

Steel Valley School District

Financial Statements and Required Supplementary and Supplementary Information

**Year Ended June 30, 2016 with
Independent Auditor's Reports**

MaherDuessel
Certified Public Accountants

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STEEL VALLEY SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2016

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Independent Auditor's Report

Board of Directors
Steel Valley 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 Steel Valley 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages i through vii and 44 through 47, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying supplementary information 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 accompanying supplementary information 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2017 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 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
January 17, 2017

**Steel Valley School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016**

Our Management's Discussion and Analysis of Steel Valley 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.

Financial Highlights

The School District's governmental activities recognized revenues of approximately \$33.5 million for fiscal year ending June 30, 2016, and net position decreased by approximately \$1.4 million.

The School District's General Fund fund balance was approximately \$6.6 million at June 30, 2016, a decrease of approximately \$410,000 from the prior year primarily due to increased expenditures.

Actual revenues exceeded budgeted revenues by \$1,760,117, or 5.7% for 2015-2016. Actual expenditures exceeded budgeted expenditures by \$1,584,637 or 5.1% for 2015-2016.

The final tax rate millage for 2016 fiscal year was 21.31, which represents no change from the 2015 fiscal year.

Using the Basic Financial Statement Report

This Basic Financial Statement Report consists of a Financial Section. Within the Financial Section is the Management's Discussion and Analysis (this section), a series of financial statements, and notes to those statements. The Statement of Net Position and Statement of Activities provide information about the activities of the School District as a whole and present a longer-term view of the School District's finances. Fund Financial Statements 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. For the School District, the General Fund, Capital Projects Fund, and the Food Service Fund are the most significant funds. Lastly, the financial statements include notes that explain some of the information in the financial statements and provide more detailed data.

Reporting the School District as a Whole

While the Fund Financial Statements contain the majority of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2016?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net position and changes in those assets. This change in net position is important because it tells the reader, for the School District as a whole, whether the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Pennsylvania restricting revenue growth, facility conditions, required educational programs, and other factors.

Overview of 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 deferred inflows of resources, with the difference reported as 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.

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

To assess the overall health of the School District, additional non-financial factors need to be considered, 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 instruction, support services, operation and maintenance of plant 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 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 Fund Statements provide a detailed short-term view of the School District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the 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 on the reconciliation in the financial statements.

Proprietary fund – This fund is used to account for the School District activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the School District charges for services it provides – whether to outside customers or to other units in the School District – these services are generally reported in proprietary funds. 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.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position – Government-Wide Financial Statements

At June 30, 2016, the value of the School District’s assets totaled \$29.1 million, of which 46.0%, or approximately \$13.4 million, consisted of cash, investments, state and federal receivables, and delinquent/lienied real estate taxes.

Deferred outflows of resources totaled \$6,351,174, which relates to the School District’s deferred outflows of resources for pension.

The liabilities total of \$61,851,156 consisted of accounts payable and other current liabilities, accrued payroll and benefits, accrued interest payable, unearned revenue, and other non-current liabilities including bonds and notes outstanding, retirement incentive, OPEB obligation, and net pension liability.

Deferred inflows of resources totaled \$237,000, which relates to the School District’s deferred inflows of resources for pension.

Total unrestricted net position is approximately (\$25.3) million, restricted net position is approximately (\$95,500) and net investment in capital assets is approximately (\$1.4) million at June 30, 2016, for a total net deficit of (\$26,620,911).

Revenues and Expenses – Government-Wide Financial Statements

Program revenues consist mainly of operating grants and contributions. Operating grants and contributions totaled \$4,519,982 and \$3,593,675 in fiscal years 2016 and 2015, respectively.

General revenues for governmental activities as displayed in the Statement of Activities for fiscal years ended June 30, 2016 and 2015 are as follows:

Description	2016	2015	Increase (Decrease)
Property taxes, levied for general purposes	\$ 12,857,919	\$ 12,964,684	\$ (106,765)
Taxes levied for general purposes	1,841,143	1,848,545	(7,402)
Grants/subsidies	12,377,227	11,820,107	557,120
Investment earnings	12,452	4,191	8,261
Miscellaneous income	1,346,254	76,293	1,269,961

Property taxes decreased by \$106,765, or 0.8%. Other taxes levied for general purposes include earned income, delinquent/lien taxes, amusement, and emergency municipal services. Grants/subsidies include basic subsidy, grants from foundations, and grants from the state and federal governments. Grants/subsidies increased by \$557,120, or 4.7% due to increased State retirement revenue. Miscellaneous revenue comes from tuition paid by other school districts for students attending the School District's schools, telephone commissions, truancy, refunds from Steel Center Vocational School for prior years, vendor contributions to the School District for allowing use of their vending machines in our school buildings, and approximately \$1.3 million in refunds received from the TIF District.

Expenses for governmental activities as displayed in the Statement of Activities for the fiscal years ended June 30, 2016 and 2015 are as follows:

Description	2016	2015	Increase (Decrease)
Instructional services	\$ 22,057,772	\$ 20,169,044	\$ 1,888,728
Support services	9,763,916	9,128,155	635,761
Non-instructional services	872,646	660,391	212,255
Debt service and authority obligations	1,068,183	834,180	234,003

Overall, the School District experienced a decrease in net position of approximately \$1.5 million in fiscal year 2016 compared to an increase in net position of \$700,000 million for fiscal year 2015.

Revenues and Expenditures – Fund Statements

The revenue of the School District for the fiscal year ended June 30, 2016 came from three sources – local, state, and federal. Revenues from local sources, which include real estate, earned income tax, delinquent/lien taxes, amusement, and other sources, accounted for \$16,689,861 of total revenue received. The major source of revenue on the local level is current year real estate taxes, which represented \$11,757,734 of the total local revenue, which exceeded budget projections by \$325,234. The revenue received from delinquent/lien real estate tax collections totaled \$1,102,546, which fell short of budget projections by \$247,454. Revenue from state sources during fiscal year 2016 totaled \$14,115,129, which was \$430,359 over budget

due to an under budgeted State share of Retirement contribution of \$280,114, or 19.2%. The major subsidies received from state sources are basic subsidy of \$8,732,335 and special education subsidy of \$1,355,534. Of the \$1,593,593 revenue from federal sources, \$734,356 is from Title I improving basic programs and Title I set aside, and \$665,371 also from Title I for the Keystones to Opportunities funding. The remaining funds represent minor grants for improving teacher quality and medical assistance.

School District revenues for the fiscal year ended June 30, 2016 were used to pay expenditures of approximately \$33.9 million for instruction, support services, student activities, community services, facilities acquisition construction and improvements services, debt service, and other financing uses. The following is a comparison of costs for the fiscal years ended June 30, 2016 and 2015:

Program	2016 Expenses	2015 Expenses	Increase/(Decrease) from Prior Year
Instruction programs	\$ 20,601,246	\$ 18,989,265	\$ 1,611,981
Support services	9,792,598	9,191,191	601,407
Non-instruction services	837,301	633,219	204,082
Debt service	1,602,480	1,535,085	67,395
Facilities/improvement	1,093,377	1,269,470	(176,093)
Refunds of prior year receipts	-	265	(265)
Other	-	7,981	(7,981)

The variances for the fiscal year 2016 compared with the prior year concerning instruction programs and support services are the result of increases in the retirement contribution rate from 21.40 to 25.84 percent, an increase of 4.44%, increased special education costs, and increased charter school costs.

Capital Project Fund activity consisted of various land and building improvements at the School District's schools totaling \$1,047,421 and other purchases of \$41,743.

Business-Type Activity

The only business-type activity of the School District is the Food Service operations. This program had revenues, operating and non-operating of \$878,629 and total operating and non-operating expenses of \$973,354 for fiscal year 2016. The cafeteria operation is designed to be self-sustaining; however, funds are provided by the General Fund whenever revenue is lagging from the state/federal subsidies. Approximately 80% of the revenue of the food service operation comes from the state and federal government. Subsidies received represent lunch and breakfasts served for free, reimbursed under the Community Eligibility Provision (CEP). For fiscal year 2016, the School District's school lunch and breakfast program operated under CEP, in which all students in the School District received free breakfast and lunch.

Capital Assets

At June 30, 2016, the School District's governmental funds had \$15,348,769 invested in a broad range of capital assets, including land, site improvements, buildings, furniture and equipment,

and vehicles. This amount represents a net increase (including additions, deletions, and depreciation) of \$597,471 or 4.1% from last year.

Government Activities
Fiscal Years Ended June 30, 2016 and 2015
Capital Assets - Net of Depreciation

	2016	2015
Land and land improvements	\$ 1,969,165	\$ 1,505,326
Buildings and building improvements	12,702,350	12,666,501
Equipment, furniture, and fixtures	532,491	545,663
Vehicles	144,763	33,808
Library and textbooks	-	-

More detailed information about our capital assets is included in Note 4 to the financial statements.

Debt Administration

As of July 1, 2015, the School District had bonds payable of \$17,548,170. During the year, the School District incurred additional accretion of \$559,580, made principal payments totaling \$1,360,000, issued notes totaling \$6,191,811, and refunded \$6,160,000 in principal on the General Obligation Bonds, Series A, B, and C of 2010. The total outstanding bonds and notes payable as of June 30, 2016 is \$16,779,561.

Outstanding Debt		
General Obligation Bond/Note	As of June 30, 2016	As of June 30, 2015
Series of 1993 Capital Appreciation	\$ 2,293,306	\$ 3,336,792
Series of 2005	8,294,444	7,961,378
Series of 2010	-	6,250,000
Series of 2015	6,191,811	-
Total	<u>\$ 16,779,561</u>	<u>\$ 17,548,170</u>

Other obligations include accrued sick leave for specific employees of the School District, pension and other post-employment benefits, and retirement incentive. More detailed information about the School District's long-term liabilities is included in Notes 5, 6, 7, 8, and 9 to the financial statements.

Major Financial Issues

At June 30, 2016, the General Fund fund balance had a surplus of approximately \$6.6 million, consisting of non-spendable of \$265,000, restricted of \$95,000, assigned of \$2,000,000, committed of \$2,000,000, and unassigned of \$2,211,064. The \$95,000 restricted is donor-

restricted for capital improvement costs, \$2,000,000 assigned was for real estate tax refunds, health insurance increases, charter school challenge to include federal fund expenditures in the tuition calculation, and for future CBA-collective bargaining agreements. The \$2,000,000 committed was for retirement (PSERS) rate increases.

