

**BLACKHAWK SCHOOL DISTRICT**

**BEAVER FALLS, PENNSYLVANIA**

**JUNE 30, 2017**

**AUDIT REPORT**

**BLACKHAWK SCHOOL DISTRICT**  
**BEAVER FALLS, PENNSYLVANIA**  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Blackhawk School District  
500 Blackhawk Road  
Beaver Falls, Pennsylvania 15010

### 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 Blackhawk School District as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

#### *Auditor's Responsibility*

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

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

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

### *Opinions*

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

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, post-employment benefits other than pension benefits (OPEB) information, Public School Employees' Retirement System (PSERS) information on pages i-xi and 47-48, and 49-50, 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 Blackhawk School District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 March 20, 2018 on our consideration of the Blackhawk 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, not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in

accordance with *Government Auditing Standards* in considering the Blackhawk School District's internal control over financial reporting and compliance.

*Cottrill, Arbutina and Assoc.*

Beaver, PA 15009  
March 20, 2018

# BLACKHAWK SCHOOL DISTRICT

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

JUNE 30, 2017

### Required Supplementary Information (RSI)

The Management's Discussion and Analysis of Blackhawk School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

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

### FINANCIAL HIGHLIGHTS

During the fiscal year 2016-2017, the Blackhawk School District experienced an increase in the General Fund balance of \$2,284,748. The unassigned fund balance for the General Fund at the end of the year was \$2,850,322, which is 7.93% of the budgeted expenses for 2016-2017 fiscal year. Act 1 allows an 8% unassigned fund balance. Total General Fund fund balance at June 30, 2017 was \$3,576,447. Revenues of \$37,824,324 were over budget by \$1,798,704. The District revenues were over budget mainly due to a PlanCon Reimbursement of \$1,269,634. The reimbursement was received after four (4) years of not receiving a reimbursement and the uncertainty from legislation not approving funding PlanCon reimbursements. Due to the Pennsylvania Government not approving their state budget before June 30<sup>th</sup>, the district budgeted no increase for subsidies for Basic Education and Special Education, which amounted in an increase of \$195,843. Finally, revenues increased due to bonds being refinanced and the District received \$404,946 in Face Value of Bonds Issued, which it recorded as revenue.

Expenditures were under budget by \$358,933. Major under-budgeted line items include salaries of \$308,020, employer retirement of \$273,372, health Insurance of \$172,795, and supplies of \$219,436. The reasons for over-budgeted line items were related to roof replacements of \$525,386 and transportation of \$126,304.

In summary, the 2016-2017 budget reflected revenues exceeding expenditures by \$127,111. Actual revenues were over budget by \$1,798,704 and actual expenditures were under budget by \$358,933, which netted an actual-budget positive variance totaling \$2,157,637. The General Fund fund balance increased by \$2,284,748.

As of June 30, 2017, the District business-type activity fund (Food Service) net position had a deficit balance of (\$1,151,939) with income loss of (\$152,053) compared to 2015-2016 deficit balance of (\$999,886) with income loss of (\$30,443). The 2016-2017 income loss increased by \$121,610 from the prior fiscal year.

The governmental internal service funds, which are comprised of the Dental, Vision, and Health Insurance Funds, had a decrease of (\$339,874) reflecting the net position at year-end of \$2,517,295.

**BLACKHAWK SCHOOL DISTRICT**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**

**JUNE 30, 2017**

**USING THE FINANCIAL REPORT**

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

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

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

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

Figure A-1  
Required Components of  
Blackhawk School District's  
Financial Report

