Bonds are subject to redemption prior to maturity, at the option of the School District, in whole at any time or in part on any interest payment date, at a redemption price of 100% of the principal amount, together with interest accrued to the redemption date.

Revenue Bonds, Series B of 2011

In November 2011, the School District issued \$10,220,000 of Variable Rate Demand Revenue Bonds, Series B of 2011 (Series B 2011 Bonds) with various maturity dates through November 1, 2022, to current refund \$10,220,000 of outstanding Series A of 2002 Bonds. The variable interest rate is based upon SIFMA; however, the interest payments in the future maturities schedule below were calculated using the synthetic fixed rate as described in Note 12.

Series B 2011 Bonds are subject to redemption prior to maturity, at the option of the School District, in whole at any time or in part on any interest payment date, at a redemption price of 100% of the principal amount, together with interest accrued to the redemption date.

General Obligation Bonds, Series of 2012

In February 2012, the School District issued \$9,960,000 of General Obligation Bonds, Series of 2012 (Series 2012 Bonds) with interest rates ranging from .04% - 2.5% and various maturity dates through May 1, 2024, to current refund \$8,510,000 of outstanding General Obligation Bonds, Series of 2006 Bonds, and to fund certain improvements to the School District's facilities.

NORTH ALLEGHENY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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Series 2012 Bonds which mature on and after May 1, 2018 are subject to redemption prior to maturity, at the option of the School District, as a whole or in part on or after May 1, 2017, upon payment of the redemption price of 100% of the principal amount, together with interest accrued to the date fixed for redemption.

General Obligation Bonds, Series A of 2013

On July 10, 2013, the School District issued \$8,505,000 of General Obligation Bonds, Refunding Series A of 2013 (Series 2013A Bonds) with interest rates ranging from 0.50% to 2.00% and various maturity dates through May 1, 2015. The proceeds of the Bonds were used to refund the Series C of 2003 Bonds. Series 2013A Bonds are not subject to redemption prior to maturity.

General Obligation Bonds, Series B of 2013

On July 10, 2013, the School District issued \$8,130,000 of General Obligation Bonds, Refunding Series B of 2013 (Series 2013B Bonds) with interest rates ranging from 1.55% to 4.00% and various maturity dates through May 1, 2018. The proceeds of the Bonds were used to currently refund the Series D of 2003 Bonds. Series 2013B Bonds are not subject to redemption prior to maturity.

General Obligation Bonds, Series A of 2014

On May 1, 2014, the School District issued \$16,390,000 of General Obligation Bonds, Refunding Series A of 2014 (Series 2014A Bonds) with interest rates of 0.5% to 3.0%, and various maturity dates through May 1, 2017. The proceeds of the Bonds were used to refund, on a current refunding basis, the Series B of 2004 Bonds. Series 2014A Bonds are not subject to redemption prior to maturity.

Revenue Bonds, Series 2014

On May 1, 2014, the School District issued \$31,080,000 of Variable Rate Demand Revenue Bonds, Series 2014 (Series 2014 Bonds) with various maturity dates through May 1, 2027, to current refund \$31,080,000 of outstanding Series C of 2004 Bonds. The School District was required to issue these bonds in conjunction with the 2014 Swaption agreement, as described further in Note 12. The variable interest rate is based upon SIFMA; however, the interest payments in the future maturities schedule below were calculated using the synthetic fixed rate as described in Note 12.

NORTH ALLEGHENY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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Series 2014A Bonds are subject to redemption prior to maturity, at the option of the School District, in whole at any time or in part on any interest payment date, at a redemption price of 100% of the principal amount, together with interest accrued to the redemption date.

General Obligation Bonds, Series 2015

On August 19, 2015, the School District issued \$34,770,000 of General Obligation Bonds, Series of 2015 (Series 2015 Bonds) with interest rates of 2.0%-5.0%, and various maturity dates through May 1, 2033. The proceeds of the Bonds were used to fund renovations and improvements to multiple School District facilities.

Series 2015 Bonds which mature on and after May 1, 2026 are subject to redemption prior to maturity, at the option of the School District, as a whole or in part on or after May 1, 2025, upon payment of the redemption price of 100% of the principal amount, together with interest accrued to the date fixed for redemption.

General Obligation Note

In July 2008, the School District issued a \$5,072,092 General Obligation Note to fund payments to the A.W. Beattie Career Center as further described in Note 7. Interest rates range from 3.00% to 4.60%, and principal and interest payments are scheduled through May 15, 2028. The note can be paid in full on October 15th of each year until its final maturity in 2028.

Future Maturities

The future scheduled maturities of General Obligation Bonds and Revenue Bonds are as follows for each fiscal year ending June 30:

<u>Fiscal Year Ending June 30,</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Payment</u>
2017	\$ 7,415,000	\$ 5,390,713	\$ 12,805,713
2018	7,820,000	5,192,256	13,012,256
2019	7,965,000	5,066,140	13,031,140
2020	8,350,000	4,728,037	13,078,037
2021	8,880,000	4,265,875	13,145,875
2022-2026	47,830,000	15,898,230	63,728,230
2027-2031	35,300,000	6,119,088	41,419,088
2032-2033	7,860,000	550,750	8,410,750
	<u>\$ 131,420,000</u>	<u>\$ 47,211,089</u>	<u>\$ 178,631,089</u>

NORTH ALLEGHENY SCHOOL DISTRICT

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The future scheduled maturities of the General Obligation Note are as follows for each fiscal year ending June 30:

<u>Fiscal Year Ending June 30,</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Payment</u>
2017	\$ 220,948	\$ 155,637	\$ 376,585
2018	229,446	146,905	376,351
2019	237,944	137,557	375,501
2020	248,870	127,665	376,535
2021	258,582	117,037	375,619
2022-2026	1,475,010	405,226	1,880,236
2027-2029	1,054,966	73,550	1,128,516
	<u>\$ 3,725,766</u>	<u>\$ 1,163,577</u>	<u>\$ 4,889,343</u>

6. RETIREMENT BENEFITS

Summary of Significant Accounting Policies

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

Plan Description

PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate 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.

