

**NORTHGATE SCHOOL DISTRICT**

**PITTSBURGH, PENNSYLVANIA**

**JUNE 30, 2016**

**AUDIT REPORT**

**NORTHGATE SCHOOL DISTRICT**  
**PITTSBURGH, PENNSYLVANIA**  
**TABLE OF CONTENTS**

	<b>Page</b>
Independent Auditor's Report	1 - 3
Management's Discussion & Analysis (MD&A)	i - xiii
Statement of Net Position	4
Statement of Activities	5
Balance Sheet – Governmental Funds	6
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	7
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Fund Types	8
Reconciliation of the Governmental Funds – Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	9
Statement of Net Position – Proprietary Fund Types	10
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund Types	11
Statement of Cash Flows – Proprietary Fund Types	12
Statement of Fiduciary Net Position – Fiduciary Funds	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	14
Notes to Financial Statements	15 - 39
Required Supplementary Information	40
Postemployment Benefits Other Than Pension Benefits (OPEBs) Schedule of Funding Progress	41

**NORTHGATE SCHOOL DISTRICT**  
**PITTSBURGH, PENNSYLVANIA**  
**TABLE OF CONTENTS**

	<b>Page</b>
Postemployment Benefits Other Than Pension Benefits (OPEBs) Factors and Trends Used in Actuarial Valuation	42
Schedule of District's Proportionate Share of Net Pension Liability of the Public School Employees' Retirement System (PSERS)	43
Schedule of District's Contributions to the Public School Employees' Retirement System (PSERS)	44
Notes to the Required Supplementary Information	45
Single Audit Supplementary Reports	46
List of Report Distribution	47
Schedule of Expenditures of Federal Awards	48 - 49
Notes to the Schedule of Expenditures of Federal Awards	50
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 <i>Government Auditing Standards</i>	51 - 52
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	53 - 54
Schedule of Findings and Questioned Costs	55 - 59
Summary Schedule of Prior Audit Findings	60 - 62

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Northgate School District  
591 Union Avenue  
Pittsburgh, Pennsylvania 15202

### 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 the Northgate School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Northgate 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, postemployment benefits other than pension benefits (OPEB) information, and Public School Employees' Retirement System information on pages i-xiii, 41-42, and 43-44, 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 Northgate School District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2016, on our consideration of the Northgate School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northgate School District's internal control over financial reporting and compliance.

*Cottrill, Arbutina and Assoc.*

Beaver, PA 15009  
December 28, 2016

## **NORTHGATE SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

**JUNE 30, 2016**

#### **Required Supplementary Information (RSI)**

The Management's Discussion and Analysis (MD&A) of the Northgate School District ("School District")'s financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should review the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

The Management's Discussion and Analysis is an element of the reporting model adopted by the Government Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for the State and Local Governments issued June 1999*. Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A.

#### **USING THE ANNUAL FINANCIAL AUDIT REPORT**

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

The first two statements are government-wide financial statements: the statement of net position and the statement of activities. These provide both long-term and short-term information about the School District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the School District's operations in more detail than the government-wide statements. The governmental fund statements tell how general School District services were financed in the short term as well as what remains for future spending. Proprietary fund statements offer financial information about the activities that the School District operates like a business. For our School District, this is our Food Service Fund. Fiduciary fund statements provide information about financial relationships where the School District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong. For our School District, this is our Student Activities Fund.

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

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

**NORTHGATE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

**JUNE 30, 2016**

**Figure A-1**  
**Required components of**  
**NORTHGATE SCHOOL DISTRICT'S**  
**Financial Report**

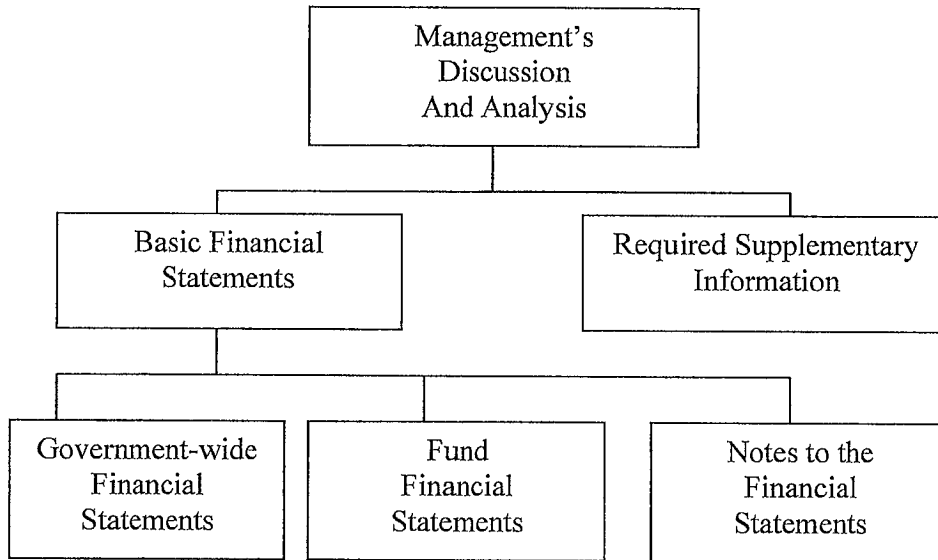


Figure A-2 summarizes the major features of the School District's financial statements, including the portion of the School District they cover and the types of information they contain. The remainder of this overview section of Management's Discussion and Analysis explains the structure and contents of each of the statements.



# NORTHGATE SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2016

<b>Figure A-2</b> <b>Major Features of Northgate School District's</b> <b>Government-Wide and Fund Financial Statements</b>				
	Government-Wide Statements	Fund Statements		
	Government-Wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School District (except fiduciary funds)	The activities of the School District that are not proprietary or fiduciary, such as education, administration, and community services	Activities the School District operates similar to private business – Food Services	Instances in which the School District is the trustee or agent to someone else's resources – Student Activities Fund
Required financial statements	Statement of Net Position Statement of Activities	Balance Sheet Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Net Position Statement of Revenues, Expenses and Changes in Fund Net Position Statement of Cash Flows	Statement of Fiduciary Net Position Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow-outflow information	All revenues and expenses during year, regardless of when cash is received or spent	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or spent	All revenues and expenses during year, regardless of when cash is received or spent

**NORTHGATE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

**JUNE 30, 2016**

**OVERVIEW OF FINANCIAL STATEMENTS**

**Government-Wide Statements**

The government-wide statements report information on the School District as a whole using accounting methods similar to those used by private-sector companies.

The statement of net position presents information on all the School District's assets, deferred outflows of resources, liabilities and deferred inflows of resources. The difference between the assets plus deferred outflows of resources less liabilities and deferred inflows of resources is reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating.

The statement of activities presents information showing how the School District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused compensation absences).

To assess the overall health of the School District, non-financial factors must be considered. These factors include changes in the School District's property tax base and the performance of students.

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

- Governmental activities – The School District's basic services include instruction, support services, administration, and community services. Property and earned income taxes, state and federal subsidies, and local grants finance most of these activities.
- Business-type activities – The School District operates a food service operation. Fees charged to staff and students as well as state and federal funding are used to cover the costs related to the food service operations.

**Fund Financial Statements**

The School District's fund financial statements, which begin on page 6, provide detailed information about the most significant funds – not the School District as a whole. Some funds are required by state law and 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 a modified accrual accounting method. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School District's operations and the services the School District provides. Governmental fund information helps the reader determine whether there are more or less financial resources that can be spent in the near future to finance the School District's instructional programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds are reflected in the reconciliation on pages 7 and 9.

# NORTHGATE SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

**JUNE 30, 2016**

Proprietary funds – These funds are 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 customers 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 proprietary fund and is the same as the business-type activities we report in the government-wide statements but provides more detail and additional information, such as cash flows.

Fiduciary funds – The School District is the trustee, or fiduciary, for the activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net position on page 13. These activities are excluded from the School District's other financial statements due to the fact that the School District cannot use these assets to finance its operations.

### FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The School District's total net position was (\$13,166,633) at June 30, 2016. This is an increase in net position from the prior year of \$2,405,567.

**Table A-1**  
**Fiscal Year Ended June 30, 2016 and 2015**  
**Net Position**

	<u><b>JUNE 30, 2016</b></u>			<u><b>JUNE 30, 2015</b></u>		
	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Current & other assets	\$ 16,617,231	\$ 200,397	\$ 16,817,628	\$ 14,552,780	\$ 172,814	\$ 14,725,594
Noncurrent assets	5,162,795	64,071	5,226,866	5,300,150	77,257	5,377,407
Total Assets	<u>\$ 21,780,026</u>	<u>\$ 264,468</u>	<u>\$ 22,044,494</u>	<u>\$ 19,852,930</u>	<u>\$ 250,071</u>	<u>\$ 20,103,001</u>
Deferred Outflows	\$ 2,355,877	\$ 0	\$ 2,355,877	\$ 1,913,898	\$ 0	\$ 1,913,898
Current & other liabilities	\$ 5,060,094	\$ 24,547	\$ 5,084,641	\$ 4,458,790	\$ 28,281	\$ 4,487,071
Long-term liabilities	30,522,363	0	30,522,363	28,830,028	0	28,830,028
Total Liabilities	<u>\$ 35,582,457</u>	<u>\$ 24,547</u>	<u>\$ 35,607,004</u>	<u>\$ 33,288,818</u>	<u>\$ 28,281</u>	<u>\$ 33,317,099</u>
Deferred Inflows	\$ 1,960,000	\$ 0	\$ 1,960,000	\$ 4,272,000	\$ 0	\$ 4,272,000
<b>NET POSITION</b>						
Net Invested in Capital Assets	\$ 1,313,600	\$ 64,071	\$ 1,377,671	\$ 980,664	\$ 77,257	\$ 1,057,921
Restricted	170,368	0	170,368	170,317	0	170,317
Unrestricted	(14,890,522)	175,850	(14,714,672)	(16,944,971)	144,533	(16,800,438)
Total Net Position	<u>\$ (13,406,554)</u>	<u>\$ 239,921</u>	<u>\$ (13,166,633)</u>	<u>\$ (15,793,990)</u>	<u>\$ 221,790</u>	<u>\$ (15,572,200)</u>

**NORTHGATE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

**JUNE 30, 2016**

Due to the implementation of GASB Statement No. 68, beginning in 2014-2015, the School District was required to recognize its portion of pension liability. As a direct result of this net pension liability, the District's Deferred Outflows of Resources increased by \$1.9 million, Deferred Inflows of Resources increased by \$4.3 million, and their net pension liabilities increased by \$27.0 million.

Current and other assets include cash and cash equivalents (money in banks and liquid investments), net taxes receivable (fund accounting includes only property and earned income taxes anticipated to be received within 60 days of the close of the fiscal year, June 30), subsidies still to be received from state and federal government, and inventories.

Capital assets include land values, site improvements, building and building improvements, furniture, and equipment (all net of amortization or depreciation).

Current liabilities include accounts payable, current portion of long-term debt, short-term payables, accrued salaries, and benefits (July and August costs for teachers who do not take "balance of contract" in June).

Long-term liabilities include bonds payable and unamortized bond discount/premium, lease purchase obligations (copiers and Act 57 improvements), long-term portion of other post-employment benefits (medical and dental insurances for retirees paid by the School District under the retirement incentive plans), and long-term portion of compensated absences (value of sick days should employees use all their accumulated entitlements).

Buildings, land, and equipment make up most of the School District's net position in the net investment in capital assets. Table A-1 shows the capital assets of the School District at cost less depreciation and does not reflect market values. The remaining net position is restricted and unrestricted amounts. Restricted net position is the amounts set aside to fund future purchases or capital projects as planned by the School District.