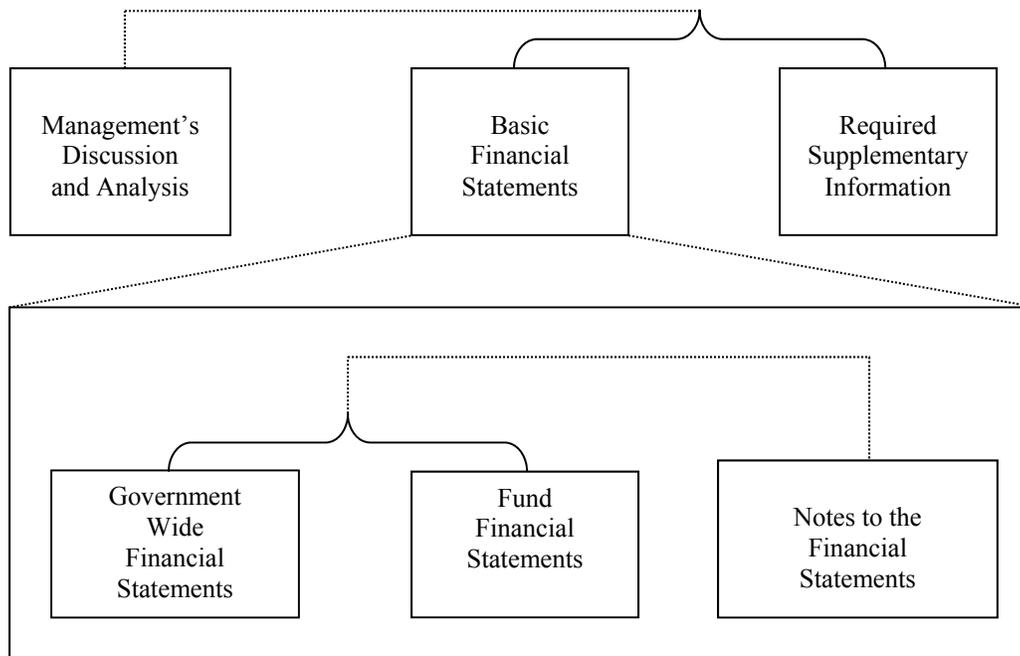


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the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

**BLACKHAWK SCHOOL DISTRICT**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**

**JUNE 30, 2017**

Figure A-2  
Major Features of Blackhawk School District's  
Government-wide and Fund Financial Statements

	Fund Statements			
	Government-wide Statements	Government Funds	Propriety Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as education, administration, and community services	Activities the District operates similar to private business - Food Services	Instances in which the District is the trustee or agent to someone else's resources - Scholarship Funds and Student Activities
Required financial statements	Statement of net position, Statement of activities	Balance Sheet Statement of revenues, expenditures, and changes in fund balance	Statement of net position; Statement of revenues, expenses, and changes in net position; Statement of cash flows	Statement of fiduciary net position; Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow-outflow information	All revenues and expenses during the year regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end for the year; expenditures when good or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year regardless of when cash is received or paid	All revenues and expenses during the year regardless of when cash is received or paid

# BLACKHAWK SCHOOL DISTRICT

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

JUNE 30, 2017

### OVERVIEW OF FINANCIAL STATEMENTS

#### Government-Wide Statements

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

The two government-wide statements report to the District's net position and how they have changed. Net position, the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, is one way to measure the District's financial health or position.

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

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

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

- *Governmental activities* - All of the District's basic services are included here, such as instruction, administration, and community services. Property taxes and state and federal subsidies and grants finance most of these activities.
- *Business type activities* - The District operates a food service operation and charges fees to staff, students, and visitors to help it cover the costs of the food service operation.

#### Fund Financial Statements

The District's fund financial statements, which begin on Page 6, provide detailed information about the most significant funds - not the District as a whole. Some funds are required by state law and by bond requirements.

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

*Proprietary funds* – These funds are used to account for the District activities that are similar to business operations in the private sector or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user

**BLACKHAWK SCHOOL DISTRICT**

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

**JUNE 30, 2017**

charges. When the District charges customers for services it provides – whether to outside customers or to other units in the District – these services are generally reported in proprietary funds. The Food Service Fund and Internal Service funds are the District's proprietary funds and are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

*Fiduciary funds* – The District is the trustee, or fiduciary, for activity funds and scholarship funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net position on page 14. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations.