NORTH ALLEGHENY SCHOOL DISTRICT

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Benefits Provided

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

Health Insurance Premium Assistance Program

In addition, PSERS provides a Health Insurance Premium Assistance Program (Premium Assistance) for all eligible annuitants who qualify and elect to participate. Under this program, employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible annuitants are entitled to receive Premium Assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly

NORTH ALLEGHENY SCHOOL DISTRICT

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health insurance premium. To receive Premium Assistance, eligible annuitants must obtain their health insurance through either their school employer or the PSERS' Health Options Program. Premium Assistance is not included in the calculation of the net pension liability as it does not qualify under the provisions of GASB Statement No. 68.

Member Contributions:

The following illustrates the member's contribution as a percent of the member's qualifying compensation:

Active members who joined PSERS prior to July 22, 1983:

Membership Class T-C	5.25%
Membership Class T-D	6.50%

Members who joined PSERS on or after July 22, 1983, and who were active or inactive as of July 1, 2001:

Membership Class T-C	6.25%
Membership Class T-D	7.50%

Members who joined PSERS after June 30, 2001, and before July 1, 2011:

Membership Class T-D	7.50%
----------------------	-------

Members who joined PSERS after June 30, 2011:

Membership Class T-E*	7.50%
Membership Class T-F**	10.30%

* Shared risk program could cause future contribution rates to fluctuate between 7.50% and 9.50%.

** Shared risk program could cause future contribution rates to fluctuate between 10.30% and 12.30%.

Employer Contributions:

The School District's contractually required pension contribution rate for the fiscal year ended June 30, 2016 was 25.00% 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. In addition, the School District was required to contribute 0.84% of covered payroll to Premium Assistance.

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The contribution rate will increase to 30.03% in fiscal year 2017 and is projected to grow to 34.18% by fiscal year 2026.

The School District contributed approximately \$16.6 million to PSERS for the year ended June 30, 2016, which represents its contribution towards pension benefits and Premium Assistance.

In accordance with Act 29, the Commonwealth of Pennsylvania reimburses school districts for at least one-half of contributions made to PSERS. The School District recorded reimbursements from the Commonwealth of Pennsylvania approximating \$8.6 million during the current year.

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

At June 30, 2016, the School District reported a liability of \$218.612 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward PSERS' total pension liability as of June 30, 2014 to June 30, 2015. 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 PSERS total one-year reported covered payroll. At June 30, 2015, the School District's proportion was 0.5047%, which was an increase of 0.0355% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School District recognized pension expense of \$21.446 million. At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Net differences between projected and actual earnings on pension plan investments	\$ -	\$ 442,000
Differences between expected and actual experience	-	902,000
Changes in proportion	5,870,000	50,000
School District contributions subsequent to the measurement date (June 30, 2015)	17,163,200	-
Total	<u>\$ 23,033,200</u>	<u>\$ 1,394,000</u>

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The amount reported as deferred outflows of resources resulting from the School District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Measurement Date</u>	<u>Reporting Date</u>	<u>Amortization</u>
<u>Year Ended June 30:</u>	<u>Year Ended June 30:</u>	<u>Amount</u>
2016	2017	\$ 222,000
2017	2018	222,000
2018	2019	221,000
2019	2020	3,811,000
	Total	<u>\$ 4,476,000</u>

Actuarial Assumptions

The total pension liability as of June 30, 2015 was determined by rolling forward PSERS' total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.50%, includes inflation at 3.00%
- Salary increases – Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1.0%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three years for both males and females. For disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the PSERS Board and were effective beginning with the June 30, 2011 actuarial valuation.

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

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return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public markets global equity	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	-14.0%	1.1%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that the contributions from plan members will be made at the current contribution rate and that the 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-

NORTH ALLEGHENY SCHOOL DISTRICT

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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 District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the School District's proportionate share of the net pension liability calculated using the discount rates described above, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's proportionate share of the net pension liability	\$ 269,461,000	\$ 218,612,000	\$ 175,874,000

Pension Plan Fiduciary Net Position

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

7. JOINT VENTURE

The School District is a participant with eight other member school districts in a joint venture for the operation of the A.W. Beattie Career Center (Center). The Center was created for the operation of certain vocational and alternative educational programs for the benefit of the member school districts. On dissolution of the Center, its net position will be distributed to the member school districts based upon the total payments made by each member school district since July 1, 1990, divided by the total payments of all member school districts since that time. The Center is governed by an eighteen-member Joint Committee composed of two appointees from each member school district.

In July 2008, the Center issued revenue bonds of \$20,890,000 to fund capital improvements to the Center. The repayment of the principal and interest on these bonds was funded proportionately by the member school districts, with the scheduled payments to be made to the Center based upon general obligation notes issued by each member school district establishing yearly amounts to be paid to the Center.

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As described in Note 5, in July 2008 the School District issued a general obligation note to fund their proportionate share of the Center's debt issuance. The School District's share of the capital improvements to the Center is reported as a net investment in joint venture on the government-wide financial statements of the School District.

The School District is obligated to remit its proportionate share of the Center's budget based on its percentage of proportional enrollment for the operational, alternative high school, and substitute service budgets and proportional assessed value for the administrative budget. The School District's combined proportionate share of funding for the year ended June 30, 2016 was approximately \$825,825 for operations and \$375,947 for debt service.

Other than for the capital project described above, the School District's proportionate share of capital assets of the Center has not been determined, and excess operating results are retained by the Center for future periods. Accordingly, the School District's net investment and share of operating results are not included in the School District's financial statements. The most recent available Center unassigned governmental fund type fund balance at June 30, 2015 is \$957,055. Complete financial statements of the Center can be obtained from the Center's administrative offices.

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEBS)

Plan Description

In addition to the pension benefits described in Note 6, the School District provides and administers varying levels of medical, dental, vision, and life insurance coverage to the following employee groups:

- Administrative
- Confidential
- Professional
- Bus drivers
- Custodians and maintenance
- Mechanics
- Paraprofessional

The School District may be responsible for a portion of the cost as set by the contract agreement in force at the time of retirement. The School District pays the premium for these benefits; however, the retiree must reimburse the School District for a portion, or all, of the costs in some cases.

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The benefit limits and employee and employer contributions are established through employee contracts and past practices. The plan is not accounted for as a Trust Fund as an irrevocable trust has not been established, the plan does not issue a separate report, and activity of the plan is reported in the School District's General Fund.