The results of this year's operation as a whole are reported in the statement of activities on page 5. All expenses are reported in the first column. Specific charges, grants, revenues, and subsidies that directly relate to specific expense categories are represented to determine the final amount of the School District's activities that are supported by other general revenues. The two largest general revenues are the basic education subsidy provided by the Commonwealth of Pennsylvania and local taxes assessed to the community taxpayers of the School District.

# NORTHGATE SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2016

Table A-2 takes the information from the statement of activities and rearranges it slightly so one can see our total revenues, expenses, and change to the net position for the year. Prior year information is also provided for a comparative analysis of government-wide data.

**Table A-2**

### Fiscal Year Ended June 30, 2016 Changes in Net Position

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental Activities:					
Instructional Services	\$ 12,551,309	\$ 3,789,093	\$ (8,762,216)	\$ 0	\$ (8,762,216)
Support Services	6,337,013	771,012	(5,566,001)	0	(5,566,001)
Non-Instructional	<u>983,077</u>	<u>61,303</u>	<u>(921,774)</u>	<u>0</u>	<u>(921,774)</u>
Total Governmental Activities	\$ 19,871,399	\$ 4,621,408	\$ (15,249,991)	\$ 0	\$ (15,249,991)
Business-type Activities:					
Food Services	<u>670,535</u>	<u>688,666</u>	<u>0</u>	<u>18,131</u>	<u>18,131</u>
Total:	<u>\$ 20,541,934</u>	<u>\$ 5,310,074</u>	<u>\$ (15,249,991)</u>	<u>\$ 18,131</u>	<u>\$ (15,231,860)</u>
<b>General Revenues</b>					
Local property taxes			\$ 10,227,693	\$ 0	\$ 10,227,693
Property tax relief			697,588	0	697,588
Other local taxes			2,815,157	0	2,815,157
Refunds of prior years receipts			(113,267)	0	(113,267)
Refunds of prior years expenditures			22,445	0	22,445
Grants, subsidies, contributions not restricted			3,954,273	0	3,954,273
Investment earnings			15,731	0	15,731
Miscellaneous income			17,807	0	17,807
Transfers			<u>0</u>	<u>0</u>	<u>0</u>
Total			<u>\$ 17,637,427</u>	<u>\$ 0</u>	<u>\$ 17,637,427</u>
Change in Net Position			\$ 2,387,436	\$ 18,131	\$ 2,405,567
Net Position-Beginning			<u>(15,793,990)</u>	<u>221,790</u>	<u>(15,572,200)</u>
Net Position-Ending			<u>\$ (13,406,554)</u>	<u>\$ 239,921</u>	<u>\$ (13,166,633)</u>

**NORTHGATE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

**JUNE 30, 2016**

**Table A-2-continued**  
**Fiscal Year Ended June 30, 2015**  
**Changes in Net Position**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental Activities:					
Instructional Services	\$ 11,431,057	\$ 3,532,153	\$ (7,898,904)	\$ 0	\$ (7,898,904)
Support Services	6,350,642	703,742	(5,646,900)	0	(5,646,900)
Non-Instructional	963,499	179,526	(783,973)	0	(783,973)
Total Governmental Activities	\$ 18,745,198	\$ 4,415,421	\$ (14,329,777)	\$ 0	\$ (14,329,777)
Business-type Activities:					
Food Services	665,632	653,543	0	(12,089)	(12,089)
Total:	<u>\$ 19,410,830</u>	<u>\$ 5,068,964</u>	<u>\$ (14,329,777)</u>	<u>\$ (12,089)</u>	<u>\$ (14,341,866)</u>
<b>General Revenues</b>					
Local property taxes			\$ 10,317,062	\$ 0	\$ 10,317,062
Property tax relief			697,639	0	697,639
Other local taxes			2,945,288	0	2,945,288
Refunds of prior years receipts			(200,904)	0	(200,904)
Refunds of prior years expenditures			61,858	0	61,858
Grants, subsidies, contributions			3,841,199	0	3,841,199
Investment earnings			8,360	0	8,360
Miscellaneous income			81,419	0	81,419
Transfers			0	0	0
Total			<u>\$ 17,751,921</u>	<u>\$ 0</u>	<u>\$ 17,751,921</u>
Change in Net Position			\$ 3,422,144	\$ (12,089.00)	\$ 3,410,055
Net Position-Beginning			10,249,866	233,879	10,483,745
Prior Period Adjustment			(29,466,000)	0	(29,466,000)
Net Position-Beginning Restated			<u>\$ (19,216,134)</u>	<u>\$ 233,879</u>	<u>\$ (18,982,255)</u>
Net Position-Ending			<u>\$ (15,793,990)</u>	<u>\$ 221,790</u>	<u>\$ (15,572,200)</u>

Table A-3 shows the School District's largest functions: instruction, instructional student support, administrative and financial support, operation and maintenance of plant, pupil transportation, student activities, community services, interest on long-term debt and capital outlay as well as each program's net cost (total cost less revenues generated by the activities). This table also shows the net costs offset by the other unrestricted grants, subsidies, and unrestricted contributions to show the remaining financial needs supported by local tax efforts and other miscellaneous revenues. Prior year information is again provided to allow for a comparative analysis.

**NORTHGATE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

**JUNE 30, 2016**

**Table A-3**  
**Fiscal Year Ended June 30, 2016 & 2015**  
**Governmental Activities**

<u>Functions/Programs</u>	<u>2016 Total Cost of Service</u>	<u>2016 Net Cost of Service</u>	<u>2015 Total Cost of Service</u>	<u>2015 Net Cost of Service</u>
Instruction	\$ 12,551,309	\$ 8,762,216	\$ 11,431,057	\$ 7,898,904
Instructional Student Support	1,850,946	1,543,388	1,995,344	1,717,981
Administrative	2,075,415	1,896,703	1,996,402	1,843,670
Operation and Maintenance	1,827,314	1,680,044	1,870,247	1,726,154
Pupil Transportation	583,338	445,866	488,649	359,095
Student Activities	431,001	377,152	411,983	369,453
Community Services	65,172	57,718	117,648	111,301
Interest on Long-Term Debt	279,517	279,517	313,154	182,505
Capital Outlay	207,387	207,387	120,714	120,714
<b>Total Governmental Activities</b>	<b>\$ 19,871,399</b>	<b>\$ 15,249,991</b>	<b>\$ 18,745,198</b>	<b>\$ 14,329,777</b>
Less:				
Grants, Subsidies Not Restricted		3,954,273		3,841,199
<b>Total Needs from Local Taxes and Other Revenues</b>		<b>\$ 11,295,718</b>		<b>\$ 10,488,578</b>

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

**Table A-4**  
**Fiscal Year Ended June 30, 2016 & 2015**  
**Business Activity/Food Service**

<u>Functions/Programs</u>	<u>2016 Total Cost of Service</u>	<u>2016 Net Cost of Service</u>	<u>2015 Total Cost of Service</u>	<u>2015 Net Cost of Service</u>
Food Services	\$ 670,535	\$ 18,131	\$ 665,632	\$ (12,089)
Plus: Investment Earnings	0	0	0	0
Plus: Transfers	0	0	0	0
<b>Total Business - Type Activities</b>	<b>\$ 670,535</b>	<b>\$ 18,131</b>	<b>\$ 665,632</b>	<b>\$ (12,089)</b>

The statement of revenues, expenses, and changes in fund net position for the Food Service program will further detail the actual results of operations.

**NORTHGATE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

**JUNE 30, 2016**

**CAPITAL ASSETS**

At June 30, 2016, the School District's governmental activities had \$5,162,795 invested in a broad range of capital assets, including land, buildings, and furniture and equipment. The change in capital assets is mostly due to depreciation expense of approximately \$472,000 and around \$43,000 of building improvements, \$16,000 of site improvements, and \$275,000 of additional furniture and equipment during the fiscal year.

**Table A-5**  
**Governmental Activities**  
**Capital Assets – Net of Depreciation**  
**Fiscal Year Ended June 30, 2016 & 2015**

	<u>2016</u>	<u>2015</u>
Land	\$ 821,234	\$ 821,234
Site Improvements	169,019	168,799
Buildings	2,552,691	2,721,403
Furniture & Equipment	<u>1,619,851</u>	<u>1,588,714</u>
<b>Total Capital Assets</b>	<b><u>\$ 5,162,795</u></b>	<b><u>\$ 5,300,150</u></b>

At June 30, 2016, the School District's business-type activities had \$64,071 invested in buildings and furniture and equipment. The change in capital assets is mostly due to depreciation expense of approximately \$15,000 and equipment additions of around \$2,300 during the June 30, 2016 year.

**Table A-5-continued**  
**Business-type Activities**  
**Capital Assets – Net of Depreciation**  
**Fiscal Year Ended June 30, 2016 & 2015**

	<u>2016</u>	<u>2015</u>
Land	\$ 0	\$ 0
Site Improvements	0	0
Buildings	28,776	40,175
Furniture & Equipment	<u>35,295</u>	<u>37,082</u>
<b>Total Capital Assets</b>	<b><u>\$ 64,071</u></b>	<b><u>\$ 77,257</u></b>

More detailed information regarding the School District's capital assets is included in Note 7 to the financial statements.



**NORTHGATE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

**JUNE 30, 2016**

**DEBT ADMINISTRATION**

As of July 1, 2015, the School District had total outstanding debt of \$4,471,219, which includes the School District's share, in the amount of \$519,040, of the A. W. Beattie Career Center Project and \$154,572 in compensated absences and retirement incentives. During 2015-2016, the School District made payments in the amount of \$28,000 towards the A. W. Beattie Career Center Project and also made payments against principal of \$700,000 and an increase of \$257,708 in the Capital Appreciation Bond resulting in ending outstanding debt at June 30, 2016 of \$4,044,655.

**Table A-6**  
**Outstanding Debt**  
**Fiscal Year Ended June 30, 2016 & 2015**

	<u>2016</u>	<u>2015</u>
General Obligation Notes/Bonds:		
Bonds, Series of 2008	\$ 491,040	\$ 519,040
Capital Appreciation Bonds: 1997 B	3,358,156	3,800,447
Deferred Amounts for Discount/Premium	(2,375)	(2,840)
Compensated Absences/Retirement	<u>197,834</u>	<u>154,572</u>
<b>Total</b>	<u><b>\$ 4,044,655</b></u>	<u><b>\$ 4,471,219</b></u>

More detailed information regarding the School District's debt is included in Note 9 to the financial statements.

**2015-2016 BUDGET**

The revenue budget for the 2015-2016 fiscal year is \$814,983 more than the original budget for 2014-2015. This represents a 3.98% increase in budgeted revenues, which is mostly due to the increases in basic education funding and state share of retirement contributions during the 2015-2016 fiscal year. The expenditure budget for the 2015-2016 year is \$564,660 less than the original budget for 2014-2015 fiscal year, or a 2.54% decrease. This decrease is mostly due to changes in regular and special programs.

The comparison of budget revenue and expenditure categories is as follows:

**Table A-7**  
**BUDGETED REVENUES**

	<u>2016</u>	<u>2015</u>
Local	59.49%	61.10%
State	35.92%	34.52%
Federal/Other	4.59%	4.38%

**NORTHGATE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

**JUNE 30, 2016**

**Table A-7-continued**  
**BUDGETED EXPENDITURES**

	<u>2016</u>	<u>2015</u>
Instruction Services	60.56%	61.12%
Support Services	31.63%	30.85%
Non-Instruction/Community	2.95%	2.97%
Facilities Acquisition/Improvement	0.46%	0.68%
Debt Service/Transfers	4.40%	4.38%

**FINANCIAL HIGHLIGHTS**

The School District audit reflected a general fund balance of \$9,393,752 at fiscal year end June 30, 2016, and \$7,690,556 at fiscal year end June 30, 2015, which is an increase of \$1,703,196.