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

The District's total net position was (\$38,049,701) at June 30, 2017.

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

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>2017 Total</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>2016 Total</b>
Current/Other Assets	\$ 14,868,139	\$ (488,741)	\$ 14,379,398	\$ 8,712,733	\$ (411,344)	\$ 8,301,389
Capital Assets	44,364,867	414,258	44,779,125	44,093,436	475,968	44,569,404
<b>Total Assets</b>	<b>\$ 59,233,006</b>	<b>\$ (74,483)</b>	<b>\$ 59,158,523</b>	<b>\$ 52,806,169</b>	<b>\$ 64,624</b>	<b>\$ 52,870,793</b>
Deferred Outflows of Resources	\$ 9,928,506	\$ 228,042	\$ 10,156,548	\$ 4,867,770	\$ 112,414	\$ 4,980,184
Current/Other Liabilities	\$ 11,657,947	\$ 114,173	\$ 11,772,120	\$ 8,802,329	\$ 97,016	\$ 8,899,345
Long-term Liabilities	91,239,939	1,118,713	92,358,652	83,665,772	1,072,956	84,738,728
<b>Total Liabilities</b>	<b>\$ 102,897,886</b>	<b>\$ 1,232,886</b>	<b>\$ 104,130,772</b>	<b>\$ 92,468,101</b>	<b>\$ 1,169,972</b>	<b>\$ 93,638,073</b>
Deferred Inflows of Resources	\$ 3,161,388	\$ 72,612	\$ 3,234,000	\$ 301,048	\$ 6,952	\$ 308,000
Net Assets:						
Capital Assets, net Related Debt	\$ 5,181,638	\$ 414,258	\$ 5,595,896	\$ 4,458,625	\$ 475,968	\$ 4,934,593
Unrestricted	(42,079,400)	(1,566,197)	(43,645,597)	(39,553,835)	(1,475,854)	(41,029,689)
<b>Total Net Position</b>	<b>\$ (36,897,762)</b>	<b>\$ (1,151,939)</b>	<b>\$ (38,049,701)</b>	<b>\$ (35,095,210)</b>	<b>\$ (999,886)</b>	<b>\$ (36,095,096)</b>

The results of 2016-2017 operations as a whole are reported in the Statement of Activities.

Table A-2 takes the information from the Statement of Activities and rearranges it slightly so you can see our total revenues, expenses, and changes to the net position for the year. The tables below present the expenses of both the Governmental Activities and the Business-type Activities of the District.