Details of the benefits provided are as follows:

Administrative and Confidential Employees

Any administrator or confidential employee who fully retires under the PSERS system may opt to continue medical, dental, and vision benefit coverages until age 65. The School District pays the premium for these benefits; however, the retiree must reimburse the School District as follows:

Premium Sharing: The member, spouse, and dependents each pay 12% of the premiums for medical, prescription drug, dental, and vision until the member reaches age 65. Upon the member reaching age 65, he or she may elect Medicare supplement coverage by paying the full premium, and dental coverage for the family by paying the full premium. Upon the spouse reaching age 65, he or she may elect Medicare supplement coverage by paying the full premium, or remain on the group plan at the same subsidy level provided that the School District retiree is still under age 65.

In addition, for administrative employees, the School District will pay the full premium for a life insurance policy on the member's life only for an amount of up to 3 times salary at retirement until the member reaches age 65 and \$10,000 afterwards. The School District also provides retired confidential employees an individual life insurance policy of \$10,000 entirely at the School District's expense.

Professional Employees

Professional employees who retire from the School District at the highest step of the salary column with at least 10 years of service are entitled to receive medical, dental, and vision benefits from retirement until age 65. The School District is responsible for a portion of the cost as set by the contract agreement in force at the time of retirement. The School District pays the premium for these benefits; however, the retiree must reimburse the School District as follows:

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Premium Sharing: For professionals with a retirement date prior to 6/1/2015, the member, spouse, and dependents must pay the remaining monthly premium for the current benefit plan year after the School District contributes the 1994 plan year premium for medical, prescription drug, dental, and vision plus an additional \$200 until the member reaches age 65. For professionals with a retirement date after 6/1/2015, the member, spouse, and dependents must pay 35% of the monthly premium for the current benefit plan year after the School District contributes 65% of the premium for medical, prescription drug, dental, and vision until the member reaches age 65. Upon the member reaching age 65, he or she may elect Medicare supplement coverage by paying the full premium, and dental coverage for the family by paying the full premium. Upon the spouse reaching age 65, he or she may elect Medicare supplement coverage by paying the full premium, or remain on the group plan at the same subsidy level provided that the School District retiree is still under age 65.

In addition, the School District also provides retired professional employees an individual life insurance policy of \$2,000 entirely at the School District's expense.

Bus Drivers, Custodians, and Maintenance Employees

The School District does not provide post-retirement medical, dental, or vision coverage to bus drivers, custodians, or maintenance retirees upon retirement. However, eligible retirees may receive coverage under the medical, dental, and visions plans, as extended to active members of their bargaining units, provided the retiree pays the full monthly premium for such coverages.

In addition, the School District also provides retired bus drivers, custodians, and maintenance employees an individual life insurance policy of \$1,500 entirely at the School District's expense.

Mechanics Employees

Mechanics employees who retire from the School District after the age of 60 with at least 25 years of service or retire through PSERS are entitled to receive medical, dental, and vision benefits under the following stipulations:

Premium Sharing: If the member retires at or after age 60 with at least 25 years with the School District, the School District will contribute 50% of premiums for medical, prescription drug, dental, and vision for the member, spouse, and dependents for the earlier of three years and member age 65. The member must pay the remaining premiums. After three years, the member, spouse, and dependents may continue dental

NORTH ALLEGHENY SCHOOL DISTRICT

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coverage by paying full premiums, and upon the member reaching age 65, he or she may elect Medicare supplement coverage by paying the full premium, and dental coverage for the family by paying the full premium. Upon the spouse reaching age 65, he or she may elect Medicare supplement coverage by paying the full premium, or remain on the group plan at the same subsidy level, provided that the School District retiree is still under age 65 and within the three-year eligibility window.

In addition, the School District also provides retired mechanics an individual life insurance policy of \$1,500 entirely at the School District's expense.

Paraprofessional Employees

Paraprofessional employees who retire from the School District after the age of 60 with at least 10 years of service or retire through PSERS are entitled to receive medical, dental, and vision benefits under the following stipulations:

Premium Sharing: If the member retires at or after age 60 with at least 10 years with the School District, the School District will contribute 50% of premiums for medical, prescription drug, dental, and vision for the member, spouse, and dependents for the earlier of three years and member age 65. The member must pay the remaining premiums. After three years, the member, spouse, and dependents may continue dental coverage by paying full premiums, and upon the member reaching age 65, he or she may elect Medicare supplement coverage by paying the full premium, and dental coverage for the family by paying the full premium. Upon the spouse reaching age 65, he or she may elect Medicare supplement coverage by paying the full premium, or remain on the group plan at the same subsidy level, provided that the School District retiree is still under age 65 and within the three-year eligibility window.

In addition, the School District also provides retired paraprofessionals an individual life insurance policy of \$1,500 entirely at the School District's expense.

Funding Policy

These benefits are expensed when incurred and are financed on a pay-as-you-go basis. For the year ended June 30, 2016, the School District contributed approximately \$1,008,500 for current premiums for 143 eligible retirees, and plan members receiving benefits contributed approximately \$901,200 through their required contributions as described above.

NORTH ALLEGHENY SCHOOL DISTRICT

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Annual OPEB Cost and Net OPEB Obligation

The School District's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over an open period not to exceed 30 years. The following table shows the component of the School District's annual OPEB cost for the year, the amount actually contributed, and changes in the School District's net OPEB obligation:

Annual required contribution	\$ 2,212,536
Interest on net OPEB obligation	106,277
Adjustment to annual required contribution	<u>(144,989)</u>
Annual OPEB cost	2,173,824
Contributions made	<u>(1,587,398)</u>
Increase in net OPEB obligation	586,426
Net OPEB obligation - beginning of year	<u>2,361,711</u>
Net OPEB obligation - end of year	<u><u>\$ 2,948,137</u></u>

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation were as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>% of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
July 1, 2016	\$ 2,173,824	73.02%	\$ 2,948,137
July 1, 2015	2,182,880	73.69%	2,361,711
July 1, 2014	1,946,218	81.27%	1,809,281

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Funded Status and Funding Progress

The schedule of funded status and funding progress for the postemployment medical, dental, vision, and life insurance benefits is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-PUC (b)	Unfunded Actuarial Accrued Liability (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll {(b)-(a)}/(c)
July 1, 2014	\$ -	\$ 18,922,338	\$ 18,922,338	0.0%	\$ 64,477,848	29.3%

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 healthcare cost trend. Healthcare cost trend assumptions are based on recent experience and anticipated future cost increases under the School District's medical plans. Amounts determined regarding the funded status and the annual required contributions of the employer 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 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.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of 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 include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The ARC for the current year was computed as of July 1, 2014 using the following actuarial assumptions:

- actuarial cost method – project unit credit cost
- amortization method – level percent of pay;
- amortization period - 30 years;
- discount rate - 4.5% compounded annually;

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- Mortality – Separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit plan actuarial valuation;
- Health care cost trend rates - declining scale beginning with 6.50% in 2014, with the rate decreasing by 0.5% per year to 5.5% in 2016, and each year thereafter gradually decreased from 5.3% in 2017 to 4.2% in 2089 and later.