Strategic Plan

The School District's strategic plan was approved by the PDE in September of 2006. The School District's mission is to educate students who come from diverse communities with an array of abilities and interests and prepare them to be the most productive citizens of tomorrow in a global marketplace. The areas which formed the School District's strategic direction include planned instruction, assessment, professional development, technology, and external partnerships.

Labor Relations

The bargaining groups for employees of the School District consist of the Steel Valley Education Association for the teachers, whose five-year contract was signed during fiscal year 2015 and ends on June 30, 2019. A second CBA with the Steel Valley Educational Support Personnel was ratified during fiscal year 2016 and ends on June 30, 2020, and covers the secretaries and the aides/paraprofessionals. A third CBA with Support Personnel Association, whose five-year contract ended on June 30, 2015, is currently in bargaining and is ongoing.

The teachers and administrative agreements provide a benefit for retirees who have retired under certain contracts, an amount of \$12,000 or \$15,000 per year for a 10-year period.

Contacting the School District's 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 the Directors' accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Mr. Edward Wehrer, Superintendent for the Steel Valley School District, 220 East Oliver Road, Munhall, PA 15120, (412) 464-3600.

STEEL VALLEY SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2016

Assets	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	\$ 9,867,366	\$ 23,133	\$ 9,890,499
Taxes receivable, net of allowance for uncollectibles	1,400,165	-	1,400,165
Accounts receivable - other	181,603	-	181,603
Internal balances	4,182	1,318	5,500
Due from other governments	1,823,802	102,638	1,926,440
Inventory	-	1,937	1,937
Other assets	-	176	176
Prepaid expenses	265,544	-	265,544
Capital assets, not being depreciated	1,453,427	-	1,453,427
Capital assets, net of accumulated depreciation	13,895,342	95,438	13,990,780
Total Assets	28,891,431	224,640	29,116,071
Deferred Outflows of Resources			
Deferred outflows of resources for pension	6,351,174	-	6,351,174
Liabilities			
Accounts payable and other current liabilities	637,267	3,293	640,560
Accrued payroll and benefits	3,418,692	-	3,418,692
Accrued interest payable	28,089	-	28,089
Unearned revenue	240,432	241	240,673
Noncurrent liabilities:			
Other noncurrent liabilities due within one year	1,518,000	-	1,518,000
Other noncurrent liabilities due in more than one year	17,164,516	-	17,164,516
OPEB obligations	202,626	-	202,626
Net pension liability	38,638,000	-	38,638,000
Total Liabilities	61,847,622	3,534	61,851,156
Deferred Inflows of Resources			
Deferred inflows of resources for pension	237,000	-	237,000
Net Position			
Net investment in capital assets	(1,529,337)	95,438	(1,433,899)
Restricted	95,467	-	95,467
Unrestricted	(25,408,147)	125,668	(25,282,479)
Total Net Position	\$ (26,842,017)	\$ 221,106	\$ (26,620,911)

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenue and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary Government:							
Governmental activities:							
Instructional services:							
Regular instruction	\$ 16,893,867	\$ -	\$ 1,528,114	\$ 195,148	\$ (15,170,605)	\$ -	\$ (15,170,605)
Special instruction	4,631,536	-	1,823,360	-	(2,808,176)	-	(2,808,176)
Vocational instruction	410,533	-	-	-	(410,533)	-	(410,533)
Other instructional programs	111,299	-	-	-	(111,299)	-	(111,299)
Nonpublic school programs	10,537	-	-	-	(10,537)	-	(10,537)
Pre-kindergarten	-	-	-	-	-	-	-
Total instructional services	22,057,772	-	3,351,474	195,148	(18,511,150)	-	(18,511,150)
Support services:							
Pupil personnel	947,879	-	-	-	(947,879)	-	(947,879)
Instructional staff	1,020,349	-	-	-	(1,020,349)	-	(1,020,349)
Administration	2,701,600	-	-	-	(2,701,600)	-	(2,701,600)
Pupil health	362,979	-	66,046	-	(296,933)	-	(296,933)
Business	453,933	-	-	-	(453,933)	-	(453,933)
Operation and maintenance of plant services	2,957,557	-	-	-	(2,957,557)	-	(2,957,557)
Student transportation services	828,432	-	168,935	-	(659,497)	-	(659,497)
Central services	467,811	-	-	-	(467,811)	-	(467,811)
Other support services	23,376	-	-	-	(23,376)	-	(23,376)
Total support services	9,763,916	-	234,981	-	(9,528,935)	-	(9,528,935)
Noninstructional services:							
Student activities	856,071	32,237	-	-	(823,834)	-	(823,834)
Community services	16,575	-	-	-	(16,575)	-	(16,575)
Total noninstructional services	872,646	32,237	-	-	(840,409)	-	(840,409)
Unallocated expenses - excluding direct expenses reported as a function above:							
Interest, amortization, and accretion on long-term debt	1,068,183	-	147,387	-	(920,796)	-	(920,796)
Total governmental activities	33,762,517	32,237	3,733,842	195,148	(29,801,290)	-	(29,801,290)

(Continued)

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

(Continued)

<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	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Business-Type Activities:							
Food services	973,354	92,319	786,140	-	-	(94,895)	(94,895)
Total Primary Government	<u>\$ 34,735,871</u>	<u>\$ 124,556</u>	<u>\$ 4,519,982</u>	<u>\$ 195,148</u>	(29,801,290)	(94,895)	(29,896,185)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					12,857,919	-	12,857,919
Taxes levied for general purposes					1,841,143	-	1,841,143
Grants, subsidies, and contributions not restricted to specific programs					12,377,227	-	12,377,227
Investment earnings					12,452	170	12,622
Miscellaneous income					1,346,254	-	1,346,254
Total general revenues					<u>28,434,995</u>	<u>170</u>	<u>28,435,165</u>
Change in Net Position					(1,366,295)	(94,725)	(1,461,020)
Net Position:							
Beginning of year					<u>(25,475,722)</u>	<u>315,831</u>	<u>(25,159,891)</u>
End of year					<u>\$ (26,842,017)</u>	<u>\$ 221,106</u>	<u>\$ (26,620,911)</u>

(Concluded)

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2016

	General Fund	Capital Projects	Total
Assets			
Cash and cash equivalents	\$ 8,279,963	\$ 1,587,403	\$ 9,867,366
Taxes receivable, net of allowance for uncollectibles	1,400,165	-	1,400,165
Accounts receivable - other	181,603	-	181,603
Due from other funds	4,182	-	4,182
Due from other governments	1,823,802	-	1,823,802
Prepaid expenses	265,544	-	265,544
Total Assets	\$ 11,955,259	\$ 1,587,403	\$ 13,542,662
Liabilities, Deferred Inflows of Resources, and Fund Balance			
Liabilities:			
Accounts payable	\$ 622,416	\$ 14,851	\$ 637,267
Accrued payroll and benefits	3,418,692	-	3,418,692
Unearned revenue	240,432	-	240,432
Total Liabilities	4,281,540	14,851	4,296,391
Deferred Inflows of Resources:			
Unavailable revenue - taxes	1,101,644	-	1,101,644
Fund Balance:			
Nonspendable	265,544	-	265,544
Restricted	95,467	-	95,467
Assigned	2,000,000	1,572,552	3,572,552
Committed	2,000,000	-	2,000,000
Unassigned	2,211,064	-	2,211,064
Total Fund Balance	6,572,075	1,572,552	8,144,627
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 11,955,259	\$ 1,587,403	\$ 13,542,662

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

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

JUNE 30, 2016

Total Fund Balance - Governmental Funds \$ 8,144,627

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$30,829,712, and the accumulated depreciation is \$15,480,943. 15,348,769

Property taxes receivable are expected to be collected, but are not considered available soon enough to pay for the current period's expenditures and, therefore, are unavailable in the funds. 1,101,644

The actuarially accrued other post-employment benefit (OPEB) obligation for the School District employees is not recorded on the fund financial statements. (202,626)

The actuarially accrued 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. (32,523,826)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the fund. Additionally, accrued interest payable is not reported as a liability in the fund. Long-term liabilities at year-end consist of:

Bonds and notes payable, net	\$ (16,779,561)	
Accrued interest on bonds	(28,089)	
Retirement incentive program	(1,202,554)	
Compensated absences	(700,401)	
	(18,710,605)	(18,710,605)

Total Net Position - Governmental Activities \$ (26,842,017)

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2016

	General Fund	Capital Projects	Total
Revenues:			
Local sources	\$ 16,687,631	\$ 2,230	\$ 16,689,861
State sources	14,115,129	-	14,115,129
Federal sources	1,593,593	-	1,593,593
Total revenues	32,396,353	2,230	32,398,583
Expenditures:			
Instructional services	20,601,246	-	20,601,246
Support services	9,792,598	-	9,792,598
Operation of noninstructional services	837,301	-	837,301
Debt service:			
Principal and interest payments	1,602,480	-	1,602,480
Capital outlay	4,213	1,089,164	1,093,377
Total expenditures	32,837,838	1,089,164	33,927,002
Excess (Deficiency) of Revenues Over Expenditures	(441,485)	(1,086,934)	(1,528,419)
Other Financing Sources (Uses):			
Interfund transfers	-	-	-
Proceeds from capital lease	-	-	-
Proceeds from refunding notes	6,191,811	-	6,191,811
Payments to refunding escrow	(6,160,000)	-	(6,160,000)
Total other financing sources (uses)	31,811	-	31,811
Net Change in Fund Balance	(409,674)	(1,086,934)	(1,496,608)
Fund Balance:			
Beginning of year	6,981,749	2,659,486	9,641,235
End of year	\$ 6,572,075	\$ 1,572,552	\$ 8,144,627

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2016

Net Change in Fund Balance - Governmental Funds \$ (1,496,608)

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 those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (net of deletions) exceeded depreciation expense:

	\$	1,206,974	
Capital outlays (net of deletions)			
Less: depreciation expense		<u>(609,503)</u>	597,471

In the statement of activities, certain operating expenses for accumulated employee benefits (vacations and sick days) 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. 307,308