During the June 30, 2016 fiscal year, federal subsidies increased by \$46,859 while state subsidies increased by \$287,139. A decrease in real estate taxes accounted for most of the remaining overall decrease in general fund local revenues over the prior year by \$129,968.

A construction project at A.W. Beattie Career Center required a bond issue by the nine participating school districts during the June 30, 2009 fiscal year. Northgate's share of the cost was \$668,480 over 20 years. The principal payment of \$28,000 was paid during the June 30, 2016 fiscal year. At June 30, 2016, the School District's balance was \$491,040.

Expenditures were 5.29% under the budgeted amount, caused mostly by cost savings in instructional regular, special program and pupil personnel services expenditures.

Actual expenses were up 2.70% over 2014-2015. This was a result of increases in expenditures in the facilities acquisition and instructional programs for Pre-Kindergarten.

Actual revenues were higher than 2015-2016 budgeted revenues by 4.17% and were more than 2014-2015 actual revenues by 0.93%. This was a result of higher than anticipated collection of federal and state revenues.

The Northgate Board of School Directors has for many years approved a budget adequate to cover necessary expenditures, but which is not necessarily a commitment to spend. Administrators and staff are directed to continue careful evaluation of expenditures throughout the year. When revenues meet or exceed what is anticipated and budgeted, spending less than budgeted contributes even more to the fund balance and provides capital for improvements, which are the foundations of fiscal health.

Rebuilding the fund balance and preparing for major capital expenses is not a small thing for a school district with no industry, little commercial developments, nor land for residential development. Maintaining the quality level of education and the wide variety of extra-curricular and athletic opportunities available to the students of Avalon and Bellevue are of paramount

**NORTHGATE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

**JUNE 30, 2016**

importance. Providing that in a safe and healthy environment with a secure future is a goal of the Northgate School District.

The School District's business-type activities net position increased \$18,131, including \$15,451 of depreciation expense.

**SUMMARY**

With no expectation of future growth given the residential nature of the communities of Avalon and Bellevue and the fact that both have been fully developed for decades, the Northgate School District has successfully executed its strategy to rebuild an unrestricted fund balance and set aside money for unexpected and foreseeable capital improvements.

The School District is actively preparing for unexpected and proposed capital projects each year. In order to fund these projects without the need for additional borrowing issues or tax increases, the School District has established the Capital Reserve Fund and makes transfers from the available fund balance of the General Funds when possible. In addition, the Board has budgeted additional monies in a capital projects line item in the general operating budget.

Northgate School District continues to budget for significant increases in health benefit costs, retirement contributions, and increases in the cost of transportation and charter schools. Special education costs are dependent upon the type of students enrolled in the School District each year, and enrollment or withdrawal of a severely handicapped student would cause this expenditure to fluctuate. As previously reported, the School District budgets to meet anticipated expenditures, but does not necessarily spend all budgeted revenue.

Also, the School District applies for federal, state, and local grants, which cannot always be anticipated in the budgeting process. When grant applications are funded, this revenue is above and beyond what was estimated to pay for budgeted expenses. While these grants frequently cannot be used to "supplant" programs we would provide but instead "supplement," the money can impact the fund balance.

**CONTACTING THE DISTRICT FINANCIAL MANAGEMENT**

This 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's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Christopher J. Ursu, Director of Finance and Operations, at Northgate School District, 591 Union Avenue, Pittsburgh, PA 15202-2958, or e-mail at [cursu@northgate.k12.pa.us](mailto:cursu@northgate.k12.pa.us).

## NORTHGATE SCHOOL DISTRICT

## STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 10,201,819	\$ 164,485	\$ 10,366,304
Taxes Receivable, net			
Property Taxes	5,175,381	0	5,175,381
Earned Income Taxes	182,717	0	182,717
Internal Balances	36,778	(36,778)	0
Intergovernmental Receivables	780,129	52,969	833,098
Other Receivables	130,113	0	130,113
Inventories	110,294	19,721	130,015
<b>Total Current Assets</b>	<b>\$ 16,617,231</b>	<b>\$ 200,397</b>	<b>\$ 16,817,628</b>
<b>Noncurrent Assets</b>			
Land	\$ 821,234	\$ 0	\$ 821,234
Site Improvements (net of depreciation)	169,019	0	169,019
Building & Building Improvements (net of depreciation)	2,552,691	28,776	2,581,467
Furniture & Equipment (net of depreciation)	1,619,851	35,295	1,655,146
<b>Total Noncurrent Assets</b>	<b>\$ 5,162,795</b>	<b>\$ 64,071</b>	<b>\$ 5,226,866</b>
<b>TOTAL ASSETS</b>	<b>\$ 21,780,026</b>	<b>\$ 264,468</b>	<b>\$ 22,044,494</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to Pensions	\$ 2,355,877	\$ 0	\$ 2,355,877
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 2,355,877</b>	<b>\$ 0</b>	<b>\$ 2,355,877</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts Payable	\$ 497,222	\$ 24,547	\$ 521,769
Short-Term Payables	4,373	0	4,373
Accrued Salaries and Benefits	1,480,207	0	1,480,207
Bonds Payable - Current	722,415	0	722,415
Net Pension Liability - Current	2,355,877	0	2,355,877
<b>Total Current Liabilities</b>	<b>\$ 5,060,094</b>	<b>\$ 24,547</b>	<b>\$ 5,084,641</b>
<b>Noncurrent Liabilities</b>			
Bonds Payable - Long Term	\$ 3,126,781	\$ 0	\$ 3,126,781
Unamortized Bond Discount/Premium	(2,375)	0	(2,375)
Other Post-Employment Benefits - Long Term	149,801	0	149,801
Net Pension Liability - Long Term	27,185,123	0	27,185,123
Other Long Term Liabilities	15,000	0	15,000
Compensated Absences - Long Term	48,033	0	48,033
<b>Total Noncurrent Liabilities</b>	<b>\$ 30,522,363</b>	<b>\$ 0</b>	<b>\$ 30,522,363</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 35,582,457</b>	<b>\$ 24,547</b>	<b>\$ 35,607,004</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to Pensions	\$ 1,960,000	\$ 0	\$ 1,960,000
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 1,960,000</b>	<b>\$ 0</b>	<b>\$ 1,960,000</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	\$ 1,313,600	\$ 64,071	\$ 1,377,671
Restricted for:			
Capital Reserves	170,368	0	170,368
Unrestricted (deficit)	(14,890,522)	175,850	(14,714,672)
<b>TOTAL NET POSITION</b>	<b>\$ (13,406,554)</b>	<b>\$ 239,921</b>	<b>\$ (13,166,633)</b>

See Accompanying Notes to Financial Statements

**NORTHGATE SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental Activities:</b>							
Instruction:							
Regular Instruction	\$ 8,159,554	\$ 0	\$ 2,144,427	\$ 0	\$ (6,015,127)	\$ 0	\$ (6,015,127)
Special Instruction	2,502,494	0	1,349,623	0	(1,152,871)	0	(1,152,871)
Vocational Instruction	787,740	0	43,477	0	(744,263)	0	(744,263)
Other Instructional Programs	775,735	0	72,445	0	(703,290)	0	(703,290)
Pre-Kindergarten	325,786	0	179,121	0	(146,665)	0	(146,665)
Total Instructional Services	\$ 12,551,309	\$ 0	\$ 3,789,093	\$ 0	\$ (8,762,216)	\$ 0	\$ (8,762,216)
Support Services:							
Pupil Personnel	\$ 858,577	\$ 0	\$ 92,958	\$ 0	\$ (765,619)	\$ 0	\$ (765,619)
Instructional Staff	415,668	0	25,030	0	(390,638)	0	(390,638)
Administration	1,644,903	0	146,658	0	(1,498,245)	0	(1,498,245)
Pupil Health	289,626	0	59,499	0	(230,127)	0	(230,127)
Business Services	430,512	0	32,054	0	(398,458)	0	(398,458)
Operation of Plant and Maintenance Services	1,827,314	23,075	124,195	0	(1,680,044)	0	(1,680,044)
Student Transportation Services	583,338	0	137,472	0	(445,866)	0	(445,866)
Central and Other Support Services	287,075	0	130,071	0	(157,004)	0	(157,004)
Total Support Services	\$ 6,337,013	\$ 23,075	\$ 747,937	\$ 0	\$ (5,566,001)	\$ 0	\$ (5,566,001)
Non-Instructional Services:							
Student Activities	\$ 431,001	\$ 26,189	\$ 27,660	\$ 0	\$ (377,152)	\$ 0	\$ (377,152)
Community Services	65,172	0	7,454	0	(57,718)	0	(57,718)
Interest on Long-Term Debt	279,517	0	0	0	(279,517)	0	(279,517)
Capital Outlay (Not subject to capitalization)	207,387	0	0	0	(207,387)	0	(207,387)
Unallocated Depreciation Expense	0	0	0	0	0	0	0
Total Non-Instructional Services	\$ 983,077	\$ 26,189	\$ 35,114	\$ 0	\$ (921,774)	\$ 0	\$ (921,774)
<b>Total Governmental Activities</b>	<b>\$ 19,871,399</b>	<b>\$ 49,264</b>	<b>\$ 4,572,144</b>	<b>\$ 0</b>	<b>\$ (15,249,991)</b>	<b>\$ 0</b>	<b>\$ (15,249,991)</b>
<b>Business-Type Activities:</b>							
Food Services	670,535	262,814	425,852	0	0	18,131	18,131
<b>Total Primary Government</b>	<b>\$ 20,541,934</b>	<b>\$ 312,078</b>	<b>\$ 4,997,996</b>	<b>\$ 0</b>	<b>\$ (15,249,991)</b>	<b>\$ 18,131</b>	<b>\$ (15,231,860)</b>
<b>General Revenues:</b>							
Taxes:							
Property Taxes, Levied for General Purposes, Net					\$ 10,227,693	\$ 0	\$ 10,227,693
Property Tax Relief					697,588	0	697,588
Other Taxes Levied for General Purposes, Net					2,815,157	0	2,815,157
Refunds of Prior Year Receipts					(113,267)	0	(113,267)
Refunds of Prior Year Expenditures					22,445	0	22,445
Grants, Subsidies & Contributions Not Restricted					3,954,273	0	3,954,273
Investment Earnings					15,731	0	15,731
Miscellaneous Income					17,807	0	17,807
Transfers					0	0	0
<b>Total General Revenues and Transfers</b>					<b>\$ 17,637,427</b>	<b>\$ 0</b>	<b>\$ 17,637,427</b>
<b>Change in Net Position</b>					<b>\$ 2,387,436</b>	<b>\$ 18,131</b>	<b>\$ 2,405,567</b>
<b>Net Position - Beginning of Year</b>					<b>\$ (15,793,990)</b>	<b>\$ 221,790</b>	<b>\$ (15,572,200)</b>
<b>Net Position - End of Year</b>					<b>\$ (13,406,554)</b>	<b>\$ 239,921</b>	<b>\$ (13,166,633)</b>