Change in Actuarial Methods and Assumptions

Actuarial assumptions regarding mortality, retirement rates, medical trends, and participation rates were updated based upon updated standards of practice, and additional available experience information. Also, the aging assumption used in the development of medical claims cost and the valuation process was also revised, and a persistency assumption was added based upon further review of retiree information. In addition, the amortization period of the unfunded actuarially accrued liability was previously 30 years, and has been adjusted to 16.3 years in the latest actuarial valuation, to more accurately match the amortization period to the remaining service period for current employees.

9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivable and payable balances at June 30, 2016, as well as interfund transfers for the year ended June 30, 2016, are summarized below:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major Fund:				
General Fund	\$ 700	\$ -	\$ -	\$ 1,025,850
Other governmental funds	<u>-</u>	<u>700</u>	<u>1,036,616</u>	<u>10,766</u>
Total	<u>\$ 700</u>	<u>\$ 700</u>	<u>\$ 1,036,616</u>	<u>\$ 1,036,616</u>

Transactions between funds which are not expected to be repaid are accounted for as transfers. In those cases, when repayment is expected within the next fiscal year, the transactions are accounted for through the various due from and due to accounts.

10. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The

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School District provides medical insurance coverage under either traditional indemnity insurance contracts, point of service medical plans, and Health Maintenance Organization plans. The School District continues to carry commercial insurance for all other risks of loss. There has been no reduction in insurance coverage from the previous year, nor have amounts of settlements exceeded coverage levels in the past three years.

11. LEASES AND COMMITMENTS

The School District has entered into various lease agreements for financing the acquisition of technology, buses, and other vehicles. These leases qualify as capital leases. Payments under these capital leases were approximately \$1.3 million during the fiscal year.

In addition, the School District leases copiers and computers under various operating lease agreements. Total payments made on these leases for the year ended June 30, 2016 were approximately \$1.8 million.

The School District also entered into bus lease agreement prior to June 30, 2016, but the buses were not received until fiscal year 2017. The lease commitment under this agreement is approximately \$392,000.

The following is a schedule of future minimum rental payments, under these leases, at June 30, 2016:

Fiscal Year Ending June 30,	Capital	Operating
2017	\$ 1,469,481	\$ 1,842,755
2018	1,207,233	1,737,936
2019	935,940	1,468,048
2020	935,940	850,855
2021	-	348,425
Total minimum lease payments	4,548,594	<u>\$ 6,248,019</u>
Less: amount representing interest	<u>(214,324)</u>	
Present value of future minimum lease payments	<u>\$ 4,334,270</u>	

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12. SWAPS

Swaps

During fiscal year 2005, as a synthetic refunding of its outstanding Series D of 1997 Bonds, Series A of 2001, Series A of 2002, and Series C of 2004 Bonds, the School District entered into four swaption contracts that provided the School District up-front payments totaling approximately \$5.5 million. The swaptions give the counterparty the option to make the School District enter into pay-fixed, receive-variable interest rate swaps as described further below. Because the options were exercised, the School District makes net swap payments as required by the terms of the contracts, that is, receiving a variable rate as noted above for the term of the swap from the counterparty and making a fixed rate payment to the counterparty. Below are the details of the swap transactions.

2012 Swap

In December 2004, as a synthetic refunding of its Series D of 1997 Bonds, the School District received a payment of \$1,844,450, representing the present-value, risk-adjusted savings of a refunding as of May 1, 2008, without issuing refunding bonds. The swaption gave the counterparty the option to make the School District enter into a pay-fixed, receive-variable interest rate swap.

On May 1, 2008, the option was exercised, and the School District current refunded the existing Series D of 1997 Bonds and issued the Series 2008 Bonds. The intention of the 2008 swap was to effectively change the School District's variable interest rate on the Series 2008 Bonds to a synthetic fixed rate of 5.00%. This rate was amended to 4.311% in October 2011, which terminated this previously effective hedge. A new derivative instrument (the "2012 Swap") was created, based upon the amended synthetic rate, and the 2012 Swap is considered to be an effective hedge as of year-end.

Per the agreement, the School District receives interest at the variable rate of 68% of one month LIBOR (London Interbank Offered Rate) while paying a fixed rate of 4.311%. The interest payments are calculated based on a notional amount of \$18,100,000, which reduces beginning on May 1, 2019 so that the notional amount approximates the principal outstanding on the Series 2008 Bonds. The swap expires on May 1, 2021 consistent with the last principal payment on the Series 2008 Bonds.

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2012A Swap

In December 2004, as a synthetic refunding of its Series A of 2001 Bonds, the School District received a payment of \$752,200, representing the present-value, risk-adjusted savings of a refunding as of November 1, 2011, without issuing refunding bonds. The swaption gave the counterparty the option to make the School District enter into a pay-fixed, receive-variable interest rate swap.

On November 1, 2011 the option was exercised, and the School District current refunded the existing Series A of 2001 Bonds and issued the Series A 2011 Bonds. The intention of the 2011A swap was to effectively change the School District's variable interest rate on the Series A 2011 Bonds to a synthetic fixed rate of 4.76%. This rate was amended to 4.116% in October 2011, which terminated this previously ineffective hedge. A new derivative instrument (the "2012A Swap") was created, based upon the amended synthetic rate, and the 2012A Swap is considered to be an effective hedge as of year-end.

Per the agreement, the School District receives interest at the variable rate of 68% of one month LIBOR while paying a fixed rate of 4.116%. The interest payments are calculated based on a notional amount which reduces so that it approximates the principal outstanding on the Series A 2011 Bonds. The swap expires on November 1, 2021 consistent with the last principal payment on the Series A 2011 Bonds.

2012B Swap

In December 2004, as a synthetic refunding of its Series A of 2002 Bonds, the School District received a payment of \$727,400, representing the present-value, risk-adjusted savings of a refunding as of November 1, 2011, without issuing refunding bonds. The swaption gave the counterparty the option to make the School District enter into a pay-fixed, receive-variable interest rate swap.