The issuance of long-term obligations (e.g., bonds, leases, loans) 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. This amount is the net effect of these differences in the treatment of long-term obligations and related items. 502,486

Pension benefits not payable from current year resources are not reported as expenditures of the current year. In the statement of activities, these costs represent expenses in the current year. (1,235,178)

Some taxes and 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. Unavailable revenues increased by this amount during the year. (2,361)

The actuarially accrued other post-employment benefits (OPEB) obligation for the School District's employees is not recorded on the fund financial statements. The value of this obligation changed by this amount during the year. (39,413)

Change in Net Position of Governmental Activities \$ (1,366,295)

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2016

	Budget		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Local sources	\$ 15,553,480	\$ 15,553,480	\$ 16,687,631	\$ 1,134,151
State sources	13,684,770	13,684,770	14,115,129	430,359
Federal sources	1,397,986	1,397,986	1,593,593	195,607
Total revenues	<u>30,636,236</u>	<u>30,636,236</u>	<u>32,396,353</u>	<u>1,760,117</u>
Expenditures:				
Instructional services:				
Regular instruction	14,547,231	14,547,231	15,589,923	(1,042,692)
Special instruction	4,291,277	4,291,277	4,485,942	(194,665)
Vocational instruction	430,500	430,500	409,980	20,520
Other instructional programs	85,445	85,445	104,864	(19,419)
Nonpublic school programs	-	-	10,537	(10,537)
Pre-kindergarten	11,635	11,635	-	11,635
Total instructional services	<u>19,366,088</u>	<u>19,366,088</u>	<u>20,601,246</u>	<u>(1,235,158)</u>
Support services:				
Pupil personnel	931,702	931,702	906,099	25,603
Instructional staff	1,304,421	1,304,421	991,960	312,461
Administration	2,688,673	2,688,673	2,884,580	(195,907)
Pupil health	400,601	400,601	348,996	51,605
Business	445,916	445,916	403,019	42,897
Operation and maintenance of plant services	2,956,620	2,956,620	2,946,706	9,914
Student transportation services	767,800	767,800	820,051	(52,251)
Central services	81,800	81,800	467,811	(386,011)
Other support services	-	-	23,376	(23,376)
Total support services	<u>9,577,533</u>	<u>9,577,533</u>	<u>9,792,598</u>	<u>(215,065)</u>
Operation of noninstructional services:				
Student activities	746,380	746,380	821,340	(74,960)
Community services	7,500	7,500	15,961	(8,461)
Scholarship awards	8,310	8,310	-	8,310
Total operation of noninstructional services	<u>762,190</u>	<u>762,190</u>	<u>837,301</u>	<u>(75,111)</u>
Debt service	1,547,390	1,547,390	1,602,480	(55,090)
Capital outlay	-	-	4,213	(4,213)
Total expenditures	<u>31,253,201</u>	<u>31,253,201</u>	<u>32,837,838</u>	<u>(1,584,637)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(616,965)</u>	<u>(616,965)</u>	<u>(441,485)</u>	<u>175,480</u>
Other Financing Sources (Uses):				
Proceeds from refunding notes	-	-	6,191,811	6,191,811
Payments to refunding escrow	-	-	(6,160,000)	(6,160,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>31,811</u>	<u>31,811</u>
Net Change in Fund Balance	<u>\$ (616,965)</u>	<u>\$ (616,965)</u>	<u>\$ (409,674)</u>	<u>\$ 207,291</u>

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

STATEMENT OF NET POSITION PROPRIETARY FUND

JUNE 30, 2016

	Food Service Fund
Assets	
<hr/>	
Current assets:	
Cash and cash equivalents	\$ 23,133
Due from other governments	102,638
Due from other funds	1,318
Inventory	1,937
Other assets	176
	<hr/>
Total current assets	129,202
	<hr/>
Non-current assets:	
Capital assets	272,625
Less accumulated depreciation	(177,187)
	<hr/>
Total non-current assets	95,438
	<hr/>
Total Assets	224,640
	<hr/>
Liabilities	
<hr/>	
Accounts payable	3,293
Unearned revenue	241
	<hr/>
Total Liabilities	3,534
	<hr/>
Net Position	
<hr/>	
Net investment in capital assets	95,438
Unrestricted	125,668
	<hr/>
Total Net Position	\$ 221,106
	<hr/> <hr/>

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2016

	<u>Food Service Fund</u>
Operating Revenues:	
<u>Food service revenue</u>	<u>\$ 92,319</u>
Operating Expenses:	
Personnel services - salaries	288,102
Personnel services - employee benefits	209,314
Purchased property services	6,854
Other purchased services	1,930
Food and supplies	450,170
Depreciation	13,000
Miscellaneous	3,984
	<u>973,354</u>
Net Operating Loss	<u>(881,035)</u>
Non-Operating Revenues (Expenses):	
Interest income	170
State subsidies	88,164
Federal:	
Subsidies	630,789
Donated commodities	67,187
	<u>786,310</u>
Change in Net Position	<u>(94,725)</u>
Net Position:	
<u>Beginning of year</u>	<u>315,831</u>
End of year	<u><u>\$ 221,106</u></u>

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS PROPRIETARY FUND

YEAR ENDED JUNE 30, 2016

	Food Service Fund
Cash Flows From Operating Activities:	
Cash received from users	\$ 92,319
Cash payments to employees for services	(507,447)
Cash payments to suppliers for goods and services	(451,944)
Net cash used in operating activities	(867,072)
Cash Flows From Noncapital Financing Activities:	
State subsidies	83,859
Federal subsidies	547,378
Net cash provided by noncapital financing activities	631,237
Cash Flows From Investing Activities:	
Earnings on investments	170
Net Increase (Decrease) in Cash and Cash Equivalents	(235,665)
Cash and Cash Equivalents:	
Beginning of year	258,798
End of year	\$ 23,133
Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities:	
Net operating loss	\$ (881,035)
Adjustments to reconcile net operating loss to net cash used in operating activities:	
Depreciation	13,000
Donated commodities	67,187
Change in:	
Inventories	657
Prepaid expenses	8,773
Accounts payable	510
Other liabilities	(76,164)
Net cash used in operating activities	\$ (867,072)
Non-Cash, Non-Capital Financing Transactions:	
The Food Service Fund received donated commodities from the U.S. Department of Agriculture in the amount of \$67,115 during the year.	

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION FIDUCIARY FUNDS

JUNE 30, 2016

	Scholarship Private-Purpose Trust Fund	Activity Funds
<hr/> Assets <hr/>		
Cash and cash equivalents	\$ 39,493	\$ 302,555
<hr/> Liabilities and Net Position <hr/>		
Liabilities:		
Due to other funds	\$ 5,500	\$ -
Deposits held for others	-	302,555
Total Liabilities	<u>5,500</u>	<u>302,555</u>
Net Position:		
Held in trust for scholarships	<u>33,993</u>	<u>-</u>
Total Liabilities and Net Position	<u>\$ 39,493</u>	<u>\$ 302,555</u>

See accompanying notes to financial statements.

STEEL VALLEY SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION FIDUCIARY FUND

YEAR ENDED JUNE 30, 2016

	<u>Scholarship Private-Purpose Trust Fund</u>
Additions:	
Revenues:	
Local sources	<u>\$ 1,093</u>
Deductions:	
Current:	
Operation of noninstructional services	<u>1,908</u>
Change in Net Position	(815)
Net Position:	
Beginning of year	<u>34,808</u>
End of year	<u><u>\$ 33,993</u></u>

See accompanying notes to financial statements.

STEEL VALLEY 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

Steel Valley School District (School District) is governed by an elected nine-member Board of Directors (Board). As required by accounting principles generally accepted in the United States of America, these financial statements present the School District as the entire reporting entity (primary government and component unit). Management has addressed all potential component units. Consistent with applicable guidance, the criteria used by the School District to evaluate the possible inclusion of related entities within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given situation, the School District reviews the applicability of the following criteria:

The School District is financially accountable for:

1. Organizations that make up the legal entity.
2. Legally separate organizations if the School District Board appoints a voting majority of the organization's governing body and the School District is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the School District.
 - a. Impose its Will – If the School District can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.
 - b. Financial Benefit or Burden – Exists if the School District (1) is entitled to the organization's resources, (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization, or (3) is obligated in some manner for the debt of the organization.
3. Organizations that are fiscally dependent on the School District. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the School District.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Certain potential component units were assessed to determine if the significance of their operational or financial relationship with the School District would require inclusion in the reporting entity. The School District presently has no component units that meet the above criteria.

The Boroughs of Munhall, Homestead, and West Homestead (Boroughs) (areas served by the School District) by themselves are primary governments due to the following: the members of their governing bodies are chosen in general elections; each Borough functions as a separate legal entity; and each Borough is fiscally independent. Accordingly, the Boroughs are not a component unit of the School District.

The School District participates in two joint ventures as described in Note 12.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the School District and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally 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. Likewise, the School District is reported separately from the legally separate component unit for which the School District is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a particular function or segment. 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 function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, the proprietary fund, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major proprietary fund are reported as separate columns in the fund financial statements.

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

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 a current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. State and federal grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District. Expenditures are generally recorded when a liability is incurred, under accrual accounting. However, debt service expenditures, as well as expenditures related to pension, post-employment benefits, compensated absences and claims and judgments, are recorded only when payment is due.

Amounts reported as program revenues include 1) charges to parents for tuition, 2) operating grants and contributions as required by the Pennsylvania Department of Education, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the School District's proprietary fund are charges to students and faculty for the sale of food. Operating expenses for the proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Governmental Funds:

The School District presents the following major governmental funds:

General Fund

The General Fund is the principal operating fund of the School District that is used to account for all financial transactions except those required to be accounted for in other funds, covering the majority of School District operations.

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to be used for the acquisition, construction, or repair of major capital facilities other than those financed by the proprietary fund.

Proprietary Fund:

Enterprise (Food Service) Fund

The Enterprise Fund is used to account for the food service department operations, which are conducted on a charge for service basis in a manner similar to commercial enterprises. The School District's intent is that the costs of meals to the School District's population be recovered primarily through consumer charges and government subsidies.

Fiduciary Funds:

Scholarship Private-Purpose Trust Fund

The Scholarship Private-Purpose Trust Fund is used to account for the School District's Scholarship Trust Funds.