See Accompanying Notes to Financial Statements

**NORTHGATE SCHOOL DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**

**JUNE 30, 2016**

	<u>General</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 10,201,819	\$ 10,201,819
Taxes Receivable:		
Property Taxes	5,175,381	5,175,381
Earned Income Taxes	182,717	182,717
Interfund Receivables	36,778	36,778
Intergovernmental Receivables	780,129	780,129
Other Receivables	130,113	130,113
<b>TOTAL ASSETS</b>	<u>\$ 16,506,937</u>	<u>\$ 16,506,937</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 497,222	\$ 497,222
Accrued Salaries & Benefits	1,480,207	\$ 1,480,207
Other Long Term Liabilities	15,000	\$ 15,000
<b>TOTAL LIABILITIES</b>	<u>\$ 1,992,429</u>	<u>\$ 1,992,429</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable Revenue - Property Taxes	\$ 5,120,756	\$ 5,120,756
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>\$ 5,120,756</u>	<u>\$ 5,120,756</u>
<b>FUND BALANCES</b>		
Non-Spendable:	\$ 0	\$ 0
Spendable:		
Restricted	0	0
Committed	0	0
Assigned-Next Year Appropriations	201,384	201,384
Assigned-PSERS & Other Post-Employment Benefits	7,250,000	7,250,000
Assigned-Capital Reserves	170,368	170,368
Unassigned	1,772,000	1,772,000
<b>TOTAL FUND BALANCES</b>	<u>\$ 9,393,752</u>	<u>\$ 9,393,752</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 16,506,937</u>	<u>\$ 16,506,937</u>

See Accompanying Notes to Financial Statements

**NORTHGATE SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**

**JUNE 30, 2016**

**TOTAL FUND BALANCES - GOVERNMENTAL FUNDS** **\$ 9,393,752**

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

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

Add: Capital Assets	16,339,905
Deduct: Accumulated Depreciation	(11,177,110)

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

Add: Property Taxes	5,120,756
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Some liabilities, including net pension obligations, are not due and payable  
in the current period and, therefore, are not reported in governmental funds

Deduct: Net Pension Liability	(29,541,000)
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Deferred outflows and inflows or resources related to pensions are applicable  
to future periods and, therefore, are not reported in governmental funds

Add: Deferred Outflows of Resources Related to Pensions	\$ 2,355,877	
Deduct: Deferred Inflows of Resources Related to Pensions	<u>(1,960,000)</u>	
		395,877

The government funds follow the purchase method of inventory; therefore, no inventory is reflected on the balance sheet. However, the Statement of Net Position uses the consumption method of inventory.	110,294
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Long-term liabilities, including bonds payable, are not due and payable  
in the current period, and therefore are not reported as liabilities in  
the funds. Long-term liabilities at year end consist of:

Deduct: Notes Payable	\$ (3,849,196)	
Add: Unamortized Discount/Premium	2,375	
Deduct: Accrued Interest on Debt	(4,373)	
Deduct: Compensated Absences and Other Post-Employment Benefit	<u>(197,834)</u>	
		<u>(4,049,028)</u>

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES** **\$ (13,406,554)**

See Accompanying Notes to Financial Statements

**NORTHGATE SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

**GOVERNMENTAL FUND TYPES**

**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>General</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>		
Local Sources	\$ 13,220,394	\$ 13,220,394
State Sources	7,753,969	7,753,969
Federal Sources	1,190,218	1,190,218
<b>TOTAL REVENUES</b>	<u>\$ 22,164,581</u>	<u>\$ 22,164,581</u>
<b>EXPENDITURES</b>		
Instruction	\$ 12,482,562	\$ 12,482,562
Support Services	6,448,643	6,448,643
Non-Instructional Services	505,984	505,984
Capital Outlay	183,826	183,826
Debt Services	749,548	749,548
<b>TOTAL EXPENDITURES</b>	<u>\$ 20,370,563</u>	<u>\$ 20,370,563</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>\$ 1,794,018</u>	<u>\$ 1,794,018</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Refund of Prior Year Receipts	\$ (113,267)	\$ (113,267)
Refund of Prior Year Expenditures	22,445	22,445
Transfers Out	0	0
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ (90,822)</u>	<u>\$ (90,822)</u>
<b>NET CHANGE IN FUND BALANCES</b>	\$ 1,703,196	\$ 1,703,196
<b>FUND BALANCES - JUNE 30, 2015</b>	<u>7,690,556</u>	<u>7,690,556</u>
<b>FUND BALANCES - JUNE 30, 2016</b>	<u>\$ 9,393,752</u>	<u>\$ 9,393,752</u>

See Accompanying Notes to Financial Statements



**NORTHGATE SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

**NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS** **\$ 1,703,196**

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

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

Capital Outlays	\$ 334,539	
Less: Depreciation Expense	<u>(471,894)</u>	(137,355)

Because some property and earned income taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues increased by this amount this year. 185,076

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

District Pension Contributions	\$ 2,355,877	
Less: Cost of Benefits Earned Net of Employee Contributions	<u>(2,148,898)</u>	206,979

The governmental funds use the purchase method of inventory, where all items purchased are charged as expenditures. However, the Statement of Activities is reflected on the consumption method of recording inventory items; therefore, this adjustment reflects the inventory difference. 2,771

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

Accretion of Bonds	\$ (257,708)	
Repayment of Bond Principal	728,000	
Interest Expense	203	
Amortization of Bond Premium/Discount	<u>(464)</u>	470,031

In the Statement of Activities, certain operating expenses-compensated absences and other post-employment benefits-are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). During this year, the total amount of the liability increased by this amount. (43,262)

**CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES** **\$ 2,387,436**

See Accompanying Notes to Financial Statements

**NORTHGATE SCHOOL DISTRICT**

**STATEMENT OF NET POSITION**

**PROPRIETARY FUND TYPES**

**JUNE 30, 2016**

	<u><b>Food Service</b></u>
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash and Cash Equivalents	\$ 164,485
Intergovernmental Receivables	52,969
Inventories	19,721
<b>Total Current Assets</b>	<u>\$ 237,175</u>
<b>Noncurrent Assets:</b>	
Building & Building Improvements (net)	\$ 28,776
Machinery & Equipment (net)	35,295
<b>Total Noncurrent Assets</b>	<u>\$ 64,071</u>
<b>TOTAL ASSETS</b>	<u>\$ 301,246</u>
<b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Accounts Payable	\$ 24,547
Due To Other Funds	36,778
<b>Total Current Liabilities</b>	<u>\$ 61,325</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 61,325</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	\$ 64,071
Unrestricted	175,850
<b>TOTAL NET POSITION</b>	<u>\$ 239,921</u>

See Accompanying Notes to Financial Statements

**NORTHGATE SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUND TYPES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Food Service</u>
<b>OPERATING REVENUES:</b>	
Food Service Revenue	\$ 262,814
<b>TOTAL OPERATING REVENUES</b>	<u>\$ 262,814</u>
<b>OPERATING EXPENSES:</b>	
Purchased Professional and Technical Service	\$ 612,607
Supplies	42,235
Depreciation	15,451
<b>TOTAL OPERATING EXPENSES</b>	<u>\$ 670,293</u>
<b>OPERATING INCOME (LOSS)</b>	<u>\$ (407,479)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
State Sources	\$ 19,876
Federal Sources	405,976
Bank Fees	(242)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u>\$ 425,610</u>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS</b>	\$ 18,131
Operating Transfers In (Out)	<u>0</u>
<b>CHANGE IN NET POSITION</b>	\$ 18,131
<b>TOTAL NET POSITION - JUNE 30, 2015</b>	<u>221,790</u>
<b>TOTAL NET POSITION - JUNE 30, 2016</b>	<u>\$ 239,921</u>

See Accompanying Notes to Financial Statements

**NORTHGATE SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND TYPES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Food Service</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Users	\$ 262,814
Cash Payments to Suppliers for Goods and Services	<u>(631,629)</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ (368,815)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
State Sources	\$ 19,505
Federal Sources	<u>398,093</u>
<b>NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES</b>	<u>\$ 417,598</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of Capital Asset	\$ <u>(2,265)</u>
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>\$ (2,265)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Bank Fees	\$ <u>(242)</u>
<b>NET CASH PROVIDED (USED) FROM INVESTING ACTIVITIES</b>	<u>\$ (242)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	\$ 46,276
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>118,209</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 164,485</u>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u></b>	
<b>Operating Income (Loss)</b>	\$ <u>(407,479)</u>
Depreciation and Net Amortization	\$ 15,451
<b>Change in Assets and Liabilities</b>	
(Increase) Decrease in Inventories	(1,333)
(Increase) Decrease in Due From Other Funds	(8,498)
Increase (Decrease) in Due To Other Funds	36,778
Increase (Decrease) in Accounts Payable	<u>(3,734)</u>
<b>Total Adjustments</b>	<u>\$ 38,664</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ (368,815)</u>

See Accompanying Notes to Financial Statements

**NORTHGATE SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2016**

	<b>Student Activities <u>Fund</u></b>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ <u>9,907</u>
<b>TOTAL ASSETS</b>	\$ <u>9,907</u>
<b>LIABILITIES</b>	
Due to Student Groups	\$ <u>9,907</u>
<b>TOTAL LIABILITIES</b>	\$ <u>9,907</u>
<b>TOTAL NET POSITION</b>	\$ <u>0</u>

See Accompanying Notes to Financial Statements

NORTHGATE SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variance with	Budget to	Actual
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)	GAAP Difference	Amounts GAAP Basis
<b>REVENUES</b>						
Local Revenues	\$ 12,657,214	\$ 12,657,214	\$ 13,220,394	\$ 563,180	\$ 0	\$ 13,220,394
State Program Revenues	7,642,277	7,642,277	7,753,969	111,692	0	7,753,969
Federal Program Revenues	977,453	977,453	1,190,218	212,765	0	1,190,218
<b>TOTAL REVENUES</b>	<b>\$ 21,276,944</b>	<b>\$ 21,276,944</b>	<b>\$ 22,164,581</b>	<b>\$ 887,637</b>	<b>\$ 0</b>	<b>\$ 22,164,581</b>
<b>EXPENDITURES</b>						
Regular Programs	\$ 8,404,203	\$ 8,404,203	\$ 8,049,611	\$ 354,592	\$ 0	\$ 8,049,611
Special Programs	2,897,782	2,897,782	2,528,290	369,492	0	2,528,290
Vocational Programs	850,075	850,075	792,066	58,009	0	792,066
Other Instructional Programs	797,133	797,133	782,775	14,358	0	782,775
Instructional Programs for Pre-Kindergarten	149,256	149,256	329,820	(180,564)	0	329,820
Pupil Personnel Services	1,107,011	1,107,011	869,917	237,094	0	869,917
Instructional Staff Services	575,493	575,493	496,800	78,693	0	496,800
Administrative Services	1,646,160	1,646,160	1,658,928	(12,768)	0	1,658,928
Pupil Health	299,918	299,918	293,247	6,671	0	293,247
Business Services	459,266	459,266	441,807	17,459	0	441,807
Operation & Maintenance of Plant Services	1,852,767	1,852,767	1,815,018	37,749	0	1,815,018
Student Transportation Services	620,759	620,759	582,650	38,109	0	582,650
Central & Other Support Services	278,989	278,989	290,276	(11,287)	0	290,276
Student Activities	484,214	484,214	439,868	44,346	0	439,868
Community Services	153,193	153,193	66,116	87,077	0	66,116
Facilities Acquisition and Construction	100,000	100,000	183,826	(83,826)	0	183,826
Debt Services	751,368	751,368	749,548	1,820	0	749,548
<b>TOTAL EXPENDITURES</b>	<b>\$ 21,427,587</b>	<b>\$ 21,427,587</b>	<b>\$ 20,370,563</b>	<b>\$ 1,057,024</b>	<b>\$ 0</b>	<b>\$ 20,370,563</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ (150,643)	\$ (150,643)	\$ 1,794,018	\$ 1,944,661	\$ 0	\$ 1,794,018
<b>OTHER FINANCING SOURCES (USES)</b>						
Refund of Prior Year Receipts	\$ (200,000)	\$ (200,000)	\$ (113,267)	\$ 86,733	\$ 0	\$ (113,267)
Refund of Prior Year Expenditures	0	0	22,445	22,445	0	22,445
Transfers Out	0	0	0	0	0	0
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ (200,000)</b>	<b>\$ (200,000)</b>	<b>\$ (90,822)</b>	<b>\$ 109,178</b>	<b>\$ 0</b>	<b>\$ (90,822)</b>
Net Change in Fund Balances	\$ (350,643)	\$ (350,643)	\$ 1,703,196	\$ 2,053,839	\$ 0	\$ 1,703,196
<b>FUND BALANCES - JUNE 30, 2015</b>	<b>3,882,632</b>	<b>3,882,632</b>	<b>7,690,556</b>	<b>3,807,924</b>	<b>0</b>	<b>7,690,556</b>
<b>FUND BALANCES - JUNE 30, 2016</b>	<b>\$ 3,531,989</b>	<b>\$ 3,531,989</b>	<b>\$ 9,393,752</b>	<b>\$ 5,861,763</b>	<b>\$ 0</b>	<b>\$ 9,393,752</b>

**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2016**

**NOTE 1 - REPORTING ENTITY**

The Northgate School District ("School District") is organized under Title 24 of the Pennsylvania Statutes. The School District provides educational services as authorized by state statute and/or federal guidelines.