On November 1, 2011 the option was exercised, and the School District current refunded the existing Series A of 2002 Bonds and issued the Series B 2011 Bonds. The intention of the 2011B swap was to effectively change the School District's variable interest rate on the Refunding Bonds to a synthetic fixed rate of 5.05%. This rate was amended to 4.465% in October 2011, which terminated this previously ineffective hedge. A new derivative instrument (the "2012B Swap") was created, based upon the amended synthetic rate, and the 2012B Swap is considered to be an effective hedge as of year-end.

NORTH ALLEGHENY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Per the agreement, the School District receives interest at the variable rate of 68% of one month LIBOR while paying a fixed rate of 4.465%. The interest payments are calculated based on a notional amount of \$10,220,000, which reduces beginning on November 1, 2021 so that the notional amount approximates the principal outstanding on the Series B 2011 Bonds. The swap expires on November 1, 2022 consistent with the last principal payment on the Series B 2011 Bonds.

2014 Swap

In December 2004, as a synthetic refunding of its Series C of 2004 Bonds, the School District received a payment of \$2,203,250, representing the present-value, risk-adjusted savings of a refunding as of May 1, 2014, without issuing refunding bonds. The swaption gave the counterparty the option to make the School District enter into a pay-fixed, receive-variable interest rate swap.

On May 1, 2014, the option was exercised, and the School District current refunded the existing Series C of 2004 Bonds and issued Variable Rate Refunding Bonds (Series 2014A Bonds). The intention of the swap was to effectively change the School District's variable interest rate on the 2014A Bonds to a synthetic fixed rate of 5.25%. The 2014 Swap is considered to be an ineffective hedge as of year-end

Per the agreement, the School District receives interest at the variable rate of 68% of one month LIBOR while paying a fixed rate of 5.25%. The interest payments are calculated based on a notional amount which reduces so that it approximates the principal outstanding on the 2014A Bonds. The swap expires on May 1, 2027 consistent with the last principal payment on the 2014A Bonds.

Fair Value of Embedded Derivative Instruments

The mark to market value is calculated using a combination of the present value of the potential net cash flows between the two parties, calculated using relevant mid-market data inputs and based on the assumption of no unusual market conditions or forced liquidation, and an option pricing model.

NORTH ALLEGHENY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Below are the changes in fair value of the swaps during the year:

<u>Swap</u>	<u>Effective Hedge</u>	<u>June 30, 2015 Fair Value</u>	<u>Current year value change</u>	<u>June 30, 2016 Fair Value</u>
2012 swap	Yes	\$ (612,546)	\$ (214,296)	\$ (826,842)
2012A swap	Yes	(503,131)	(346,068)	(849,199)
2012B swap	Yes	(429,617)	(417,783)	(847,400)
		<u>\$ (1,545,294)</u>	<u>\$ (978,147)</u>	<u>\$ (2,523,441)</u>
2014 swap	No	<u>\$ (7,754,164)</u>	<u>\$ (1,841,747)</u>	<u>\$ (9,595,911)</u>

As the 2012, 2012A, and 2012B swaps are considered effective hedges, the aggregate change in fair market value during the year is reported as a change to deferred outflows on the statement of net position, with no impact to the current year statement of activities. The 2014 swap is considered an ineffective hedging derivative, whereby the change in fair market value will be considered a derivative investment gain or loss recognized in the statement of activities each year.

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The School District has the recurring fair value measurement as of June 30, 2016 for the swap values noted above. The swaps are valued using significant other observable inputs (Level 2 inputs).

Swap Borrowings

A portion of the upfront cash payment received by the School District at the time the original swaptions were entered into is considered to be a borrowing at the rates described below. In addition, when the School District terminated the original 2008, 2011A and 2011B swaps in October 2011 (replaced by the 2012, 2012A, and 2012B swaps), those derivative instruments had an aggregate fair value of (\$5,057,415). In order to establish the new derivative instruments, the School District effectively received additional loans from the counterparty in this amount. As of June 30, 2016, these borrowings had outstanding balances as detailed below.

NORTH ALLEGHENY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Loan	Estimated borrowing rate	June 30, 2015 of swap borrowing	Additions	Repayments	June 30, 2016 of swap borrowing
Original loans:					
2012 swap	3.63%	\$ 1,041,179	\$ -	\$ (212,813)	\$ 828,366
2012A swap	3.86%	633,016	-	(102,763)	530,253
2012B swap	4.02%	655,665	-	(80,325)	575,340
2014 swap	4.56%	3,130,983	-	(204,501)	2,926,482
New loans in 2012:					
2012 swap	4.31%	977,989	-	(186,284)	791,705
2012A swap	4.12%	1,100,485	-	(176,078)	924,407
2012B swap	4.47%	1,067,785	-	(147,281)	920,504
		<u>\$ 8,607,102</u>	<u>\$ -</u>	<u>\$ (1,110,045)</u>	<u>\$ 7,497,057</u>

Estimated future payments on the above swap borrowings are as follows:

Fiscal Year Ending June 30,	Total Principal	Total Interest
2017	\$ 1,133,064	\$ 311,515
2018	1,156,964	263,971
2019	1,164,961	215,433
2020	1,094,877	168,633
2021	840,929	123,064
2022-2026	1,799,257	248,701
2027	307,005	8,210
	<u>\$ 7,497,057</u>	<u>\$ 1,339,527</u>

NORTH ALLEGHENY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Interest Rate Swap

In November 2006, in an effort to reduce the overall yield on the School District's Series C of 2004 Bonds, the School District entered into an interest rate swap contract. Per the interest rate swap agreement, the School District was to receive interest at the variable rate of approximately 60% of 10 years USD-ISDA Swap Rate while paying a variable rate of 68% of one month LIBOR plus .30%. The interest payments are to be calculated based on an original notional amount of \$31,080,000, which has been decreasing since November 1, 2011, so that the notional amount approximates the principal outstanding on the related bonds (now the 2014A Bonds after the refunding discussed above). The swap expires on May 1, 2027, consistent with the last principal payment on the refunded bonds.

Under the interest rate swap agreement, the School District will make or receive net swap payments as required by the terms of the contract that is, receiving the variable rate as noted above for the term of the swap from the counterparty and making a variable rate payment based on 68% of one month LIBOR plus .30% to the counterparty. The School District considered this derivative investment to be an ineffective hedge.