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

**JUNE 30, 2017**

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

	<u>Governmental</u> <u>Activities</u>	<u>Business - Type</u> <u>Activities</u>	<u>2017</u> <u>Total</u>	<u>Governmental</u> <u>Activities</u>	<u>Business - Type</u> <u>Activities</u>	<u>2016</u> <u>Total</u>
<b>REVENUES</b>						
<b>Program Revenues:</b>						
Charges for Services	\$ 293,518	\$ 453,484	\$ 747,002	\$ 99,230	\$ 468,151	\$ 567,381
Operating Grants & Contributions	8,701,817	497,847	9,199,664	6,797,408	500,785	7,298,193
<b>General Revenues:</b>						
Property Taxes	15,265,894	0	15,265,894	14,965,923	0	14,965,923
Property Tax Relief	861,653	0	861,653	860,713	0	860,713
Other Taxes	2,524,425	0	2,524,425	2,598,519	0	2,598,519
Grants, Subsidies and Contributions not restricted	9,252,608	0	9,252,608	9,073,461	0	9,073,461
Other	246,427	590	247,017	33,299	328	33,627
<b>TOTAL REVENUES</b>	<b>\$ 37,146,342</b>	<b>\$ 951,921</b>	<b>\$ 38,098,263</b>	<b>\$ 34,428,553</b>	<b>\$ 969,264</b>	<b>\$ 35,397,817</b>
<b>EXPENSES</b>						
Instruction	\$ 24,025,404	\$ 0	\$ 24,025,404	\$ 21,293,345	\$ 0	\$ 21,293,345
Instructional Student Support	1,820,497	0	1,820,497	1,727,449	0	1,727,449
Administrative	2,704,755	0	2,704,755	2,137,492	0	2,137,492
Pupil Health	413,670	0	413,670	405,740	0	405,740
Business Services	480,833	0	480,833	522,570	0	522,570
Operation of Plant & Maintenance	3,413,034	0	3,413,034	3,234,047	0	3,234,047
Student Transportation	2,180,240	0	2,180,240	2,186,232	0	2,186,232
Central	0	0	0	0	0	0
Other Support Services	20,375	0	20,375	20,401	0	20,401
Student Activities	540,390	0	540,390	1,184,054	0	1,184,054
Community Services	0	0	0	0	0	0
Interest on Long-Term Debt	2,044,675	0	2,044,675	1,527,084	0	1,527,084
Capital Outlay	299,880	0	299,880	114,031	0	114,031
Unallocated Depreciation Expense	1,005,141	0	1,005,141	980,294	0	980,294
Food Services	0	1,103,974	1,103,974	0	999,707	999,707
<b>TOTAL EXPENSES</b>	<b>\$ 38,948,894</b>	<b>\$ 1,103,974</b>	<b>\$ 40,052,868</b>	<b>\$ 35,332,739</b>	<b>\$ 999,707</b>	<b>\$ 36,332,446</b>
<b>INCREASE (DECREASE)</b>						
<b>IN NET POSITION</b>	<b>\$ (1,802,552)</b>	<b>\$ (152,053)</b>	<b>\$ (1,954,605)</b>	<b>\$ (904,186)</b>	<b>\$ (30,443)</b>	<b>\$ (934,629)</b>
<b>Beginning Net Position</b>	<b>(35,095,210)</b>	<b>(999,886)</b>	<b>(36,095,096)</b>	<b>(34,191,024)</b>	<b>(969,443)</b>	<b>(35,160,467)</b>
<b>Ending Net Position</b>	<b>\$ (36,897,762)</b>	<b>\$ (1,151,939)</b>	<b>\$ (38,049,701)</b>	<b>\$ (35,095,210)</b>	<b>\$ (999,886)</b>	<b>\$ (36,095,096)</b>

**BLACKHAWK SCHOOL DISTRICT**

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

**JUNE 30, 2017**

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

Table A-3 shows the District's functions and their net cost (total cost less revenues generated by the activities), which includes information for its six largest functions – instruction, instructional student support, administrative, operation and maintenance, pupil transportation, and student activities. This table also shows the net costs offset by the other unrestricted grants, subsidies, and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

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

<u>FUNCTIONS/PROGRAMS</u>	<b>2017</b>		<b>2016</b>	
	<u>TOTAL COST OF SERVICES</u>	<u>NET COST OF SERVICES</u>	<u>TOTAL COST OF SERVICES</u>	<u>NET COST OF SERVICES</u>
Instruction	\$ 24,025,404	\$ 19,094,421	\$ 21,293,345	\$ 16,839,563
Instructional Student Support	2,254,542	1,987,651	2,153,590	1,951,253
Administrative	3,185,588	2,982,166	2,660,062	2,448,597
Operation and Maintenance	3,413,034	3,009,761	3,234,047	3,009,144
Pupil Transportation	2,180,240	532,529	2,186,232	556,998
Student Activities	540,390	365,969	1,184,054	1,009,137
Community Services	0	(99,000)	0	0
Interest on Long-Term Debt	2,044,675	775,041	1,527,084	1,527,084
Capital Outlay	299,880	299,880	114,031	114,031
Unallocated Depreciation Exp.	<u>1,005,141</u>	<u>1,005,141</u>	<u>980,294</u>	<u>980,294</u>
Total Governmental Activities	\$ 38,948,894	\$ 29,953,559	\$ 35,332,739	\$ 28,436,101
Less:				
Unrestricted Grants, Subsidies		<u>9,252,608</u>		<u>9,073,461</u>
Total Needs from Local Taxes and Other Revenues		<u>\$ 20,700,951</u>		<u>\$ 19,362,640</u>