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

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

The Allegheny County Intermediate Unit and the A.W. Beattie Career Center were considered as possible component units, but were excluded based on the above criteria.

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

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

**A. Basis of Presentation**

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

*Government-wide financial statements* - The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are

**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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

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

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

**B. Measurement Focus/Basis of Accounting**

*Fund Accounting*

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement, arbitrage rebates, and post-employment healthcare benefits, are recorded only when payment is due. Property taxes and interest associated with past and current fiscal periods are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period if they are collected within 60 days of the end of the current fiscal period. All other property taxes



**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

associated with past and current fiscal periods are deferred in the Governmental fund financial statements.

The School District reports the following major governmental funds:

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

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

The School District reports the following major proprietary funds:

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

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

The School District reports the following Fiduciary Funds:

Student Activity Fund is an agency fund which is used to account for net position held in a purely custodial capacity for specific other persons or organizations or governments.

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

**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**C. Budgetary Process**

The School District passed an appropriated budget for the fiscal year ending June 30, 2016 with revenues totaling \$21,276,944 and expenditures totaling \$21,627,587. The budget was balanced with the prior year fund balance.

The School District is required by state law to adopt an annual budget for the General Fund only. The budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles (GAAP). The state does not require any other funds to have an annual budget adopted; therefore, no budgetary comparisons schedules are shown except for the General Fund.

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

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

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

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

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

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

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

**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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

**D. Cash, Cash Equivalents, and Investments**

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

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

**E. Interfund Balances**

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

**F. Inventories**

On government-wide statements, inventories are stated at cost using the purchase method. The purchase method means that food products, materials, and supplies are charged as expenses when acquired. Inventory on hand at the end of the year is then recorded as an asset by offsetting the appropriate expense account. The inventory for governmental activities at June 30, 2016 is \$110,294, and the inventory for business-type activities at June 30, 2016 is \$19,721.

On fund financial statements, inventories are stated at cost using the purchase method for proprietary funds. The inventory for Business-type Activities at June 30, 2016 is \$19,721. Inventories are not maintained in governmental funds for fund financial statement reporting.

**G. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets

**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$1,500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

**H. Compensated Absences/Retirement Incentives**

*Compensated Absences*

The School District employees accrue sick leave and personal leave annually. The liability recorded in the government wide statement of net position is based on the employees' contract rate and accumulated days as of June 30, 2016. Compensated Absences for governmental activities at June 30, 2016 is \$48,033.

*Retirement Incentives*

The School District measured and recognized an "other post-employment benefit" (OPEB) liability in accordance with provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions*. This statement provides guidance on accounting and financial reporting for "other post-employment benefits" accounted for in financial statements of plan sponsors and employers. OPEB refers to non-pension benefits provided after the termination of employment. One example of this type of benefit is healthcare insurance premiums paid by employers on behalf of former employees. Governmental entities have traditionally accounted for OPEB on a pay-as-you-go basis. The guidance in this statement rests on the assumption that OPEB should be accrued as service is provided by employees. More information on these liabilities is included later in these notes.

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

**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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

**I. Accrued Liabilities and Long-Term Obligations**

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

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

**J. Net Position**

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

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

Net Investment in Capital Assets - The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds, that is directly attributable to the acquisition, construction, or improvement of these capital assets.

**K. Use of Estimates**

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

**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDING JUNE 30, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**L. Bond Discount and Premium**

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

**M. Fund Balance**

The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) and is effective for reporting periods after June 15, 2010. The intention of the GASB Statement is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the School District's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

GASB 54 provides for two major types of fund balances: non-spendable and spendable. Non-spendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items and inventories.

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

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

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

*Assigned* - Fund balances that contain self-imposed constraints of the government to be used for a particular purpose. As of June 30, 2016, the Board of Directors has given authorization to the Director of Finance and Operations to assign portions of the fund balance.

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

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

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

**N. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position and/or balance sheet includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of*

**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District reported \$2,355,877 in the Governmental Activities as deferred outflows of resources related to pension.

In addition to liabilities, the statement of net position and/or the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District reported \$1,960,000 in the Governmental Activities as deferred inflows of resources related to pension. The District also had \$5,120,756 of deferred inflows of resources from unavailable property tax revenue reported on the balance sheet as of June 30, 2016.

**O. Pensions**

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

**NOTE 3 - CASH / INVESTMENTS**

**Custodial Credit Risk – Deposits**

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. As of June 30, 2016, the School District does not have a formal policy for custodial credit risk. As of June 30, 2016, \$4,780,868 of the School District's bank balance of \$5,047,100 was exposed to custodial credit risk as:

Uninsured and uncollateralized	\$ 0
Collateralized with securities held by the pledging financial institution	\$ 0
Uninsured and collateral held by the pledging bank's trust department not in the School District's name	\$ 4,780,868

**Other Deposits**

As of June 30, 2016, the School District had the following other deposits in the Pennsylvania School District Liquid Asset Fund (PSDLAF) and the Pennsylvania Local Government Investment Trust (PLGIT) which were established as common law trusts, organized under laws of the Commonwealth of Pennsylvania. Shares of the funds are offered to certain Pennsylvania school districts, intermediate units, area vocational-technical schools and municipalities. The purpose of the funds is to enable such governmental units to pool their available funds for investments

**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2016**

**NOTE 3 - CASH / INVESTMENTS - CONTINUED**

authorized by Section 440.1 of the Pennsylvania Public School Code of 1949 as amended. These funds have the characteristics of open-end mutual funds and are not subject to credit risk classification. PSDLAF and PLGIT are governed by an elected board of trustees who are responsible for the overall management of them. The trustees are elected from the several classes of local governments participating in them. Each fund is audited annually by independent auditors. The Funds operate in a manner consistent with the SEC's Rule 2(a)7 of the Investment Company Act of 1940. The funds use amortized cost to report net position to compute share prices. The Funds maintain a net asset value of \$1 per share. Accordingly, the fair value of the position in PSDLAF and PLGIT is the same as the value of PSDLAF and PLGIT shares.

Separate financial reports for PSDLAF and PLGIT are prepared in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Copies of these reports can be obtained by contacting PSDLAF or visiting [www.psdlaf.com](http://www.psdlaf.com) and contacting PLGIT or visiting [www.plgit.com](http://www.plgit.com).

As of June 30, 2016, the School District had the following other deposits:

<u>Type</u>	<u>Fair Value</u>	<u>Standard &amp; Poor's Rating</u>
PA School District Liquid Asset Fund	\$ 5,492,891	AAAm
PA Local Government Investment Trust	<u>20,004</u>	AAAm
Total	<u>\$ 5,512,895</u>	

**Reconciliation to Financial Statements**

Uninsured Amount Above	\$ 4,780,868
Insured Amount Above	266,232
Other Deposits Above	<u>5,512,895</u>
Carrying Amount - Bank Balances	\$ 10,559,995
Less: Outstanding Items	(185,334)
Petty Cash	1,550
Less: Fiduciary Funds	<u>(9,907)</u>
Total	<u>\$ 10,366,304</u>

**Interest Rate Risk**

As of June 30, 2016, the School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty,



**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2016**

**NOTE 3 - CASH / INVESTMENTS - CONTINUED**

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

**Statutory Authority**

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

According to Section 440.1(c) of the Pennsylvania School Code authorizes the types of investments school districts may have are as follows:

- United States Treasury bills
- Short-term obligations of the United States Government or its agencies or instrumentalities. (*Short-term obligations* usually refer to investments of less than 13 months)
- Deposits in savings accounts or time deposits or share accounts of institutions insured by:
  - The Federal Deposit Insurance Corporation (FDIC); or
  - The Federal Savings and Loan Insurance Corporation; or
  - The National Credit Union Share Insurance Fund to the extent that such accounts are so insured and for any amounts above maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository
- Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities. *Full faith and credit* means the obligation is backed by the government's ability to levy taxes to repay debt. These investments include any bonds issued by the Commonwealth of Pennsylvania or any municipality or school district carrying the backing of the taxation powers of the governmental unit issuing the debt. Some investments of the Federal government do not have full faith and credit backing. Fannie-Mae (FNMA) and Freddy-Mac (FNMC) bonds do not. Ginnie-Mae (GNMA) bonds do have full faith and credit backing
- Shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933, provided that the following are met:
  - Only investments of that company are in the authorized investments for school district funds listed in the categories above and repurchase agreements fully collateralized by such investments
  - The investment company is managed so as to maintain its shares as a constant net asset value in accordance with 17 CFR 270 2a-7 (relating to money market funds)
  - The investment company is rated in the highest category by a nationally recognized rating agency. This classification includes pooled investments such as the Pennsylvania School District Liquid Asset Fund, Pennsylvania Local Government Investment Trust, and the Pennsylvania State Treasurer's Invest Program

**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2016**

**NOTE 4 - PROPERTY TAXES**

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

The schedule for property taxes levied for 2015-2016 is as follows:

July 1, 2015 - tax levy date  
Through August 31, 2015 - 2% discount period  
Through October 31, 2015 - face payment period  
Beginning November 1, 2015 - 5% penalty period

The School District tax rate for all purposes in 2015-2016 was 24.7867 mills (\$24.7867 per \$1,000 assessed valuation). Collections for the 2015-2016 year were \$10,227,693.

As of June 30, 2016, property taxes receivable by the School District includes uncollected taxes assessed as of July 1, 2015 or earlier. It is estimated that 80% of all assessed taxes (including delinquencies plus accrued interest and penalties) will be collected; therefore, property taxes receivable reflect this estimate. Delinquent property tax receivable is recognized as revenue in the government-wide financial statements. Only the portion of property taxes receivable that meets the revenue recognition criteria is reported as revenue in the fund financial statements.

**NOTE 5 - SUBSEQUENT EVENTS**

The School District evaluated its June 30, 2016 financial statements for subsequent events through the date of the Independent Auditor's Report, the date the financial statements were available to be issued. A.W. Beattie Career Center refinanced their Series 2008 debt. This refinancing will save the School District approximately \$68,000 over the repayment term to October 10, 2028. The School District is not aware of any other subsequent events that would require recognition or disclosure in the financial statements.

**NOTE 6 - INCOME TAXES**

The School District levies a voted continuing tax of 0.5% for general operations on the income of residents. Taxpayers are required to file an annual return. The collector makes periodic distributions to the School District after withholding amounts for administrative fees. Income tax receipts are credited to the general fund.