The mark to market value is calculated using a combination of the present value of the potential net cash flows between the two parties, calculated using relevant mid-market data inputs and based on the assumption of no unusual market conditions or forced liquidation, and an option pricing model.

The School District has the recurring fair value measurement as of June 30, 2016 for the interest rate swap noted above. This swap is valued using significant unobservable inputs (Level 3 inputs).

As of June 30, 2016 and 2015, the interest rate swap was estimated to have positive fair values of \$1,089,379 and \$1,213,385, respectively.

Risks

Through the use of derivative instruments such as swaps and interest rate swaps, the School District is exposed to a variety of risks, including credit risk, interest rate risk, termination risk, market-access risk, basis risk, and liquidity/remarketing risk.

- Credit risk is the risk that the counterparty will not fulfill its obligations. As of June 30, 2016, the 2012, 2012A, 2012B, and 2014 swaps had a negative fair market value to the School District and, as such, the School District had no credit risk exposure related to these transactions; however, the 2014 interest rate swap was subject to

NORTH ALLEGHENY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

credit risk, as it had a positive fair market value. In the event that the counterparty's rating is downgraded to a certain level (and based on the fair value of the swap at the time of the downgrade) the counterparty would be required to post collateral to support its obligations under the swap.

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the School District's financial instruments or the School District's cash flows. The 2014 interest rate swap is highly sensitive to changes in interest rates; changes in the variable rate will have a material effect on the swaps' fair market value.
 - Basis risk is the risk that arises when variable interest rates on a derivative and an associated bond or other interest-paying financial instrument are based on different indexes. The School District is subject to basis risk if the interest index on the variable rate arm of the swap is based on 10 years USD-ISDA Swap Rate and the variable interest rate on the Refunding Bonds is based on a different index, such as a tax-exempt index like the Securities Industry and Financial Markets Association (SIFMA). Although expected to correlate, the relationships between different indexes vary and that variance could adversely affect the School District's calculated payments, and, as a result, cost savings or synthetic interest rates may not be realized.
 - Termination risk is the risk that a derivative's unscheduled end will affect the School District's asset/liability strategy or will present the School District with potentially significant unscheduled termination payments to the counterparty. The counterparty to the transaction does not have the ability to voluntarily terminate the swap; however, the School District is exposed to termination risk in the event that the counterparty defaults.
 - Market access risk is the risk that the School District will not be able to enter credit markets, or that credit will be more costly. The School District would be subject to market-access risk in the event that the financing is more expensive than anticipated.
 - Liquidity/Remarketing risk is the risk that if the remarketing of the variable rate debt failed, the liquidity provider would step in and own those bonds that had been tendered but failed to be remarketed. At that point, the bonds would be considered "bank bonds" and the School District would have to pay the bank rate on such bonds, and pay off the bonds in a much shorter period of time. This bank rate is sometimes much higher than the prime rate. Additionally, there is risk that the liquidity provider is unable to perform this service and the bonds would then need to be repurchased by the School District.
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NORTH ALLEGHENY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

13. CONTINGENCIES

Real Estate Tax Appeals

There is an ongoing appeal process through which a taxpayer may contest the assessed value of their property. This process could result in reductions in tax revenues and refunds of taxes previously collected. The School District has recorded an estimated liability for real estate tax refunds in the amount of approximately \$600,000 as of June 30, 2016.

Litigation

The School District is involved in claims and lawsuits incidental to its operations. In the opinion of the administration, the ultimate resolution of these matters will not have a material adverse effect on the financial position of the School District.

Government Grants

Certain grants require the fulfillment of conditions and compliance with applicable laws and regulations set forth in the grant agreements. Failure to fulfill the conditions or maintaining compliance with the aforementioned laws and regulations could result in the return of the funds to the grantors. Although this is a possibility, the School District deems the contingency remote.

**Required Supplementary
Information**

NORTH ALLEGHENY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

YEAR ENDED JUNE 30, 2016

Revenues:	Budget		Actual
	Original	Final	
Local sources:			
Real estate taxes - current	\$ 94,239,595	\$ 94,239,595	\$ 94,667,459
Public utility realty tax	124,500	124,500	119,623
Payments in lieu of current taxes	1,500	1,500	1,495
Current per capita taxes	165,000	165,000	174,029
Current Act 511 taxes - flat rate assessment	165,000	165,000	174,029
Delinquent taxes - all levies	1,432,000	1,432,000	1,316,437
Current Act 511 tax - proportional assessment	14,010,000	14,010,000	14,054,891
Special Education - Grants to State	785,000	785,000	755,186
Earnings from investments	25,479	25,479	15,367
Rental of facilities	120,000	120,000	128,989
Athletic revenues	-	-	442,141 *
Miscellaneous revenue	455,800	455,800	515,987
Total local sources	111,523,874	111,523,874	112,365,633
State sources:			
Basic instructional subsidy	9,379,650	9,379,650	8,999,873
Special education	3,810,218	3,810,218	3,721,497
Transportation	2,150,000	2,150,000	2,217,342
Rental reimbursement	2,105,600	2,105,600	1,783,479
Medical, dental, and nurses services	162,000	162,000	166,784
State property tax reduction	2,215,186	2,215,186	2,215,186
Tuition for orphans and children placed in private homes	5,500	5,500	-
Social Security reimbursements	2,510,500	2,510,500	2,471,632
Retirement reimbursements	8,655,000	8,655,000	8,603,898
Vocational education	-	-	100,500
Ready to Learn block grant	-	-	581,758
Total state sources	30,993,654	30,993,654	30,861,949
Federal sources:			
Title I - Grants to Local Educational Agencies	192,500	192,500	202,286
Title III - Language Instruction LEP/Immigrant Students	2,000	2,000	2,673
Title II - Improving Teacher Quality State Grants	119,063	119,063	122,071
Medical assistance reimbursement	765,000	765,000	761,986
Total federal sources	1,078,563	1,078,563	1,089,016
Total revenues	143,596,091	143,596,091	144,316,598

(Continued)

* Athletic Fund revenues and expenses were budgeted separately, but for financial reporting purposes are included in the General Fund.