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

Table A-4  
Fiscal Year Ended June 30, 2017 and 2016  
Business-Type Activities/Food Service

<u>FUNCTIONS/PROGRAMS</u>	<b>2017</b>		<b>2016</b>	
	<u>TOTAL COST OF SERVICES</u>	<u>NET COST OF SERVICES</u>	<u>TOTAL COST OF SERVICES</u>	<u>NET COST OF SERVICES</u>
Food Service	\$ 1,103,974	\$ 152,643	\$ 999,707	\$ 30,771
Plus:				
Investment Earnings		<u>590</u>		<u>328</u>
<b>Total Business - Type Activities</b>		<u><b>\$ (152,053)</b></u>		<u><b>\$ (30,443)</b></u>

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

**BLACKHAWK SCHOOL DISTRICT**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**

**JUNE 30, 2017**

**THE DISTRICT FUNDS**

At June 30, 2017, the District governmental funds reported a combined fund balance of \$6,099,671, which is an increase of \$4,807,972 from June 30, 2016.

**General Fund**

The General Fund is the primary indicator of the District’s financial health for a given fiscal year. Revenues compared to prior years and to the budgeted amounts for the year in question tell the income story for the District’s operations. Annual expenditures compared to prior years and to the budgeted amounts indicate how well routine payments have been controlled and any emergency unplanned costs that arose during the year. Growth in or shrinkage of the General Fund balance and its comparison to the standards established under Act 1 provides some insight into the District’s health going forward. A schedule showing the District’s original and final General Fund budget amounts compared with amounts actually paid and received is provided on page 16.

**CAPITAL ASSETS**

At June 30, 2017, the District had \$44,779,125 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents an increase (including additions, deletions, and depreciation) of \$209,721 or 0.47% from last year due to various capital projects in the District.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Table A-5 reflects the capital assets of both the governmental activities and the business-type activities of the District.

Table A-5  
Governmental and Business-type Activities  
Fiscal Year Ended June 30, 2017 and 2016  
Capital Assets – Net of Depreciation

	<u>2017</u>	<u>2016</u>
Land	\$ 540,161	\$ 540,161
Site Improvements	3,257,264	3,434,992
Building & Building Improvements	39,285,282	38,771,862
Furniture & Equipment	<u>1,696,418</u>	<u>1,822,389</u>
Total	<u>\$ 44,779,125</u>	<u>\$ 44,569,404</u>

More detailed information about our capital assets is included in Note 5 to the financial statements.

**BLACKHAWK SCHOOL DISTRICT**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**

**JUNE 30, 2017**

**DEBT ADMINISTRATION**

As of June 30, 2017, the District had total outstanding principal of \$43,287,708. This debt consisted of General Obligation Bond (“GOB”) Series 2011 (\$17,430,000), General Obligation Refunding Bond Series 2012 A (\$8,590,000), General Obligation Refunding Bond 2017 (\$9,130,000), General Obligation Refunding Bond 2017, Series A (\$7,755,000), and a capital lease obligation (\$382,707).