Agency Funds

The Student Activity Funds and the PTO Fund are custodial in nature and do not involve measurement of results of operations. These funds account for the receipt and disbursement of monies for student activity organizations and outside groups. These organizations exist with the explicit approval of, and are subject to revocation by, the Board.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the School District.

Receivables and Payables

Activity 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.”

Tax receivables are shown net of an allowance, where applicable, for uncollectible amounts. There is no allowance for the other receivables, since they are deemed fully collectible by management.

Inventory and Prepaid Items

Inventory used in governmental fund types, principally supplies, are accounted for as expenditures when purchased. Materials, supplies, and food commodities of the proprietary fund are recorded at latest invoice cost and are subsequently charged to expenditures when consumed. Amounts on hand at year-end are not significant.

Certain payments to vendors reflects costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost and donated capital assets are recorded at their fair market values at the time of donation. The School District maintains a capitalization 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 are depreciated. Depreciation is computed using the straight-line method, over the following useful lives:

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Land improvements	5 years
Buildings and improvements	20-50 years
Machinery, equipment, furniture, and vehicles	3-15 years

Deferred Inflows/Outflows of Resources

In addition to assets and liabilities, the government-wide statement of net position and/or the governmental fund balance sheet will sometimes report a separate section for deferred outflows of resources or deferred inflows of resources. These separate financial statement elements represent a consumption (acquisition) of net position and/or fund balance that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) or an inflow of resources (revenue) until then. The School District has two items that qualify for reporting in these categories:

- Unavailable revenue represents delinquent property taxes which will not be collected within the available period. This amount is reported as a deferred inflow of resources on the balance sheet.
- In conjunction with pension accounting requirements, the difference between expected and actual experience, the effect of the change in the School District's proportion, the net difference between projected and actual investment earnings, and payments made to the Public School Employees' Retirement System (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. Note 8 presents additional information about the PSERS plan.

Long-Term Obligations

In the government-wide statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums, discounts, and deferred charges on refunding are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

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.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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

It is expected that the General Fund will continue to provide funds for the debt service payments.

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 7 and 8.

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 includes prepaid expenditures.
- 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 donor restricted for capital improvements costs.
- 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. This category includes funds committed for future PSERS obligations of the School District.
- Assigned – This category represents intentions of the School District to use the funds for specific purposes. The Board delegates the authority to assign amounts to be used for specific purposes to the Business Manager. This authority is granted solely for the purpose of reporting these amounts in the annual financial statements. This category includes amounts set aside for real estate tax refunds, health insurance increases, charter school payments, future collective bargaining agreements, and amounts set aside for capital improvements costs.
- Unassigned – This category represents all other funds not otherwise defined.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

If funds are available in more than one fund balance level, the School District's policy is to use funds in the order of the most restrictive to the least restrictive.

Net Position

The government-wide and proprietary fund 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 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 – The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. As of June 30, 2016, the School District had restricted net position for funds that are donor restricted for capital improvement costs.
- Unrestricted – The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of “net investment in capital assets” or the “restricted” components of net position.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Budgets and Budgetary Accounting

The School District is required by state law to adopt an annual budget for the General Fund. The budget is presented on the modified accrual basis of accounting.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

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. A meeting of the Board is then called for the purpose of adopting the proposed budget. This meeting is held after 30 of days of public notification.
3. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board.
4. The budget must be filed with the Pennsylvania Department of Education by July 31 of the fiscal year.

The Public School Code allows the Board to authorize budget transfer amendments between functions during the year. The budget data reflected in the budgetary comparison information includes the effect of such approved budget transfer amendments. The School District's management does not have the authority to approve the budget or any budget transfer amendments. The School District's expenditures may not legally exceed the revised budget amounts by function and object. Accordingly, the legal 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 the capital projects fund is maintained through provisions of related grant agreements and bond indentures.

Expenditures in Excess of Appropriations

The School District exceeded certain budgetary appropriations in the regular instruction, special instruction, other instructional programs, nonpublic school programs, administration, student transportation services, central services, other support services, student activities, community services, debt service, and capital outlay categories of the General Fund. The excess was covered by favorable variances in state, local, and federal revenue categories, and other favorable variances in expenditure categories.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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.

Adoption of Accounting Pronouncements

Governmental Accounting Standards Board (GASB) Statement No. 79, "*Certain Investment Pools and Pool Participants*," was adopted in the current year by the School District. This statement addresses accounting and financial reporting for certain external investment pools and pool participants. This statement had no significant impact on the School District's financial statements.

Pending Pronouncements

GASB has issued several statements that will become effective in future years including Statement Nos. 74 (OPEB Plans), 75 (OPEB Employer), 77 (Tax Abatements), 78 (Pensions), 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.

2. CASH AND CASH EQUIVALENTS

Deposits

Under Section 440.1 of the Public School Code of 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 of Pennsylvania, 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 or time deposits or share accounts of institutions insured by Federal Deposit Insurance Corporation to the extent such deposits are so insured

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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

Shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933 provided (a) the funds are invested in the investments listed above, (b) the investment company is managed to maintain its share at a constant net asset value, and (c) the investment company is rated in the highest category by a nationally recognized rating agency.

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 practice. Deposits of the governmental funds are either maintained in demand deposits or savings accounts, certificates of deposit, or cash equivalents held by a Trustee of the School District. There were no deposits or investments during the year that violated 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. A portion of the School District's investments are held in U.S. Government Obligations and are therefore not exposed to this type of risk. These include investments in Pennsylvania School District Liquid Asset Fund (PSDLAF) (described below), which has 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, \$751,738 of the School District's bank balance of \$1,001,908 was exposed to custodial credit risk. Deposits are 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 a carrying amount of \$756,323 as of June 30, 2016.

Investments

PSDLAF was established as common law trusts organized under laws of the Commonwealth of Pennsylvania. Shares of the funds are offered to certain Pennsylvania school districts,

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

intermediate units, area vocational-technical schools, and municipalities. The purpose of these funds is to enable such governmental units to pool available funds for investment in instruments authorized by Section 440.1 of the Pennsylvania Public School Code of 1949, as amended. The School District's deposits in these pooled funds are not subject to direct custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. These investments are reflected as cash and cash equivalents on the balance sheet and the statement of net position. 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. The School District can withdraw funds from the external investment pools without limitations or fees upon adequate notice. Otherwise, breakage fees may be charged.

The School District's pooled investment funds consist of the above-noted PSDLAF accounts. The School District's PSDLAF investments have a maturity of less than 90 days, and a fair market value of \$10,095,495 and carrying amount of \$9,134,176 as of June 30, 2016.

Fiduciary Fund

The School District maintains bank accounts for the various student activities, PTO, and scholarship funds. The balance of these accounts is reflected in the statement of fiduciary net position. Revenues and expenditures for student activities, PTO, and the scholarship funds were \$605,632 and \$457,906, respectively, for the year ended June 30, 2016. As of June 30, 2016, \$16,875 of the various fiduciary funds' bank balances of \$101,638 was exposed to custodial credit risk. The uninsured bank balance is collateralized in accordance with Act 72 of the Pennsylvania State Legislature. The carrying amount of deposits for the fiduciary funds is \$96,463 as of June 30, 2016. Investments above include fiduciary fund fair market value of \$249,704 and a carrying amount of \$245,585 for the various student activities and PTO accounts as of June 30, 2016.

3. REAL ESTATE TAXES

Real estate taxes are levied each July 1 on the assessed value listed as of January for all real estate located in the School District. These taxes are billed and collected by elected tax collectors of the individual Boroughs within the School District. Taxes paid through August 31st are given a 2% discount. Amounts paid after October 31st are assessed a 10% penalty. Taxpayers also have the option to pay on three installments at face value. The due dates are August 31, October 31, and December 31. An outside agency collects delinquent real estate taxes and handles the property liens. The lien date is approximately two years after the taxes were originally due.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

The levy for fiscal year 2016 was based on assessed value on January 1, 2015 of approximately \$723 million. The tax rate assessed for the year ended June 30, 2016 was equal to 21.31 mills.

There is an ongoing appeal process through which a taxpayer may contest the assessed value of their property. This process could result in the reduction of future assessed values and consequently a loss of tax revenues. Due to the nature of the real estate refund process, the School District generally records refunds at the time the refunds are made back to the taxpayer. At June 30, 2016, there is one major realty assessment appeal pending that has an assessed value of \$10,723,600. The appeal is located in the TIF District and any tax refund will come from TIF funds. As indicated on page 20, the School District has assigned \$2,000,000 of fund balance; a portion of that assigned fund balance is for potential real estate tax refunds.

The real estate tax receivable amount is net of an uncollectible allowance of approximately \$4.4 million.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

4. CAPITAL ASSETS

The following represents the changes in the School District's governmental activities' capital assets:

	Balance at July 1, 2015	Additions	Deletions/ Transfers	Balance at June 30, 2016
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 1,453,427	\$ -	\$ -	\$ 1,453,427
Total capital assets, not being depreciated	1,453,427	-	-	1,453,427
Capital assets, being depreciated:				
Land and land improvements	1,423,183	528,782	-	1,951,965
Building and improvements	24,583,453	518,639	-	25,102,092
Equipment, furniture, and fixtures	1,059,867	35,185	-	1,095,052
Vehicles	152,954	124,368	-	277,322
Library and text books	949,854	-	-	949,854
Total capital assets, being depreciated	28,169,311	1,206,974	-	29,376,285
Less: accumulated depreciation for:				
Land and land improvements	(1,371,284)	(64,943)	-	(1,436,227)
Building and improvements	(11,916,952)	(482,790)	-	(12,399,742)
Equipment, furniture, and fixtures	(514,204)	(48,357)	-	(562,561)
Vehicles	(119,146)	(13,413)	-	(132,559)
Library and text books	(949,854)	-	-	(949,854)
Total accumulated depreciation	(14,871,440)	(609,503)	-	(15,480,943)
Governmental activities, capital assets, net	\$ 14,751,298	\$ 597,471	\$ -	\$ 15,348,769

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

The following represents the changes in the School District's business-type activities' capital assets:

	Balance at July 1, 2015	Additions	Deletions/ Transfers	Balance at June 30, 2016
Business-Type Activities:				
Equipment	\$ 272,625	\$ -	\$ -	\$ 272,625
Less: accumulated depreciation for:	(164,187)	(13,000)	-	(177,187)
Business-type activities, capital assets, net	<u>\$ 108,438</u>	<u>\$ (13,000)</u>	<u>\$ -</u>	<u>\$ 95,438</u>

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

Governmental Activities:

Instructional services:

Regular	\$ 520,288
Vocational	720

Support services:

Instructional staff	435
Administration	400
Operation of plant and maintenance services	67,657
Student transportation services	8,381

Noninstructional services:

Student activities	11,622
	<u>\$ 609,503</u>

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

5. LONG-TERM LIABILITIES

Long-term liabilities at June 30, 2016 are comprised of the following items:

Description	Interest Rates	Final Maturity	Amount	Due Within One Year
1993 Capital Appreciation Bonds	5.95% - 6.35%	2018	\$ 2,293,306	\$ 1,220,000
2005 Capital Appreciation Bonds	3.30% - 4.93%	2031	8,294,444	50,000
2015 General Obligation Notes	1.87%	2022	6,191,811	20,000
Total bonds and notes			<u>16,779,561</u>	<u>1,290,000</u>
Retirement incentive program	n/a	n/a	1,202,554	228,000
Compensated absences	n/a	n/a	700,401	-
Total long-term liabilities			<u>\$ 18,682,516</u>	<u>\$ 1,518,000</u>

6. BONDS AND NOTES PAYABLE

The following is a summary of bonds and notes payable transactions of the School District for the year ended June 30, 2016:

Balance at July 1, 2015	\$ 17,548,170
Accretion on capital appreciation bonds	559,580
Issuance of notes	6,191,811
Refundings	(6,160,000)
Principal payments	<u>(1,360,000)</u>
Balance at June 30, 2016	<u>\$ 16,779,561</u>

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Debt service requirements, including interest, are as follows:

<u>Years Ending June 30,</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Payment</u>
2017	\$ 1,290,000	\$ 117,207	\$ 1,407,207
2018	1,369,000	116,085	1,485,085
2019	1,446,000	102,014	1,548,014
2020	1,476,000	75,433	1,551,433
2021	1,507,000	47,936	1,554,936
2022-2026	7,003,810	24,941	7,028,751
2027-2031	6,960,000	-	6,960,000
2032	1,390,000	-	1,390,000
	<u>22,441,810</u>	<u>483,616</u>	<u>22,925,426</u>
Unaccrued interest	<u>(5,662,249)</u>	<u>5,662,249</u>	<u>-</u>
	<u>\$ 16,779,561</u>	<u>\$ 6,145,865</u>	<u>\$ 22,925,426</u>

The Series of 1993 General Obligation Bonds (1993 Bonds) were issued to finance certain capital projects and refund all Series of 1991 Bonds and a portion of the Series of 1985 Bonds. During 2004, the School District issued General Obligation Bonds, Refunding Series A, B, and C of 2003 (2003 Bonds) to refund the Current Interest portion of the 1993 Bonds. The remaining 1993 Bonds consist of Capital Appreciation Bonds with an aggregate original issuance amount of \$5,287,879 with annual maturity values of \$1,220,000 due beginning in fiscal year 2008 through fiscal year 2018 to yield rates of 5.95% to 6.35%. The Capital Appreciation Bonds accrue and compound interest on a semiannual basis and are carried at cost plus accrued interest. Total maturity value of the Capital Appreciation Bonds is \$2,440,000 as of June 30, 2016.

During fiscal year 2006, the School District issued General Obligation Bonds, Capital Appreciation Series of 2005 (2005 Bonds) in the principal amount of \$5,398,416. The bond proceeds were issued for the purpose of construction and renovation of various school facilities. Annual maturity values beginning in fiscal year 2007 through fiscal year 2032 yield rates of 3.30% to 4.93%. The 2005 Bonds accrue and compound interest on a semiannual basis and are carried at cost plus accrued interest. Total maturity value of the Capital Appreciation Bonds is \$13,810,000 as of June 30, 2016.

During fiscal year 2016, the School District issued General Obligation Notes, Series A, Series B, and Series C of 2015 (2015 Notes) in the amount of \$6,191,811. The purpose of this issue was to currently refund the General Obligation Bonds, Series A, Series B, and Series C of 2010 and to pay all costs and expenses incurred by the School District in

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

connection with the issuance of the 2015 Notes. The 2015 notes bear interest at 1.87%. The Series A and Series B of 2015 Notes are scheduled to mature on November 21, 2021, and the Series C of 2015 Note is scheduled to mature on November 21, 2022. The refunding was completed to reduce the School District's debt service payments by approximately \$216,000 and to obtain economic gain (difference between present values of old debt and new debt service payments) of approximately \$190,000. Total maturity value of the refunding notes is \$6,191,811 at June 30, 2016.

7. PENSION 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 expected to be paid 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.

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

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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 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.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Contributions

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%
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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 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.

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

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

The School District contributed approximately \$3.166 million towards pension benefits which were recognized by PSERS for the year ended June 30, 2016. Approximately \$802,000 is owed to PSERS as of June 30, 2016, which represents the School District's required contribution for the end-of-year payroll. Contributions are remitted quarterly.

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 \$1.74 million during the current year. Because the Commonwealth of Pennsylvania payments are received as a reimbursement, and are not made directly to PSERS, they do not qualify as a special funding situation.

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 \$38.638 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 .0892%, which was an increase of .0053% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School District recognized pension expense of \$4.511 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ (159,000)
Changes in proportion	3,075,000	-
Net difference between projected and actual investment earnings	-	(78,000)
School District contributions subsequent to the measurement date	3,276,174	-
Total	<u>\$ 6,351,174</u>	<u>\$ (237,000)</u>

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

\$3,276,174 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>Year Ending June 30:</u>	
2017	\$ 638,000
2018	638,000
2019	638,000
2020	<u>924,000</u>
Total	<u>\$ 2,838,000</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 at its March 11, 2011 Board meeting, 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

STEEL VALLEY SCHOOL DISTRICT

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YEAR ENDED JUNE 30, 2016

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>100.0%</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-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
School District's proportionate share of the net pension liability	\$ 47,624,000	\$ 38,638,000	\$ 31,084,000

Pension Plan Fiduciary Net Position

Detailed information about PSERS' 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.

8. OTHER POST-RETIREMENT BENEFITS (OPEBS)

Plan Description

In addition to the pension benefits previously described, the School District provides the following postemployment benefits to those who retired early from the School District prior to fiscal year 2002 with at least ten years of service:

- Teacher and administrators (options a and b): medical, term life, and accidental death and dismemberment (AD&D)
- Support staff: medical, dental, and vision

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, 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.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Details of the benefits provided are as follows:

Teachers and Administrators (Option A)

The School District provides medical, term life, and AD&D in the amount of \$30,000. Coverage ends for both retirees and spouse when retiree reaches 65. Surviving spouse is covered to age 65. Retiree pays any increase in cost after retirement. Life insurance is fully paid for by the School District. Surviving spouse is not eligible for life insurance. There are no current retirees under this option.

Teachers and Administrators (Option B)

The School District provides medical, term life, and AD&D in the amount of \$30,000. Coverage ends for both retirees and spouse when retiree reaches 65. Surviving spouse is covered to age 65. Retiree pays \$500 per year. Life insurance is fully paid for by the School District. Surviving spouse is not eligible for life insurance. There are no current retirees under this option.

Teachers and Administrators (Other than Options A & B)

Coverage ends for both retirees and spouse when retiree reaches 65. Surviving spouse is covered to age 65. Retiree pays 100% of rate for coverage tier year. There are currently fifteen retirees under this option.

Support Staff

The School District provides medical, dental, and vision coverage for three years with no retiree contribution. There are currently four retirees under this option.

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 \$10,000 for current premiums for eligible retirees. Plan members receiving benefits contributed approximately \$1,000 through their required contributions, as described above.

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

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

unfunded actuarial liabilities (or funding excess) over a closed 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		\$	138,885
Interest on net OPEB obligation			29,323
Adjustment to annual required contribution			<u>(9,259)</u>
Annual OPEB cost			158,949
Contributions made			<u>(119,536)</u>
Increase (decrease) in net OPEB obligation			39,413
Net OPEB obligation - beginning of year			<u>163,213</u>
Net OPEB obligation - end of year		\$	<u><u>202,626</u></u>

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

Fiscal Year Ending	Annual OPEB Cost	% of AOC Contributed	Net OPEB Obligation (Asset)
June 30, 2016	\$ 158,949	75.20%	\$ 202,626
June 30, 2015	133,381	82.22%	163,213
June 30, 2014	103,157	52.08%	163,213

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

- actuarial cost method – projected unit credit;
- amortization method – level dollar;
- amortization period – 30 years;
- discount rate - 3% compounded annually;
- mortality – RP-2014 Mortality Fully Generational using Projection Scale MP-2014;
- health care cost trend rates – increase of 2.8% for 2015, then 9% for 2016, with the rate decreasing by 1% each year thereafter to 5% for 2024 and later; and
- dental/vision care cost trend rates - constant increase of 5% and 3%, respectively, per year.

Changes since the July 1, 2011 valuation affecting the ARC include updates to the claim cost assumption and census to reflect current experiences, and an update to the mortality assumption from RP-2000 Mortality Project to 2015 using Projection Scale AA to RP-2014 Mortality Full Generation using Projection Scale MP-2014.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

The schedule of funding progress for the postemployment medical 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	\$ -	\$ 1,280,473	\$ 1,280,473	0.0%	1	1

1 - The School District does not offer OPEBs to any current employees; see subsequent discussion on retirement incentive program

Actuarial valuations 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 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.

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.