NORTH ALLEGHENY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

(Continued)

YEAR ENDED JUNE 30, 2016

Expenditures:	Budget		Actual
	Original	Final	
Instruction:			
Regular programs	64,938,416	64,934,210	62,418,398
Special programs	16,238,677	16,238,677	16,922,413
Vocational education programs	3,129,859	3,129,409	3,087,370
Other instructional programs	54,111	54,111	43,747
Total instruction	84,361,063	84,356,407	82,471,928
Support services:			
Pupil personnel	4,730,107	4,729,602	4,764,393
Instructional staff	3,594,808	3,596,408	3,834,480
Administration	9,668,643	9,668,904	9,491,988
Pupil health	1,239,495	1,234,917	1,299,633
Business	1,800,131	1,800,131	1,772,923
Operation and maintenance of plant services	9,092,530	9,092,509	8,927,188
Student transportation services	6,059,813	6,059,813	6,555,663
Central	4,302,156	4,307,064	4,302,843
Other support services	152,285	152,285	152,080
Total support services	40,639,968	40,641,633	41,101,191
Operation of non-instructional services:			
Student activities	2,851,559	2,854,550	3,318,365 *
Community services	74,309	74,309	72,481
Total operation of non-instructional services	2,925,868	2,928,859	3,390,846
Facilities acquisition, construction, and improvement services			
	25,000	25,000	192,497
Debt service:			
Principal	8,576,284	8,576,284	8,576,284
Interest	6,007,058	6,007,058	4,788,179
Total debt service	14,583,342	14,583,342	13,364,463
Total expenditures	142,535,241	142,535,241	140,520,925
Excess (Deficiency) of Revenues Over Expenditures	1,060,850	1,060,850	3,795,673
Other Financing Sources (Uses):			
Transfer out	(1,025,850)	(1,025,850)	(1,025,850)
Proceeds from sale of assets	-	-	22,526
Refund of prior years receipts	(35,000)	(35,000)	(437,994)
Total other financing sources (uses)	(1,060,850)	(1,060,850)	(1,441,318)
Net Change in Fund Balance	\$ -	\$ -	2,354,355
Fund Balance:			
Beginning of year			15,747,941
End of year			\$ 18,102,296

(Concluded)

* Athletic Fund revenues and expenses were budgeted separately, but for financial reporting purposes are included in the General Fund. Actual expenses of \$461,880 are included in the above student activities expense line item.

Note: During the year ended June 30, 2016, expenditures exceeded appropriations in various categories noted above. These overages were funded by available fund balance and excess revenues in the current year.

NORTH ALLEGHENY SCHOOL DISTRICT

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

Last 10 Fiscal Years*

	2016	2015
School District's proportion of the net pension liability	0.5047%	0.4874%
School District's proportionate share of the net pension liability	\$ 218,612,000	\$ 192,916,000
School District's covered-employee payroll	\$ 64,939,246	\$ 62,199,314
School District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	336.6408%	310.1578%
PSERS' plan fiduciary net position as a percentage of PSERS' total pension liability	54.3600%	57.2382%

* The amounts presented for each fiscal year were determined as of the measurement date, which is June 30 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the School District is presenting information for those years only for which information is available.

SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS

Last 10 Fiscal Years**

	2016	2015
Contributions recognized by PSERS	\$ 16,570,924	\$ 14,083,000
School District's covered employee payroll	\$ 65,967,573	\$ 62,199,314
Contributions as a percentage of covered-employee payroll	25.1198%	22.6417%

** The amounts presented for each fiscal year were determined as of the fiscal year-end date. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the School District is presenting information for those years only for which information is available.

See accompanying note to required supplementary information.

NORTH ALLEGHENY SCHOOL DISTRICT

POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEBs) SCHEDULE OF FUNDING PROGRESS

YEAR ENDED JUNE 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/14	\$ -	\$ 18,922,338	\$ 18,922,338	0%	\$ 64,477,848	29.3%
7/1/12	-	16,129,404	16,129,404	0%	61,485,602	26.2%
7/1/11	-	16,188,726	16,188,726	0%	61,798,967	26.2%

See accompanying note to required supplementary information.

NORTH ALLEGHENY SCHOOL DISTRICT

POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEBs) FACTORS AND TRENDS USED IN ACTUARIAL VALUATION

YEAR ENDED JUNE 30, 2016

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Actuarial valuation date 7/1/2014

Actuarial cost method Project Unit Credit Cost

Amortization method Level Percent of Pay

Amortization period 30 years

Actuarial assumptions:

Investment rate of return 4.50%

Salary increases 4% base, with 0.25-3.0% increases varied by age

Mortality Separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit plan actuarial valuation.

Annual trend rates for OPEB Costs:

<u>Year</u>	<u>Medical/Rx</u>
2015	6.0%
2016	5.5%
2017	5.3%
2018 and later	Continues gradually decreasing each year to 4.20% in 2089 and later.

See accompanying note to required supplementary information.

NORTH ALLEGHENY SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2016

1. BUDGETARY DATA

The North Allegheny School District (School District) prepares its budget for the General Fund on the budgetary basis of accounting. This basis is consistent with the basis of accounting used in presenting the General Fund in the basic financial statements, except that: (1) any new capital leases are omitted from expenditures and omitted from proceeds from capital leases, (2) the Athletic Fund is reported as part of the General Fund but is budgeted separately from the General Fund each year, and (3) entries related to debt refundings are omitted so that all that is left in other financing sources related to the debt refunding are the cash proceeds from the issuance of the bonds.

Supplementary Information

NORTH ALLEGHENY SCHOOL DISTRICT

COMBINING BALANCE SHEET OTHER GOVERNMENTAL FUNDS

JUNE 30, 2016

	Capital Project Funds				Other Governmental Funds Total
Assets	Technology Fund	NASH/ Newman Stadium Construction Fund	Capital Reserve Fund	Capital Financing Fund	
Cash and cash equivalents	\$ 199,486	\$ 7,948	\$ 2,239,090	\$ -	\$ 2,446,524
Prepaid expense	-	-	-	-	-
Due from other funds	-	-	700	-	700
Total Assets	\$ 199,486	\$ 7,948	\$ 2,239,790	\$ -	\$ 2,447,224
Liabilities and Fund Balance					
Liabilities:					
Accounts payable and other current liabilities	\$ 3,597	\$ 7,000	\$ 548,099	\$ -	\$ 558,696
Fund Balance:					
Restricted	-	948	1,691,691	-	1,692,639
Assigned	195,889	-	-	-	195,889
Unassigned	-	-	-	-	-
Total Fund Balance	195,889	948	1,691,691	-	1,888,528
Total Liabilities and Fund Balance	\$ 199,486	\$ 7,948	\$ 2,239,790	\$ -	\$ 2,447,224