**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2016**

**NOTE 7 - CAPITAL ASSETS**

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

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 821,234	\$ 0	\$ 0	\$ 821,234
Total Capital assets, not being depreciated	<u>\$ 821,234</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 821,234</u>
Capital assets, being depreciated:				
Site Improvements	\$ 1,241,866	\$ 15,991	\$ 0	\$ 1,257,857
Building and Building Improvements	9,440,050	43,406	0	9,483,456
Furniture and Equipment	4,503,717	275,142	(1,502)	4,777,357
Total capital assets, being depreciated	<u>\$ 15,185,633</u>	<u>\$ 334,539</u>	<u>\$ (1,502)</u>	<u>\$ 15,518,670</u>
Accumulated depreciation for:				
Site Improvements	\$ (1,073,067)	\$ (15,771)	\$ 0	\$ (1,088,838)
Building and Building Improvements	(6,718,647)	(212,118)	0	(6,930,765)
Furniture and Equipment	(2,915,003)	(244,005)	1,502	(3,157,506)
Total accumulated depreciation	<u>\$ (10,706,717)</u>	<u>\$ (471,894)</u>	<u>\$ 1,502</u>	<u>\$ (11,177,109)</u>
Total capital assets, being depreciated, net	<u>\$ 4,478,916</u>	<u>\$ (137,355)</u>	<u>\$ 0</u>	<u>\$ 4,341,561</u>
Governmental activities capital assets, net:	<u>\$ 5,300,150</u>	<u>\$ (137,355)</u>	<u>\$ 0</u>	<u>\$ 5,162,795</u>
<b>Business-type activities:</b>				
Capital assets, being depreciated:				
Building and Building Improvements	\$ 376,509	\$ 0	\$ 0	\$ 376,509
Furniture and Equipment	285,295	2,265	(2,107)	285,453
Total capital assets, being depreciated	<u>\$ 661,804</u>	<u>\$ 2,265</u>	<u>\$ (2,107)</u>	<u>\$ 661,962</u>
Accumulated depreciation for:				
Building and Building Improvements	\$ (336,334)	\$ (11,399)		\$ (347,733)
Furniture and Equipment	(248,213)	(4,052)	2,107	(250,158)
Total accumulated depreciation	<u>\$ (584,547)</u>	<u>\$ (15,451)</u>	<u>\$ 2,107</u>	<u>\$ (597,891)</u>
Total capital assets, being depreciated, net	<u>\$ 77,257</u>	<u>\$ (13,186)</u>	<u>\$ 0</u>	<u>\$ 64,071</u>
Business-type activities capital assets, net:	<u>\$ 77,257</u>	<u>\$ (13,186)</u>	<u>\$ 0</u>	<u>\$ 64,071</u>
<b>Total Governmental &amp; Business-type activities, net</b>	<u><u>\$ 5,377,407</u></u>	<u><u>\$ (150,541)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 5,226,866</u></u>

**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2016**

**NOTE 7 - CAPITAL ASSETS - CONTINUED**

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

**Governmental Activities:**

Instruction:	
Regular Instruction	\$ 167,338
Special Instruction	7,639
Vocational Instruction	1,106
Other Instruction	1,876
Support Services:	
Pupil Personnel	98
Instructional Staff	74,655
Administration	3,733
Pupil Health	523
Business Services	279
Operation of Plant and Maintenance Services	61,353
Student Transportation Services	688
Non-Instructional Services:	
Student Activities	4,635
Food Services	212
Facilities Acquisition:	147,759
Total Depreciation expense, Governmental Activities:	<u>\$ 471,894</u>

**Business-type Activities:**

Food Services	<u>\$ 15,451</u>
Total Depreciation expense, Business-type Activities:	<u>\$ 15,451</u>

**Total Depreciation Expense, Governmental and Business-type Activities** \$ 487,345

**NOTE 8 - PENSION PLAN**

**Public School Employees' Retirement System (PSERS)**

*General Information about the Pension Plan*

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

Benefits Provided: PSERS provides retirement and disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service, (b) age 60 with 30 or more years of credited service, or (c) 35 or more years of service

**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2016**

**NOTE 8 - PENSION PLAN - CONTINUED**

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

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

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

*Contributions*

Member Contributions:

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

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

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

Members who joined the System after June 30, 2011 automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011 who elect Class T-F membership contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the

**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2016**

**NOTE 8 - PENSION PLAN - CONTINUED**

Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

Employer Contributions:

The School District's contractually required contribution rate for the 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. Contributions to the pension plan from the School District were \$2,355,877 for the year ended June 30, 2016.

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

At June 30, 2016, the School District reported a liability of \$29,541,000 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 the System's 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 related to the total one-year reported covered payroll. At June 30, 2015, the School District's proportion was 0.0682%, which did not change from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School District recognized pension expense of \$2,148,898. At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 0	\$ 122,000
Changes in assumptions	0	0
Net difference between projected and actual investment earnings	0	60,000
Changes in proportions	0	1,778,000
Difference between employer contributions and proportionate share of total contributions	0	0
District contributions subsequent to the measurement date	2,355,877	0
Total	<u>\$ 2,355,877</u>	<u>\$ 1,960,000</u>

**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2016**

**NOTE 8 - PENSION PLAN - CONTINUED**

The School District reported \$2,355,877 as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expenses as follows:

Year ended June 30:

2017	\$ (730,000)
2018	(730,000)
2019	232,000

Actuarial assumptions: The total pension liability as of June 30, 2015 was determined by rolling forward the System's 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
Inflation	3.00 %
Salary Increases	Effective average of 5.50% (Reflects allowance for inflation, real wage growth of 1.00%, and merit or seniority increases of 1.50%)
Investment Rate of Return	7.50 % including inflation

Mortality rates are based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the experience study that was performed for the 5-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the 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 return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2016**

**NOTE 8 - PENSION PLAN - CONTINUED**

<u>Asset Class</u>	Long-Term	
	<u>Target Allocation</u>	<u>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>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2015.

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

Sensitivity of the School District's proportionate share of the Net Pension Liability to changes in the discount rate: The following presents the School District's proportionate share of the net pension liability, calculated using the discount rate of 7.50%, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

	Current		
	1% Decrease 6.50%	Discount Rate 7.50%	1 % Increase 8.50%
School District's proportionate share of net pension liability	\$ 36,412,000	\$ 29,541,000	\$ 23,766,000



**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2016**

**NOTE 8 - PENSION PLAN - CONTINUED**

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

**NOTE 9 - LONG-TERM DEBT**

Long-term liabilities for the year ended June 30, 2016 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds/Notes Payable:					
Bonds and notes	\$ 4,319,488	\$ 0	\$ (470,292)	\$ 3,849,196	\$ 722,415
Deferred amounts for bond premium/(discount)	(2,839)	464	0	(2,375)	0
Total bonds/notes payable, net	\$ 4,316,649	\$ 464	\$ (470,292)	\$ 3,846,821	\$ 722,415
Net pension liability	26,994,000	2,547,000	0	29,541,000	2,355,877
Compensated absences	43,679	4,354	0	48,033	0
Other post-employment benefit	110,893	43,500	(4,592)	149,801	0
Total governmental activity					
long term liabilities	\$ 31,465,221	\$ 2,595,318	\$ (474,884)	\$ 33,585,655	\$ 3,078,292

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

The total interest and debt fees incurred and charged to expense for the year ended June 30, 2016 was \$279,517.

The annual requirements to amortize all general obligation bonds and notes outstanding as of June 30, 2016, including interest payments, are as follows:

<b><u>General Obligation Bonds, Series of 2008</u></b>			
Year ending			
June 30	Principal	Interest	Total
2017	\$ 29,120	\$ 20,512	\$ 49,632
2018	30,240	19,361	49,601
2019	31,360	18,129	49,489
2020	32,800	16,826	49,626
2021	34,080	15,425	49,505
2022-2026	194,400	53,407	247,807
2027-2029	139,040	9,695	148,735
Total	\$ 491,040	\$ 153,355	\$ 644,395

**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2016**

**NOTE 9 - LONG-TERM DEBT - CONTINUED**

The annual requirements to amortize all general obligation capital appreciation bonds outstanding as of June 30, 2016, including interest payments are as follows:

**General Obligation Refunding Bonds, Series of 1997**

<u>Year Ending June 30</u>	<u>Maturity Value</u>	<u>Initial Stated Value</u>	<u>Accreted Value</u>
2017	\$ 700,000	\$ 157,773	\$ 535,522
2018	700,000	146,083	495,843
2019	700,000	132,503	460,618
2020	700,000	122,563	426,063
2021	700,000	113,372	394,113
2022	560,000	81,956	291,747
	<u>\$ 4,060,000</u>	<u>\$ 754,250</u>	<u>\$ 2,603,906</u>

**General Obligation Bonds:** General obligation bonds payable at June 30, 2016, with their outstanding balance are as follows:

\$668,480 2008 general obligation refunding bonds, due in annual installments of \$23,040 to \$48,480, beginning October 15, 2009, through October 15, 2028, interest from 3.00 to 4.60%	\$ 491,040
\$1,811,456 1997 Series B general obligation refunding bonds, due in annual installments of \$5,000 to \$560,000 (Principal and Interest-for accretion), beginning August 15, 1997, through August 15, 2021, interest from 5.75% to 8.05%	<u>3,358,156</u>
	<u>\$ 3,849,196</u>

**NOTE 10 - INTERFUND BALANCES**

**Receivables and Payables**

Interfund balances at June 30, 2016 consisted of the following fund receivables and payables:

	<u>Receivables</u>	<u>Payables</u>
General Fund: Proprietary Fund	\$ 36,778	\$ 0
Proprietary Fund: General Fund	<u>0</u>	<u>36,778</u>
Totals	<u>\$ 36,778</u>	<u>\$ 36,778</u>

Balances resulted from a 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. All the balances above are expected to be collected in the subsequent year.

**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2016**

**NOTE 11 - CONTINGENCIES**

**Litigation**

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

**Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2016.

**NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS**

**Post-Retirement Benefits**

From an accrual accounting perspective, the cost of post-employment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB No. 45, the School District recognizes the cost of post-employment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the School District's future cash flows.

**Plan Description**

The School District provides post-retirement benefits for certain employees for current and future health, pharmacy, and dental insurance benefit expenses through a single-employer defined benefit plan. A triannual actuarial valuation is made to determine whether the contributions are sufficient to meet the plan obligations. The latest actuarial valuation was made July 1, 2014. The post-retirement plan does not issue stand-alone financial reports.

**Funding**

The contribution requirements of plan members and the School District are established and may be amended by the School District. The School District determines the required contribution using the Entry Age Normal Cost Method.

Membership in the plan consisted of the following at July 1, 2014, the date of the last actuarial valuation.

Retirees and beneficiaries receiving benefits	28
Vested former members	0
Active plan members	<u>121</u>
<b>Total</b>	<u><b>149</b></u>

**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDING JUNE 30, 2016**

**NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS - CONTINUED**

**Annual OPEB Cost and Net OPEB Obligations**

The following table shows the School District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the School District's net OPEB obligation:

<u>Description</u>	<u>June 30, 2016</u>
Annual Required Contribution	\$ 316,627
Adjustment to Annual Required Contribution	(10,266)
Annual OPEB Cost	\$ 306,361
Estimated Contributions Made	(310,953)
Increase in Net OPEB Obligation	\$ (4,592)
Net OPEB Obligation - June 30, 2015	110,893
Net OPEB Obligation - June 30, 2016	<u>\$ 106,301</u>

The School District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The actuarial accrued liability as of July 1, 2014 is estimated to be \$1,948,873. The School District's contributions represent payments made for premiums for insured individuals.