Retirement Incentive Program (Program)

Beginning in fiscal year 2002, any eligible employee electing to retire and participate in the Retirement Incentive Program (Program) qualifies for a \$15,000 retirement incentive each year for ten years. Beginning with the teacher contract effective July 1, 2006, the retirement incentive amount is \$12,000 for new entrants. An eligible employee is defined as anyone who (1) is fifty-five years of age or older with a minimum of ten years of service (fifteen years of service beginning with the 2015-2016 school year) with the School District or (2) who has thirty years of service or greater regardless of age; and who has attained step seventeen or greater on the School District's salary scale. Those employees who elect to participate in the Program must submit to the Superintendent, 120 days prior to the date he/she intends to retire, an irrevocable written notification that he/she will retire. At June 30,

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

2016, there were 52 retired participants in this Program. As of June 30, 2016, benefit payments have been fulfilled for 33 of those retired participants. Payments related to these benefits of \$699,000 have been made during the year ended June 30, 2016. The total obligation remaining at June 30, 2016 is approximately \$1.2 million (discounted present value) and is to be paid through fiscal year 2026. The School District's liability is measured at the discounted present value of expected future benefit payments. Included in noncurrent liabilities at June 30, 2016 are noncurrent liabilities due within one year of \$228,000 and due in more than one year of \$974,554, related to the Program.

9. ACCUMULATED COMPENSATED ABSENCES

The School District accrues for certain accumulated unused sick and vacation days. The accrual is based on sick and vacation payments that would be available to employees if they left or retired from the School District. The accrual is recorded as a long-term liability in the government-wide financial statements. As of June 30, 2016, the amount accrued for sick and vacation days is \$700,401.

10. HEALTH INSURANCE CONSORTIUM

The School District is one of fifty members of the Allegheny County Schools Health Insurance Consortium (Consortium). The Consortium is a public entity risk pool which affords health care coverage for members' employees on a pooled basis. The School District pays premiums to the Consortium based upon rates established by the trustees of the Consortium. The Consortium establishes rates with the objective of satisfying current costs and claims of covered health care services, as well as maintaining working capital requirements and a Premium Stabilization Fund for periods when actual costs of coverage exceed premiums collected from members. At the end of each fiscal year, actual claims experience is compared with premiums paid. The difference results in either a retroactive refund or charge. Included in the retroactive refund/charge is a calculation for the reserve needed to cover expenses incurred but not yet reported by health providers. Any retroactive charge may be paid from the Premium Stabilization Fund, up to ten percent of total premiums paid. The remainder may be charged to the schools. The School District paid approximately \$3.15 million to the Consortium during fiscal year 2016.

At June 30, 2016, the Consortium's net assets available for benefits approximated \$43.9 million. The School District's share of this amount is approximately \$566,000. The Consortium also maintains a portion of the Premium Stabilization Fund to cover potential future catastrophic losses. Independent insurance coverage for catastrophic losses is not maintained by the Consortium or the School District.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

11. INTERFUND RECEIVABLE AND PAYABLE

Interfund transactions at June 30, 2016 are summarized below:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Funds:		
General	\$ 4,182	\$ -
Food Service	1,318	-
Fiduciary Funds:		
Scholarship Private-Purpose Trust	-	5,500
Total	<u>\$ 5,500</u>	<u>\$ 5,500</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

12. JOINT VENTURES

The School District is one of eleven member school districts of the Steel Center Area Vocational-Technical School (Steel Center Vo-Tech). Steel Center Vo-Tech, provides vocational-technical education and training for high school students. Direct oversight of Steel Center Vo-Tech's operations is the responsibility of its Board, which consists of one representative from each participating school district. In addition, the School District is one of ten members of the Southeastern Area Special School (Southeastern). Southeastern, which provides special education and training programs for exceptional children, is controlled and governed by the Joint School Committee, which is composed of representatives from each participating school district. The School District's share of annual operating and capital costs for Steel Center Vo-Tech and Southeastern (collectively known as Special Schools) fluctuates based on the percentage enrollment in the applicable school and are reflected as expenditures of the General Fund. The School District's contributions to the Steel Center Vo-Tech and Special Schools in the current fiscal year amounted to \$10,784 and \$6,004, respectively. The School District's portion of the net current assets of the Steel Center Vo-Tech and Special Schools at June 30, 2016 is to be used to fund future years' operations and the amounts are not material to the financial statements of the School District.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Separate financial statements for the Special Schools are available at the administrative offices of the School District.

13. TAX INCREMENTAL FINANCING PROJECT

The School District, along with boroughs served by the School District and Allegheny County, have agreed to participate in a Tax Incremental Financing (TIF) Project related to commercial development for a tract of land along the Monongahela River known as the Waterfront. The taxing bodies have agreed to pay to the Waterfront Project incremental real estate tax revenues created by the Project for payment of the debt service incurred to develop the Project. Net tax revenues after debt service are shared with the participating taxing entities. Of the total real estate taxes collected, \$5,045,178 related to the TIF District. During the 2016 fiscal year, the School District recorded an additional amount of approximately \$3.40 million from their portion of net tax revenues after debt services payments were satisfied.

14. CONTINGENCIES

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.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

The School District maintains insurance through independent insurance carriers for all types of business losses. Management believes the insurance coverage is sufficient to cover the School District against potential losses. There have been no significant changes in insurance coverage from the prior fiscal year.

**Required Supplementary
Information**

STEEL VALLEY SCHOOL DISTRICT

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

Last 10 Fiscal Years¹

	2016	2015
School District's proportion of the net pension liability	0.0892%	0.0839%
School District's proportionate share of the net pension liability	\$ 38,638,000	\$ 33,209,000
School District's covered-employee payroll	\$ 11,476,022	\$ 10,704,703
School District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	336.6846%	310.2281%
PSERS' plan fiduciary net position as a percentage of PSERS' total pension liability	54.3600%	57.2382%

¹ 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 Years²

	2016	2015
Contractually required employer contribution	\$ 3,166,309	\$ 2,276,902
Contributions recognized by PSERS	3,166,309	2,276,902
Difference between contractually required employer contribution and contributions recognized by PSERS	\$ -	\$ -
School District's covered-employee payroll	\$ 12,496,470	\$ 11,429,596
Contributions as a percentage of covered-employee payroll	25.34%	19.92%

² 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 notes to required supplementary information.

STEEL VALLEY 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	\$ -	\$ 1,280,473	\$ 1,280,473	0%	1	1
7/1/11	-	1,013,249	1,013,249	0%	1	1
7/1/08	-	544,813	544,813	0%	1	1

1 - The School District does not offer OPEBs to current employees

See accompanying notes to required supplementary information.

STEEL VALLEY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2016

1. FACTORS AND TRENDS USED IN THE ACTUARIAL VALUATION FOR PENSION BENEFITS

The actuarially determined contributions are calculated as of the June 30 preceding the fiscal year in which contributions are made. That is, the contributions calculated as of the June 30, 2014 actuarial valuation were made during the fiscal year ended June 30, 2016. The following actuarial methods and assumptions were used to determine contribution rates reported in the pension required supplementary schedules:

Changes in benefit terms	None
Changes in assumptions	None
Actuarial assumptions:	
Investment rate of 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%, and merit or seniority increases of 1.50%
Benefit payments	No postretirement benefit increases assumed in the future
Multiple decrement tables	Mortality, vesting, retirement age, and withdrawal estimates are based upon tables provided by the actuary

2. FACTORS AND TRENDS USED IN THE ACTUARIAL VALUATION FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEBs)

The information presented in the OPEBs required supplementary schedule 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
Amortization method	Level Dollar
Amortization period	30 years
Actuarial assumptions:	
Investment rate of return	4.50%

STEEL VALLEY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2016

Annual trend rates for OPEB costs:

<u>Year</u>	<u>Medical</u>	<u>Dental</u>	<u>Vision</u>
2016-2017	9.0%	5.0%	3.0%
2018-2019	8.0%	5.0%	3.0%
2020-2021	7.0%	5.0%	3.0%
2022-2023	6.0%	5.0%	3.0%
2024 and after	5.0%	5.0%	3.0%

Monthly rates for July 1, 2015 – June 30, 2016:

	<u>Medical</u>	<u>Dental</u>	<u>Vision</u>
Individual	\$ 547.36	\$ 26.21	\$ 4.22
Parent/Child	1,227.20	86.18	9.96
Parent/Children	1,349.91	86.18	9.96
Husband/Wife	1,486.94	86.18	9.96
Family	1,546.01	86.18	9.96

STEEL VALLEY SCHOOL DISTRICT

COMBINING BALANCE SHEET ALL AGENCY FUNDS

JUNE 30, 2016

	<u>Student Activities</u>	<u>Middle School</u>	<u>PTO</u>	<u>Total</u>
Assets				
Cash and cash equivalents	<u>\$ 219,890</u>	<u>\$ 25,695</u>	<u>\$ 56,970</u>	<u>\$ 302,555</u>
Liabilities				
Deposits held for others	<u>219,890</u>	<u>25,695</u>	<u>56,970</u>	<u>302,555</u>
Total Liabilities	<u>\$ 219,890</u>	<u>\$ 25,695</u>	<u>\$ 56,970</u>	<u>\$ 302,555</u>

STEEL VALLEY SCHOOL DISTRICT

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES ALL AGENCY FUNDS

YEAR ENDED JUNE 30, 2016

	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2016</u>
<u>Student Activities:</u>				
Assets:				
Cash and cash equivalents	\$ 114,849	\$ 341,759	\$ 236,718	\$ 219,890
Liabilities:				
Deposits held for others	\$ 114,849	\$ 341,759	\$ 236,718	\$ 219,890
<u>Middle School:</u>				
Assets:				
Cash and cash equivalents	\$ 39,165	\$ 41,081	\$ 54,551	\$ 25,695
Liabilities:				
Deposits held for others	\$ 39,165	\$ 41,081	\$ 54,551	\$ 25,695
<u>PTO:</u>				
Assets:				
Cash and cash equivalents	\$ -	\$ 221,699	\$ 164,729	\$ 56,970
Liabilities:				
Deposits held for others	\$ -	\$ 221,699	\$ 164,729	\$ 56,970

STEEL VALLEY SCHOOL DISTRICT

SCHEDULE OF REAL ESTATE TAXES

YEAR ENDED JUNE 30, 2016

	West Homestead Borough	Munhall Borough	Homestead Borough	Total
Current Taxes				
Real Estate Valuation	\$ 162,935,025	\$ 374,992,258	\$ 186,389,445	\$ 724,316,728
Taxes Assessed:				
Real estate (21.31 mills)	\$ 3,472,145	\$ 7,991,085	\$ 3,969,344	\$ 15,432,574
Additions	-	10,128	-	10,128
Penalties	1,440	15,342	5,111	21,893
Total taxes assessed	3,473,585	8,016,555	3,974,455	15,464,595
Deductions:				
Tax collections	(3,121,299)	(6,401,326)	(3,543,497)	(13,066,122)
Homestead exemption	(148,608)	(718,515)	(99,670)	(966,793)
Exonerations	(266)	(43,679)	(6,585)	(50,530)
Discounts allowed	(58,086)	(199,963)	(61,682)	(319,731)
Total deductions	(3,328,259)	(7,363,483)	(3,711,434)	(14,403,176)
Unpaid taxes at June 30, 2016	\$ 145,326	\$ 653,072	\$ 263,021	\$ 1,061,419
Delinquent Taxes				
Delinquent taxes at July 1, 2015				\$ 5,520,025
Add: 2015 - 2016 unpaid taxes				1,061,419
Total taxes collectible				6,581,444
Deductions:				
Tax collections				(733,160)
Adjustments to face amount due to either court order, assessment change, or proof of payment				(340,062)
Total deductions				(1,073,222)
Delinquent taxes at June 30, 2016				5,508,222
Less: estimate for uncollectibles				(4,406,578)
Delinquent taxes estimated receivable at June 30, 2016				\$ 1,101,644

Note: Delinquent tax information is not available on a by Borough basis for June 30, 2016.