NORTH ALLEGHENY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OTHER GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2016

	Capital Project Funds				Other Governmental Funds Total
	Technology Fund	NASH Newman Stadium Construction Fund	Capital Reserve Fund	Capital Financing Fund	
Revenues:					
Local sources	\$ 185,943	\$ 2	\$ 11,956	\$ 22	\$ 197,923
Expenditures:					
Instructional	410,046	-	3,000	-	413,046
Support services	639,847	-	2,438,139	-	3,077,986
Facilities acquisition, construction, and improvement services	-	-	754,962	716,481	1,471,443
Total expenditures	1,049,893	-	3,196,101	716,481	4,962,475
Excess (Deficiency) of Revenues Over Expenditures	(863,950)	2	(3,184,145)	(716,459)	(4,764,552)
Other Financing Sources (Uses):					
Transfers in (out)	934,116	-	102,500	(10,766)	1,025,850
Proceeds from capital lease	-	-	-	730,095	730,095
Total other financing sources (uses)	934,116	-	102,500	719,329	1,755,945
Net Change in Fund Balance	70,166	2	(3,081,645)	2,870	(3,008,607)
Fund Balance:					
Beginning of year	125,723	946	4,773,336	(2,870)	4,897,135
End of year	\$ 195,889	\$ 948	\$ 1,691,691	\$ -	\$ 1,888,528

NORTH ALLEGHENY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Dates	Total Received For the Year	Accrued (Deferred) Revenue at July 1, 2015	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at June 30, 2016	Expenditures to Subrecipients
U.S. Department of Agriculture									
Passed through the Pennsylvania Department of Education:									
National School Lunch Program	10.555	n/a	7/1/14-6/30/15	\$ 85,064	\$ 85,064	\$ -	\$ -	\$ -	\$ -
National School Lunch Program	10.555	n/a	7/1/15-6/30/16	279,498	-	320,395	320,395	40,897	-
Passed through the Pennsylvania Department of Agriculture:									
National School Lunch Program (Donated Commodities)	10.555	n/a	7/1/15-6/30/16	126,610	-	126,610	126,610	-	-
Subtotal 10.555				491,172	85,064	447,005	447,005	40,897	-
School Breakfast Program	10.553	n/a	7/1/14-6/30/15	4,216	4,216	-	-	-	-
School Breakfast Program	10.553	n/a	7/1/15-6/30/16	7,671	-	9,028	9,028	1,357	-
Subtotal 10.553				11,887	4,216	9,028	9,028	1,357	-
Total U.S. Department of Agriculture/Child Nutrition Cluster				503,059	89,280	456,033	456,033	42,254	-
U.S. Department of Education									
Passed through the Pennsylvania Department of Education:									
Title I Grants to Local Educational Agencies	84.010	013-120285	7/1/14-6/30/15	20,717	5,124	15,593	15,593	-	-
Title I Grants to Local Educational Agencies	84.010	013-130285	7/1/15-6/30/16	153,695	-	186,693	186,693	32,998	-
Subtotal 84.010				174,412	5,124	202,286	202,286	32,998	-
Title II Improving Teacher Quality State Grants	84.367	020-120285	7/1/14-6/30/15	15,762	11,266	4,496	4,496	-	-
Title II Improving Teacher Quality State Grants	84.367	020-130285	7/1/15-6/30/16	95,108	-	117,575	117,575	22,467	-
Subtotal 84.367				110,870	11,266	122,071	122,071	22,467	-
Passed through the Allegheny Intermediate Unit:									
Special Education - Grants to States	84.027	n/a	7/1/15-6/30/16	616,746	-	744,623	744,623	127,877	-
English Language Acquisition Grants	84.365	n/a	7/1/14-6/30/15	-	(3,978)	2,673	2,673	(1,305)	-
English Language Acquisition Grants	84.365	n/a	7/1/15-6/30/16	4,000	-	-	-	(4,000)	-
Subtotal 84.365				4,000	(3,978)	2,673	2,673	(5,305)	-
Total U.S. Department of Education				906,028	12,412	1,071,653	1,071,653	178,037	-
Total Expenditures of Federal Awards				\$ 1,409,087	\$ 101,692	\$ 1,527,686	\$ 1,527,686	\$ 220,291	\$ -

See accompanying notes to schedule of expenditures of federal awards.

NORTH ALLEGHENY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2016

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of the North Allegheny School District (School District) under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule is presented using the modified accrual basis of accounting. Expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance. The School District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

North Allegheny School District

Independent Auditor's Reports
Required by the Uniform Guidance

Year Ended June 30, 2016

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*

Board of Directors
North Allegheny School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of North Allegheny School District (School District), Pennsylvania, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated December 9, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express

Board of Directors
North Allegheny School District
Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters

such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mahe Duessel

Pittsburgh, Pennsylvania
December 9, 2016

Independent Auditor's Report on Compliance for its Major Program and on
Internal Control over Compliance Required by the Uniform Guidance

Board of Directors
North Allegheny School District

Report on Compliance for its Major Federal Program

We have audited North Allegheny School District's (School District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the School District's major federal program for the year ended June 30, 2016. The School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the School District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on its Major Federal Program

In our opinion, the School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on the internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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

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

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

Maher Duessel

Pittsburgh, Pennsylvania
December 9, 2016

NORTH ALLEGHENY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2016

I. Summary of Audit Results

1. Type of auditor's report issued: Unmodified, prepared in accordance with Generally Accepted Accounting Principles.

2. Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered to be material weakness(es)?
 yes none reported

3. Noncompliance material to financial statements noted? yes no

4. Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered to be material weakness(es)?
 yes none reported

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

6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? yes no

7. Major Programs:

CFDA Number(s)

Name of Federal Program or Cluster

#84.027

Special Education – Grants to States (IDEA, Part B)

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

9. Auditee qualified as low-risk auditee? yes no

II. Findings related to the financial statements which are required to be reported in accordance with GAGAS.

No matters were reported.

III. Findings and questioned costs for federal awards.

No matters were reported.

NORTH ALLEGHENY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2016

NO FINDINGS IN THE PRIOR YEAR.

NO UNRESOLVED FINDINGS FROM PAST AUDITS.