**Trend Information**

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

<u>GASB45 Schedule of Employer Contributions</u>			
<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Estimated Net OPEB Obligation</u>
June 30, 2016	\$ 306,361	101.5%	\$ 106,301
June 30, 2015	\$ 302,044	115.4%	\$ 110,893
June 30, 2014	\$ 441,932	80.2%	\$ 157,246
June 30, 2013	\$ 442,192	96.4%	\$ 69,927
June 30, 2012	\$ 442,944	89.6%	\$ 54,061

**Funded Status and Funding Progress**

The funded status of the plan as of the actuarial valuation date was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll (Total)</u>	<u>UAAL as a Percentage of Payroll</u>
7/1/2014	\$ 0	\$ 1,948,873	\$ 1,948,873	0%	\$ 7,108,084	27.42%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the

**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2016**

**NOTE 14 - FUTURE GASB PRONOUNCEMENTS - CONTINUED**

- In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The primary objectives of this Statement are to address the financial reports of defined benefit OPEB plans administered through a trust and to address certain disclosure requirements for such plans. This Statement will be effective for fiscal year 2016-2017.
- In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to address the reporting requirements for OPEB liabilities and the related disclosure requirements. This Statement will be effective for fiscal year 2017-2018.
- In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement defines tax abatements and provides disclosure guidance for governments that have granted tax abatements. This Statement will be effective for fiscal year 2016-2017.
- In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement will be effective for fiscal year 2016-2017.
- In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement will be effective for fiscal year 2016-2017.
- In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement will be effective for fiscal year 2016-2017.
- In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement will be effective for fiscal year 2017-2018.
- In March 2016, GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement will be effective for fiscal year 2017-2018.

**REQUIRED SUPPLEMENTARY INFORMATION**

**NORTHGATE SCHOOL DISTRICT**  
**POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEBs)**  
**SCHEDULE OF FUNDING PROGRESS**

**YEAR ENDING JUNE 30, 2016**

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

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL	Funded Ratio	Covered Payroll (Total)	UAAL as a Percentage of Payroll
7/1/2014	\$ 0	\$ 1,948,873	\$ 1,948,873	0%	\$ 7,108,084	27.42%
7/1/2011	\$ 0	\$ 4,124,320	\$ 4,124,320	0%	\$ 7,665,231	53.81%
7/1/2008	\$ 0	\$ 4,307,246	\$ 4,307,246	0%	\$ 7,875,521	54.69%

# **NORTHGATE SCHOOL DISTRICT**

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

**YEAR ENDING JUNE 30, 2016**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the School District. The actuarial methods and assumptions stated below are from the last actuarial valuation report.

Valuation Date:	July 1, 2014
Actuarial Cost Method:	Entry Age Normal Cost Method
Asset Valuation Method:	Market Value
Amortization Method:	Level-dollar amortization
Actuarial Assumptions:	
Discount Rate	4.50%

Health cost trend rates      Medical and pharmacy costs and premium rates are assumed to increase as shown in the following table (selected years shown):

Fiscal Year Ending June 30	Increase in Health Cost
	over Prior Year
2016	5.50%
2017	5.30%
rates gradually decrease to 2089	4.20%



**NORTHGATE SCHOOL DISTRICT**

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

**YEAR ENDING JUNE 30, 2016**

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

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

	2016	2015
District's Proportion of the Net Pension Liability (Asset)	0.0682%	0.0682%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 29,541,000	\$ 26,994,000
District's Covered-Employee Payroll	\$ 8,773,224	\$ 8,698,500
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	336.72%	310.33%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	54.36%	57.24%

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

**NORTHGATE SCHOOL DISTRICT**  
**SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS**  
**TO THE PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (PSERS)**

**YEAR ENDING JUNE 30, 2016**

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

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

	2016	2015
Contractually Required Contribution	\$ 2,355,877	\$ 1,913,898
Contributions in Relation to		
Contractually Required Contribution	(2,355,877)	(1,913,898)
Contribution Deficiency (Excess)	\$ 0	\$ 0
District's Covered Employee Payroll	\$ 8,773,224	\$ 8,698,500
Contribution as a Percentage		
of Covered Employee Payroll	26.85%	22.00%

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

**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**YEAR ENDING JUNE 30, 2016**

**NOTE 1 - CHANGES OF BENEFIT TERMS/ASSUMPTIONS**

**Changes of Benefit Terms**

There were no changes of benefit terms for the year ended June 30, 2016.

**Changes of Benefit Assumption**

There were no changes of benefit assumptions for the year ended June 30, 2016.

**SINGLE AUDIT SUPPLEMENTARY REPORTS**

## **NORTHGATE SCHOOL DISTRICT**

### **LIST OF REPORT DISTRIBUTION**

<b>1 copy</b>	Bureau of Audits Special Audit Services Division Forum Place – 9 <sup>th</sup> Floor 555 Walnut Street Harrisburg, PA 17101 Online Submission
<b>1 copy</b>	Federal Audit Clearinghouse Bureau of Census Online Submission Included Data Collection Form
<b>1 copy</b>	Allegheny County Prothonotary City County Building 414 Grant Street, First Floor Pittsburgh, PA 15219
<b>25 copies</b>	Northgate School District 591 Union Avenue Pittsburgh, Pennsylvania 15202
<b>1 copy</b>	Cottrill, Arbutina & Associates, P.C. 525 Third Street Beaver, PA 15009

**NORTHGATE SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Project Title	Source Code	Federal CFDA Number	Pass Through Grantor's Number	Grant Period From-To	Program or Award Amount	Total Received For Year	Accrued (Deferred) Revenue @ 6/30/15	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue @ 6/30/16
U.S. Department of Education										
Passed through the PA Department of Education:										
Title I Improving Basic Programs	I	84.010	013-160303	07/01/14-09/30/16	\$ 398,660	\$ 317,747	\$ 0	\$ 398,660	\$ 398,660	\$ 80,913
Title I Improving Basic Programs	I	84.010	013-150303	07/01/14-09/30/15	343,237	116,838	116,838	0	0	0
Total Title I						\$ 434,585	\$ 116,838	\$ 398,660	\$ 398,660	\$ 80,913
Striving Readers Comprehensive Literacy	I	84.371	143-140303	10/01/14-09/30/15	\$ 578,662	\$ 241,109	\$ 173,849	\$ 67,260	\$ 67,260	\$ 0
Striving Readers Comprehensive Literacy	I	84.371	143-150303	10/01/15-09/30/16	606,544	454,909	0	577,852	577,852	122,943
Total Striving Readers						\$ 696,018	\$ 173,849	\$ 645,112	\$ 645,112	\$ 122,943
Title II Improving Teacher Quality	I	84.367	020-160303	07/01/15-09/30/16	\$ 72,813	\$ 58,295	\$ 0	\$ 72,813	\$ 72,813	\$ 14,518
Title II Improving Teacher Quality	I	84.367	020-150303	07/01/14-09/30/15	72,722	24,250	24,250	0	0	0
Total Title II						\$ 82,545	\$ 24,250	\$ 72,813	\$ 72,813	\$ 14,518
Total PA Department of Education					\$ 1,130,603	\$ 1,213,148	\$ 314,937	\$ 1,116,585	\$ 1,116,585	\$ 218,374
Passed through the Allegheny Intermediate Unit:										
Special Education - IDEA	I	84.027	RA-062-16-0-003	07/01/15-06/30/16	\$ 220,331	\$ 156,557	\$ 0	\$ 220,331	\$ 220,331	\$ 63,774
Special Education - IDEA	I	84.027	RA-062-15-0-003	07/01/14-06/30/15	219,433	68,498	65,850	2,648	2,648	0
Total Special Education (IDEA) Cluster						\$ 225,055	\$ 65,850	\$ 222,979	\$ 222,979	\$ 63,774
Title III Grant	I	84.365	FA-999-15-0603	07/01/15-09/30/16	3,579	3,579	0	3,579	3,579	0
Total U.S. Department of Education						\$ 1,441,782	\$ 380,787	\$ 1,343,143	\$ 1,343,143	\$ 282,148
U.S. Department of Agriculture:										
Passed through the PA Department of Education:										
School Breakfast Program	I	10.553	N/A	07/01/15-06/30/16	N/A	\$ 58,786	\$ 0	\$ 68,506	\$ 68,506	\$ 9,720
School Breakfast Program	I	10.553	N/A	07/01/14-06/30/15	N/A	8,403	8,403	0	0	0
National School Lunch Program	I	10.555	N/A	07/01/15-06/30/16	N/A	254,355	0	294,831	294,831	40,476
National School Lunch Program	I	10.555	N/A	07/01/14-06/30/15	N/A	33,910	33,910	0	0	0
Passed through the PA Department of Agriculture:										
National School Lunch Program: Value of Donated Commodities	I	10.555	N/A	07/01/15-06/30/16	N/A	42,639	0	42,639	42,639	0
Total Child Nutrition Cluster						\$ 398,093	\$ 42,313	\$ 405,976	\$ 405,976	\$ 50,196
Total US Department of Agriculture						\$ 398,093	\$ 42,313	\$ 405,976	\$ 405,976	\$ 50,196
Total Federal Assistance						\$ 1,839,875	\$ 423,100	\$ 1,749,119	\$ 1,749,119	\$ 332,344

See Accompanying Notes to Financial Statements

NORTHGATE SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016

Source Codes:  
I=Indirect Funding  
F=Federal Share  
S=State Share

Test of 40% rule:

Federal Programs Tested  
Child Nutrition Cluster  
Striving Readers Comprehensive Literacy  
Total Federal Expenditures Tested

\$ 405,976  
645,112  
\$ 1,051,088

Total Federal Expenditures

\$ 1,749,119 = 60.09% (high-risk auditee 40% required)

Footnotes:

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

**NORTHGATE SCHOOL DISTRICT**  
**NOTES TO THE SCHEDULE OF**  
**EXPENDITURES OF FEDERAL AWARDS**

**NOTE 1 - BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Northgate School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Northgate School District has elected to not use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**NOTE 2 - BUDGETARY DATA**

The School District passed and had approved by the appropriate agency, budgets for the fiscal year ending June 30, 2016 for all federal programs.



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

To the Board of Directors  
Northgate School District  
591 Union Avenue  
Pittsburgh, Pennsylvania 15202

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 Northgate School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Northgate School District's basic financial statements and have issued our report thereon dated December 28, 2016.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider items 2016-1, 2016-2, 2016-3, and 2016-4 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider item 2016-5, described in the accompanying schedule of findings and questioned costs, to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Northgate 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 did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Northgate School District's Response to Findings**

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

### **Purpose of this Report**

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

*Cottrill, Arbutina and Assoc.*

Beaver, PA 15009  
December 28, 2016

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

To the Board of Directors  
Northgate School District  
591 Union Avenue  
Pittsburgh, Pennsylvania 15202

**Report on Compliance for Each Major Federal Program**

We have audited Northgate School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Northgate School District's major federal programs for the year ended June 30, 2016. Northgate School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

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

*Auditor's Responsibility*

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

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

### *Opinion on Each Major Federal Program*

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

### **Report on Internal Control Over Compliance**

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

*Cottrell, Arbutina and Assoc.*

Beaver, PA 15009  
December 28, 2016

**NORTHGATE SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2016**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of the Northgate School District.
2. Five significant deficiencies disclosed during the audit of the financial statements are reported in this schedule. Four of the conditions are reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of the Northgate School District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit. No significant deficiencies in internal control over major federal award programs are reported as material weaknesses.
5. The auditor's report on compliance for the major federal award programs for Northgate School District expresses an unqualified opinion on all major federal programs..
6. Audit findings that are required to be reported in accordance with 2 CFR 200.516(a) are reported in this Schedule.
7. The programs tested as major programs were:

STRIVING READERS COMPREHENSIVE LITERACY - CFDA 84.371  
CHILD NUTRITION CLUSTER - CFDA 10.553 & 10.555

8. The threshold for distinguishing Types A and B programs was \$750,000.
9. Northgate School District was determined to be a high-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

**Material Weaknesses**

*2016-1 Noncompliance with Section 511 of the Pennsylvania School Code regarding Student Activity Funds*

Condition: During the course of the audit we noted that the School District is not in compliance with Section 511 of the Pennsylvania School Code in the following areas:

- 1) Minutes are to be maintained by each student organization approving use of funds.