STEEL VALLEY SCHOOL DISTRICT

SCHEDULE OF MONTHLY REAL ESTATE TAX COLLECTIONS

YEAR ENDED JUNE 30, 2016

<u>Monthly Real Estate Tax Collections</u>	<u>West Homestead Borough</u>	<u>Munhall Borough</u>	<u>Homestead Borough</u>	<u>Total</u>
July 2015	\$ 235,837	\$ 950,392	\$ 95,940	\$ 1,282,169
August 2015	712,690	2,405,699	340,603	3,458,992
September 2015	462,413	1,232,237	206,129	1,900,779
October 2015	89,384	340,889	60,453	490,726
November 2015	63,389	354,890	23,447	441,726
December 2015 - February 2016	175,522	218,904	52,127	446,553
Total monthly collections	<u>\$ 1,739,235</u>	<u>\$ 5,503,011</u>	<u>\$ 778,699</u>	<u>\$ 8,020,945</u>
TIF District collections remitted to other entities	<u>\$ 1,382,064</u>	<u>\$ 898,315</u>	<u>\$ 2,764,798</u>	<u>\$ 5,045,177</u>

STEEL VALLEY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2016

	Budget		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Local sources:				
Current real estate taxes	\$ 11,432,500	\$ 11,432,500	\$ 11,757,734	\$ 325,234
Public utility realty tax	17,500	17,500	16,317	(1,183)
Payments in lieu of current taxes - state/local reimbursement	-	-	25,813	25,813
Current Act 511 taxes - flat rate assessments	22,980	22,980	37,286	14,306
Current Act 511 taxes - proportional assessments	1,700,000	1,700,000	1,761,727	61,727
Delinquencies on taxes levied - assessed by LEA	1,350,000	1,350,000	1,102,546	(247,454)
Earnings on investments	10,000	10,000	10,222	222
Revenues from district activities	100,000	100,000	32,237	(67,763)
Revenue from intermediary sources - pass-through funds	360,000	360,000	402,347	42,347
Rentals	10,000	10,000	23,958	13,958
Contributions/donations/grants from private sources	510,000	510,000	195,148	(314,852)
Tuition from patrons	10,000	10,000	-	(10,000)
Refunds and other miscellaneous revenue	30,500	30,500	1,322,296	1,291,796
Total local sources	<u>15,553,480</u>	<u>15,553,480</u>	<u>16,687,631</u>	<u>1,134,151</u>
State sources:				
Basic education funding (gross)	8,772,770	8,772,770	8,732,335	(40,435)
Special education funding for school aged pupils	1,305,000	1,305,000	1,355,534	50,534
Transportation (regular and additional)	135,000	135,000	168,935	33,935
Rental and sinking fund payments - building reimbursement subsidy	162,000	162,000	147,387	(14,613)
Health services (medical, dental, nurse, Act 25)	35,000	35,000	66,046	31,046
State property tax reduction allocation	968,838	968,838	993,829	24,991
Ready to learn block grant	290,000	290,000	351,062	61,062
Other state revenue not listed in the 7500 series	6,162	6,162	-	(6,162)
State share of Social Security and Medicare taxes	550,000	550,000	559,887	9,887
State share of retirement contributions	1,460,000	1,460,000	1,740,114	280,114
Total state sources	<u>13,684,770</u>	<u>13,684,770</u>	<u>14,115,129</u>	<u>430,359</u>
Federal sources:				
NCLB, Title I - Improving the Academic Achievement of the Disadvantaged	680,000	680,000	1,399,727	719,727
NCLB, Title II - Preparing, Training, and Recruitment Highly Qualified Teachers and Principals	129,000	129,000	127,828	(1,172)
Other restricted federal grants-in-aid through the Commonwealth	528,986	528,986	559	(528,427)
Medical assistance reimbursement (ACCESS) - early intervention	60,000	60,000	60,500	500
Medical assistance reimbursement for administrative claiming (quarterly)	-	-	4,979	4,979
Total federal sources	<u>1,397,986</u>	<u>1,397,986</u>	<u>1,593,593</u>	<u>195,607</u>
Other financing sources:				
Proceeds from capital lease	-	-	-	-
Proceeds from refunding notes	-	-	6,191,811	6,191,811
Total other financing sources	<u>-</u>	<u>-</u>	<u>6,191,811</u>	<u>6,191,811</u>
Total revenues	<u>30,636,236</u>	<u>30,636,236</u>	<u>38,588,164</u>	<u>7,951,928</u>
Expenditures:				
Instruction:				
Regular programs - elementary/secondary:				
Personnel services - salaries	7,745,474	7,745,474	7,904,891	(159,417)
Personnel services - employee benefits	4,574,282	4,574,282	4,433,401	140,881
Purchased professional and technical services	10,000	10,000	83,878	(73,878)
Purchased property services	113,000	113,000	132,148	(19,148)
Other purchased services	1,751,600	1,751,600	2,610,029	(858,429)
Supplies	242,725	242,725	324,966	(82,241)
Property	110,150	110,150	100,610	9,540
Total regular instruction	<u>14,547,231</u>	<u>14,547,231</u>	<u>15,589,923</u>	<u>(1,042,692)</u>
Special programs - elementary/secondary:				
Personnel services - salaries	1,401,385	1,401,385	1,495,908	(94,523)
Personnel services - employee benefits	1,023,942	1,023,942	1,022,153	1,789
Purchased professional and technical services	139,300	139,300	80,714	58,586
Other purchased services	1,703,250	1,703,250	1,874,555	(171,305)
Supplies	16,900	16,900	5,892	11,008
Property	6,500	6,500	6,720	(220)
Total special instruction	<u>4,291,277</u>	<u>4,291,277</u>	<u>4,485,942</u>	<u>(194,665)</u>

(Continued)

STEEL VALLEY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2016
(Continued)

Expenditures (Continued):	Budget		Actual	Variance with Final Budget
	Original	Final		
Instruction (continued):				
Vocational education:				
Personnel services - salaries	-	-	(1,714)	1,714
Personnel services - employee benefits	-	-	(298)	298
Other purchased services	430,500	430,500	411,992	18,508
Total vocational education	430,500	430,500	409,980	20,520
Other instructional programs - elementary/secondary:				
Personnel services - salaries	64,000	64,000	69,911	(5,911)
Personnel services - employee benefits	21,445	21,445	23,740	(2,295)
Purchased professional and technical services	-	-	9,426	(9,426)
Supplies	-	-	1,787	(1,787)
Total other instructional programs - elementary/secondary	85,445	85,445	104,864	(19,419)
Nonpublic school programs:				
Purchased professional and technical services	-	-	-	-
Pre-kindergarten:				
Purchased professional and technical services	2,580	2,580	2,800	(220)
Other purchased services	1,500	1,500	-	1,500
Supplies	7,555	7,555	7,737	(182)
Total pre-kindergarten	11,635	11,635	10,537	1,098
Total instructional services	19,366,088	19,366,088	20,601,246	(1,235,158)
Support services:				
Pupil personnel:				
Personnel services - salaries	417,887	417,887	433,036	(15,149)
Personnel services - employee benefits	280,165	280,165	283,724	(3,559)
Purchased professional and technical services	181,000	181,000	150,953	30,047
Other purchased services	3,350	3,350	3,450	(100)
Supplies	46,300	46,300	32,488	13,812
Property	3,000	3,000	2,149	851
Other objects	-	-	299	(299)
Total pupil personnel	931,702	931,702	906,099	25,603
Instructional staff:				
Personnel services - salaries	376,391	376,391	296,857	79,534
Personnel services - employee benefits	216,132	216,132	161,772	54,360
Purchased professional and technical services	183,812	183,812	239,044	(55,232)
Purchased property services	55,000	55,000	33,037	21,963
Other purchased services	20,000	20,000	20,074	(74)
Supplies	267,600	267,600	147,059	120,541
Property	183,486	183,486	93,442	90,044
Other objects	2,000	2,000	675	1,325
Total instructional staff	1,304,421	1,304,421	991,960	312,461
Administration:				
Personnel services - salaries	909,395	909,395	994,773	(85,378)
Personnel services - employee benefits	1,272,143	1,272,143	1,241,728	30,415
Purchased professional and technical services	374,350	374,350	348,611	25,739
Purchased property services	10,000	10,000	6,274	3,726
Other purchased services	63,500	63,500	58,645	4,855
Supplies	35,935	35,935	12,991	22,944
Property	5,800	5,800	310	5,490
Other objects	17,550	17,550	221,248	(203,698)
Total administration	2,688,673	2,688,673	2,884,580	(195,907)
Pupil health:				
Personnel services - salaries	189,899	189,899	143,535	46,364
Personnel services - employee benefits	107,102	107,102	82,699	24,403
Purchased professional and technical services	88,000	88,000	114,448	(26,448)
Purchased property services	-	-	329	(329)
Other purchased services	-	-	347	(347)
Supplies	10,600	10,600	7,638	2,962
Property	5,000	5,000	-	5,000
Total pupil health	400,601	400,601	348,996	51,605

(Continued)

STEEL VALLEY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2016

(Continued)