Criteria: The School District did not maintain student organization minutes.

Cause: Student organization sponsors did not require students to document approval of student funds in written minutes.

# NORTHGATE SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2016

### *2016-1 Noncompliance with Section 511 of the Pennsylvania School Code regarding Student Activity Funds - Continued*

Effect: Misappropriation of activity fund revenues could occur and go undetected.

Recommendation: We recommend that minutes be maintained by each student organization approving the use of student funds.

Views of Responsible Official and Planned Corrective Action: Student organization sponsors have been advised that student organization minutes need to be maintained by each student organization.

### *2016-2 Limited Staff*

Condition: The School District has a limited staff responsible for or access to:

- |                                  |                      |
|----------------------------------|----------------------|
| a. receipts                      | d. payroll records   |
| b. check writing                 | e. inventory records |
| c. posting to the general ledger | f. invoice approval  |

Because of limited staff, we realize segregation of the above duties is not practical, if not impossible. Because of this internal control situation, the responsibility of the Director of Finance and Operations is greatly increased because the Board must rely on the Director of Finance and Operations' knowledge of the everyday operations to discover any material changes in the School District's financial position.

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

One person is responsible for, or has access to, the handling and recording of cash disbursements and cash receipts in the activity and athletic funds.

Personnel in the payables function are not completely independent of functions such as general ledger functions and other accounting functions.

Personnel preparing the payroll are not independent of other payroll duties (e.g., timekeeping, printing of checks, and editing the employee master file).

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

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

Recommendation: Ideally, the School District would hire the number of staff necessary to segregate all duties. However, we realize segregation of duties is not practical, if not impossible. Because of this internal control situation, the responsibility of the Director of Finance and Operations is greatly

**NORTHGATE SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2016**

*2016-2 Limited Staff - Continued*

increased because the Board must rely on his knowledge of the everyday operation to discover any material changes in the School District's financial position.

Views of Responsible Official and Planned Corrective Action: The School District recognizes the limited staff in the Business Office makes segregating duties virtually impossible. The Board does rely on the Director of Finance and Operations to keep them updated on the financial state of the School District and, due to financial constraints, does not intend to increase staffing at this time.

*2016-3 Preparation of Financial Statements*

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

Criteria: The School District's annual financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The School District relies on Cottrill, Arbutina & Associates, P.C., as its auditors, to prepare its annual financial statements in order to conform to accounting principles generally accepted in the United States of America. We realize that additional staffing costs would be needed to acquire the internal expertise to perform this function which could significantly outweigh the benefits. We, as your auditors, can propose adjustments and assist the School District in assembling or drafting of the financial statements; however, we cannot establish or maintain the School District's controls over preventing or detecting material misstatements in the preparation of financial statements. We proposed and you approved 58 various adjusting journal entries to properly report on the modified accrual basis of accounting and 17 journal entries to convert School District books from modified accrual to full accrual in order to properly report in accordance with GASB 34. All of these journal entries were presented to the School District along with the letter of representation in which you took responsibility and approved each of these entries.

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

Effect: The School District financial statements could be materially misstated according to accounting principles generally accepted in the United States of America.

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

Views of Responsible Official and Planned Corrective Action: The School District recognizes that the financial statements are not prepared by the Director of Finance and Operations but by our auditing firm, Cottrill, Arbutina & Associates, P.C. The Director of Finance and Operations is not a

## NORTHGATE SCHOOL DISTRICT

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2016

#### *2016-3 Preparation of Financial Statements - Continued*

certified public accountant, and the School District believes that the auditing firm is more qualified to prepare the statements under the direction, and with the approval, of the Director of Finance and Operations. The School District does not intend to change this procedure at this time.

#### *2016-4 Service Organization Control Report*

Condition: The School District was not able to obtain a Service Organization Report from their financial software provider.

Criteria: The American Institute of CPAs recently released a new series of reporting options, called SERVICE ORGANIZATION CONTROL REPORTS<sup>SM</sup> (SOC), that enables CPAs to provide assurance on internal controls over subject matter other than financial reporting while filling the marketplace's need to demonstrate reliability and mitigation of risk.

Cause: The financial software did not have a SOC report preformed during the June 30, 2016 fiscal year.

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

Recommendation: The financial software provider should have the necessary procedures performed over their internal controls in order to obtain a SOC report.

Views of Responsible Official and Planned Corrective Action: The School District will obtain a SOC report from their financial software provider annually as available.

#### **Significant Deficiency**

#### *2016-5 Compensating Controls Over Fixed Assets*

Condition: During the audit, we noted that one person is responsible for, or has access to, the handling, recording, and maintaining the fixed assets.

Criteria: The Fixed Asset Clerk submits purchase requests, receives incoming material, issues equipment to the floor, and records related transactions, including deleting transactions in the fixed asset system. The risks to the School District include errors, unintentional losses, and misappropriation of assets.

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

Effect: Misappropriation of School District fixed assets could occur and go undetected.

Recommendation: The School District does not have sufficient employee resources to ensure adequate segregation of duties over the fixed assets function. The Fixed Asset Clerk submits purchase requests, receives incoming material, issues equipment to the floor, and records related



**NORTHGATE SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2016**

*2016-5 Compensating Controls Over Fixed Assets - Continued*

transactions, including deleting transactions in the fixed asset system. The risks to the School District include errors, unintentional losses, and misappropriation of assets. We recommend that the School District implement the following compensating controls to provide reasonable assurance that assets are physically accounted for, transactions are recorded properly, and fixed assets balance:

- Fixed assets should be periodically spot-checked, both at regular intervals and at unannounced times

Views of Responsible Official and Planned Corrective Action: The School District is currently reviewing and updating fixed asset internal controls.

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD AUDIT**

None.

If the Pennsylvania Department of Education has questions regarding this schedule, please call Director of Finance and Operations of Northgate School District at 412-732-3300 x2126.

**NORTHGATE SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2016**

**A. PRIOR YEAR FINDINGS - FINANCIAL STATEMENTS AUDIT**

**Material Weaknesses**

*2015-1 The School District should comply with Section 511 of the Pennsylvania School Code regarding Student Activity Funds*

Condition: During the course of the audit we noted that the School District is not in compliance with Section 511 of the Pennsylvania School Code in the following areas:

- 1) Minutes are to be maintained by each student organization approving use of funds.
- 2) The Board of School Directors in every school district shall prescribe, adopt, and enforce such reasonable rules and regulations as it may deem proper, regarding (1) management, supervision, control or prohibition of exercises, athletics, or games of any kind, school publications, debating, forensic, dramatic, musical, and other activities related to the school program, including raising and disbursing funds for any or all of such purposes and for scholarships, and (2) the organization, management, supervision, control, financing, or prohibition of organizations, clubs, societies and groups of the members of any class or school, and may provide for the suspension, dismissal, or other reasonable penalty in the case of any appointee, professional or other employee, or pupil who violates such rules and regulations. Therefore, the Board must adopt a board policy, administrative regulations, and operating policies and procedures regarding the aforementioned regulations.

Recommendation: We recommend that minutes be maintained by each student organization approving the use of funds and that the School Board adopt and enforce policies as stated above.

Current Status: The School Board adopted policies to eliminate most of the finding, but the minutes portion of the finding continues at the School District.

*2015-2 Limited Staff*

Condition: The School District has a limited staff responsible for or access to:

- |                                  |                      |
|----------------------------------|----------------------|
| a. receipts                      | d. payroll records   |
| b. check writing                 | e. inventory records |
| c. posting to the general ledger | f. invoice approval  |

Because of limited staff, we realize segregation of the above duties is not practical, if not impossible. Because of this internal control situation, the responsibility of the Director of Finance and Operations is greatly increased because the Board must rely on the Director of Finance and Operations' knowledge of the everyday operations to discover any material changes in the School District's financial position.

Recommendation: The small size of the School District's office staff limits the extent of separation of duties. The basic premise in an ideal accounting office is that no one employee should have

## NORTHGATE SCHOOL DISTRICT

### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2016

#### *2015-2 Limited Staff - Continued*

access to both physical assets and the related accounting records or to all phases of a transaction. Some examples of lack of segregation of duties at the School District are as follows:

One person is responsible for, or has access to, the handling and recording of cash disbursements and cash receipts in the activity and athletic funds.

Personnel in the payables function are not completely independent of functions such as general ledger functions and other accounting functions.

Personnel preparing the payroll are not independent of other payroll duties (e.g., timekeeping, printing of checks, and editing the employee master file).

Current Status: Improvements were made during the fiscal year, but this finding continues at the School District.

#### *2015-3 Preparation of Financial Statements*

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

Recommendation: The School District's annual financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The School District relies on Cottrill, Arbutina & Associates, P.C., as its auditors, to prepare its annual financial statements in order to conform to accounting principles generally accepted in the United States of America. We realize that additional staffing costs would be needed to acquire the internal expertise to perform this function which could significantly outweigh the benefits. We, as your auditors, can propose adjustments and assist the School District in assembling or drafting of the financial statements; however, we cannot establish or maintain the School District's controls over preventing or detecting material misstatements in the preparation of financial statements. We proposed and you approved 56 various adjusting journal entries to properly report on the modified accrual basis of accounting and 18 journal entries to convert School District books from modified accrual to full accrual in order to properly report in accordance with GASB 34. All of these journal entries were presented to the School District along with the letter of representation, in which you took responsibility and approved each of these entries.

Current Status: This finding continues at the School District.

#### *2015-4 Service Organization Control Report*

Condition: The School District was not able to obtain a Service Organization Report from their financial software provider.

Recommendation: The American Institute of CPAs recently released a new series of reporting options, called SERVICE ORGANIZATION CONTROL REPORTS<sup>SM</sup> (SOC), that enables CPAs to provide assurance on internal controls over subject matter other than financial reporting while filling

## NORTHGATE SCHOOL DISTRICT

### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2016

#### *2015-4 Service Organization Control Report - Continued*

the marketplace's need to demonstrate reliability and mitigation of risk. The financial software provider should have the necessary procedures performed over their internal controls in order to obtain a SOC report.

Current Status: This finding continues at the School District.

#### **Significant Deficiency**

#### *2015-5 Compensating Controls Over Fixed Assets*

Condition: During the audit, we noted that one person is responsible for, or has access to, the handling, recording, and maintaining the fixed assets.

Recommendation: The School District does not have sufficient employee resources to ensure adequate segregation of duties over the fixed assets function. The Fixed Asset Clerk submits purchase requests, receives incoming material, issues equipment to the floor, and records related transactions, including deleting transactions in the fixed asset system. The risks to the School District include errors, unintentional losses, and misappropriation of assets. We recommend that the School District implement the following compensating controls to provide reasonable assurance that assets are physically accounted for, transactions are recorded properly, and fixed assets balance:

- Fixed assets should be periodically spot-checked, both at regular intervals and at unannounced times.

Current Status: Improvements were made during the fiscal year, but this finding continues at the School District.

#### **B. PRIOR YEAR FINDINGS & QUESTIONED COSTS - MAJOR FEDERAL AWARD AUDIT**

None.