	Budget		Actual	Variance with Final Budget
	Original	Final		
Expenditures (Continued):				
Support services (continued):				
Business:				
Personnel services - salaries	237,094	237,094	231,079	6,015
Personnel services - employee benefits	174,872	174,872	158,726	16,146
Purchased professional and technical services	22,500	22,500	1,349	21,151
Other purchased services	5,150	5,150	4,877	273
Supplies	3,800	3,800	6,758	(2,958)
Property	1,750	1,750	-	1,750
Other objects	750	750	230	520
Total business	445,916	445,916	403,019	42,897
Operation and maintenance of plant services:				
Personnel services - salaries	598,914	598,914	607,626	(8,712)
Personnel services - employee benefits	452,116	452,116	435,562	16,554
Purchased professional and technical services	494,600	494,600	482,836	11,764
Purchased property services	447,485	447,485	487,216	(39,731)
Other purchased services	81,095	81,095	125,495	(44,400)
Supplies	715,265	715,265	742,018	(26,753)
Property	166,725	166,725	64,800	101,925
Other objects	420	420	1,153	(733)
Total operation and maintenance of plant services	2,956,620	2,956,620	2,946,706	9,914
Student transportation services:				
Purchased property services	87,500	87,500	65,324	22,176
Other purchased services	680,300	680,300	754,727	(74,427)
Total student transportation services	767,800	767,800	820,051	(52,251)
Central services:				
Purchased property services	-	-	60,950	(60,950)
Supplies	76,300	76,300	72,037	4,263
Property	5,500	5,500	334,824	(329,324)
Total central services	81,800	81,800	467,811	(386,011)
Other support services:				
Other purchased services	-	-	23,376	(23,376)
Total other support services	-	-	23,376	(23,376)
Total support services	9,577,533	9,577,533	9,792,598	(215,065)

(Continued)

STEEL VALLEY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2016

(Continued)

	Budget		Actual	Variance with Final Budget
	Original	Final		
Expenditures (Continued):				
Operation of noninstructional services:				
Student activities:				
Personnel services - salaries	321,355	321,355	322,015	(660)
Personnel services - employee benefits	98,250	98,250	103,518	(5,268)
Purchased professional and technical services	-	-	32,170	(32,170)
Purchased property services	-	-	-	-
Other purchased services	83,700	83,700	85,307	(1,607)
Supplies	103,875	103,875	68,743	35,132
Property	1,000	1,000	8,945	(7,945)
Other objects	138,200	138,200	200,642	(62,442)
	746,380	746,380	821,340	(74,960)
Community services:				
Personnel services - salaries	-	-	6,304	(6,304)
Personnel services - employee benefits	-	-	2,229	(2,229)
Purchased property services	-	-	490	(490)
Other purchased services	7,500	7,500	4,322	3,178
Supplies	-	-	3,774	(3,774)
Property	-	-	-	-
Other objects	-	-	(1,258)	1,258
	7,500	7,500	15,861	(8,361)
Scholarship awards:				
Other objects	8,310	8,310	100	8,210
	762,190	762,190	837,301	(75,111)
Building improvement services:				
Purchased property services	-	-	4,213	(4,213)
Other expenditures and financing uses				
Debt service:				
Other objects	1,118,740	1,118,740	1,142,022	(23,282)
Other uses of funds	428,650	428,650	6,620,458	(6,191,808)
	1,547,390	1,547,390	7,762,480	(6,215,090)
	1,547,390	1,547,390	7,762,480	(6,215,090)
	31,253,201	31,253,201	38,997,838	(7,744,637)
Excess (Deficiency) of Revenues Over Expenditures	(616,965)	(616,965)	(409,674)	207,291
Net Change in Fund Balance	(616,965)	(616,965)	(409,674)	207,291
Budgetary reserve	(500,000)	(500,000)	-	500,000
Net Change in Fund Balance After Budgetary Reserve	\$ (1,116,965)	\$ (1,116,965)	\$ (409,674)	\$ 707,291

(Concluded)

Supplementary Information

STEEL VALLEY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Federal Grantor / Pass-Through Grantor / Project Title	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Dates	Program or Award Amount	Total Received For the Year	Accrued (Unearned) Revenue at July 1, 2015	Revenue Recognized	Expenditures	Accrued (Unearned) Revenue at June 30, 2016	Passed Through to Subrecipients
<u>U.S. Department of Education</u>										
Passed Through the Pennsylvania Department of Education:										
Title I Grants to Local Educational Agencies	84.010	013-160419	7/1/15-9/30/16	\$ 670,117	\$ 497,277	\$ -	\$ 670,117	\$ 670,117	\$ 172,840	\$ -
Title I Grants to Local Educational Agencies	84.010	013-150419	7/1/14-9/30/15	671,340	172,865	110,431	32,775	32,775	(29,659)	-
Title I - Set Aside	84.010	042-150419	7/1/15-9/30/16	76,653	47,908	-	31,037	31,037	(16,871)	-
Title I - Set Aside	84.010	042-140415	7/1/14-9/30/15	83,586	4,586	(427)	427	427	(4,586)	-
Total Title I					722,636	110,004	734,356	734,356	121,724	-
Striving Readers	84.371	143-150419	10/1/15-9/30/16	528,986	396,740	-	665,371	665,371	268,631	-
Striving Readers	84.371	143-140419	10/1/14-9/30/15	505,489	42,124	42,124	-	-	-	-
Total Striving Readers					438,864	42,124	665,371	665,371	268,631	-
Improving Teacher Quality State Grants	84.367	020-160419	7/1/15-9/30/16	128,174	119,352	-	127,828	127,828	8,476	-
Improving Teacher Quality State Grants	84.367	020-150419	7/1/14-9/30/15	128,274	17,007	17,007	-	-	-	-
Improving Teacher Quality State Grants	84.367	020-140419	7/1/13-9/30/14	128,619	49,987	51,691	-	-	1,704	-
Total Improving Teacher Quality State Grants					186,346	68,698	127,828	127,828	10,180	-
Passed Through the Allegheny Intermediate Unit:										
Special Education - Preschool Grants (IDEA, Section 619)	84.173	RA 062-15-0-003	7/1/15-6/30/16	1,309	1,309	-	1,309	1,309	-	-
Special Education - Grants to States (IDEA, Part B)	84.027	RA 062-16-0-003	7/1/15-6/30/16	401,038	-	-	401,038	401,038	401,038	-
Total Special Education Cluster					1,309	-	402,347	402,347	401,038	-
English Language Acquisition Grants	84.365	n/a	7/1/15-6/30/16	559	559	-	559	559	-	-
Total U.S. Department of Education					1,349,714	220,826	1,930,461	1,930,461	801,573	-
<u>U.S. Department of Agriculture</u>										
Passed Through the Pennsylvania Department of Education:										
School Breakfast Program	10.553	365/367	7/1/15-6/30/16	n/a	93,638	2,423	109,827	109,827	18,612	-
Passed Through the Pennsylvania Department of Education:										
National School Lunch Program	10.555	362	7/1/15-6/30/16	n/a	453,739	11,757	520,962	520,962	78,980	-
Passed Through the Pennsylvania Department of Agriculture:										
National School Lunch Program (Commodities)	10.555	n/a	7/01/15-6/30/16	n/a	67,115	(313)	67,187	67,187	(241)	-
Total National School Lunch Program					520,854	11,444	588,149	588,149	78,739	-
Total Child Nutrition Cluster					614,492	13,867	697,976	697,976	97,351	-
Total U.S. Department of Agriculture					614,492	13,867	697,976	697,976	97,351	-
<u>U.S. Department of Health and Human Services</u>										
Passed Through the Allegheny Intermediate Unit:										
Medicaid Cluster:										
Medical Assistance Program	93.778	n/a	n/a	n/a	4,979	-	4,979	4,979	-	-
Total Expenditures of Federal Awards					\$ 1,969,185	\$ 234,693	\$ 2,633,416	\$ 2,633,416	\$ 898,924	\$ -

STEEL VALLEY 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 Steel Valley 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 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.

3. RECONCILIATION TO FEDERAL SUBSIDY CONFIRMATION

Amount received per SEFA	\$	1,969,185
Less:		
USDA Commodities received		(67,115)
Amounts passed through the AIU		(6,847)
Plus: amounts included on confirmation not required to be reported on SEFA:		
National School Lunch Program		22,601
School Breakfast Program		5,571
		<hr/>
Amount received per subsidy confirmation	\$	<u>1,923,395</u>

Steel Valley 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
Steel Valley 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 Steel Valley 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, and have issued our report thereon dated January 17, 2017.

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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Purpose of this Report

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

Maher Duessel

Pittsburgh, Pennsylvania
January 17, 2017

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

Board of Directors
Steel Valley School District

Report on Compliance for the Major Federal Program

We have audited the Steel Valley School District's (School District) compliance with the types of compliance requirements described in the *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 the 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

Board of Directors
Steel Valley School District
Independent Auditor's Report on Compliance for
the Major Program

compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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
January 17, 2017

STEEL VALLEY 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

10.553

Child Nutrition Cluster:

10.555

School Breakfast Program (SBP)

10.555

National School Lunch Program (NSLP)

National School Lunch Program (NSLP) (Commodities)

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.

STEEL VALLEY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2016

2015-001 – Eligibility

Federal Agency: U.S. Department of Agriculture

Program: Child Nutrition Cluster CFDA Numbers 10.553 and 10.555

Criteria: The Steel Valley School District (School District) is required to determine eligibility for free and reduced meals based on comparing the data reported by the child's household to published income eligibility guidelines in accordance with (7 CFR sections 245.2, 245.3, and 245.6; section 9(b)(1) of the NSLA (42 USC 1758 (b)(1)); sections 3(a)(6) and 4(e) of the CNA (42 USC 1772(a)(6) and 1773(e))).

Condition: During our testing of 40 student eligibility applications or direct certification support, we noted that one student was declared eligible for free breakfast and lunch, but based on their income calculation should have been declared eligible for reduced breakfast and lunch. We also noted that one student was declared eligible for reduced breakfast and lunch, but based on their income calculation should have been denied free and reduced breakfast and lunch.

Status: No similar condition noted in the current year. Effective July 1, 2015, the School District is reimbursed under the Community Eligibility Program (CEP). Under the CEP, applications for free and reduced breakfast and lunches are not required.