Table A-6  
Outstanding Debt

	<u>2017</u>	<u>2016</u>
General Obligation Notes/Bonds:		
Bonds, Series of 2011	\$ 17,430,000	\$ 17,870,000
Bonds, Series of 2012	0	8,810,000
Bonds, Series of 2012 A	8,590,000	9,065,000
Bonds, Series of 2017	9,130,000	0
Bonds, Series of 2017 A	7,755,000	0
Capital Lease	0	3,889,811
Capital Lease	<u>382,707</u>	<u>0</u>
Total Outstanding Debt	<u>\$ 43,287,707</u>	<u>\$ 39,634,811</u>

Other obligations include accrued sick leave and other post-retirement benefits for specific employees of the District. More detailed information about our long-term liabilities is included in Notes 7 and 8 to the financial statements.

**GENERAL FUND BUDGET**

**Expenditures**

The fiscal year 2017-2018 budgeted expenditures are \$834,359 more than the fiscal year 2016-2017 original budget, or a 2.32% increase. This increase is a result of contractual salary increases, increased pension costs, and inflationary increases in the costs of transportation and tuition for private and charter schools.

**Revenues**

The revenue budgeted for the 2017-2018 year is \$499,727 more than the original budget for 2016-2017. This represents a 1.39% increase in budgeted revenues. This increase is a result of a millage increase and expected steady funding from State for Basic Education, Special Education, and Ready To Learn Grant.

The comparison of revenue and expenditure categories is as follows:

**BLACKHAWK SCHOOL DISTRICT**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**

**JUNE 30, 2017**

**BUDGETED REVENUES**

	<u>2017-2018</u>	<u>2016-2017</u>
Local	52.3%	53.4%
State	46.7%	45.6%
Federal/Other	1.0%	1.0%

**BUDGETED EXPENDITURES**

	<u>2017-2018</u>	<u>2016-2017</u>
Instruction	59.1%	57.4%
Support Services	28.9%	30.6%
Non-Instruction/Community	3.4%	3.6%
Fund Transfers/Debt	8.6%	8.4%

**FUTURE BUDGET CHALLENGES**

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

- The Pennsylvania State Employees’ Retirement System (PSERS) set the rate for employer contributions at the following percentages of gross salaries; 2013-2014 at 16.93%; and, FY 2014-2015 at 21.40%, FY 2015-2016 at 25.84%, FY 2016-2017 at 30.03%, and FY 2017-2018 32.57%. After 2017-2018, the rate is expected to steadily increase another 3.75% through June 30, 2022. This percentage will remain the same until 2035 as projected by actuaries. The continued increases in PSERS obligations will have a significant impact on future district budgets, which will ultimately result in millage increases and/or program reductions.
- The recently negotiated five-year contract extension with the Blackhawk Education Association (teachers and other professional employees bargaining unit) will have a financial impact on District budgets beginning with the 2014-15 fiscal year and ending August 31, 2019. The contract was ratified with the Blackhawk Education Support Association (custodial, maintenance, secretarial, paraprofessional, administration, and food service employees) for a successor agreement beginning July 1, 2015 and ending June 30, 2020.
- The State approved a new funding formula for basic education that will assist some, but not all, and not Blackhawk in the current funding released by PDE. The State’s own financial position does not provide the needed funding, which continues to impact not only Blackhawk School District but also every school district in the state. School entities will be forced to increase millage rates, reduce staff, and eliminate programs.
- Special education costs continue to increase with minimum increases subsidies from the State. There was no increase for six (6) years until this current year with a \$28,719 increase. The increase was minimal for Special Education. The District will continue to look at alternative means of delivery of services for special needs students.
- After four (4) years, the State moratorium on reimbursements for renovation and other construction projects has been relaxed and now the State is paying reimbursements. The

## **BLACKHAWK SCHOOL DISTRICT**

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

**JUNE 30, 2017**

Blackhawk School District received \$1,269,634 reimbursements under the state PlanCon process for the Highland Middle School project for the past four (4) years 2013-2017.

- To reduce the potential costs from the Affordable Care Act (ACA), the District contracts with a third party to outsource teacher substitutes. Other staff adjustments may be needed to reduce potential costs related to the ACA. The District is also reviewing the existing self-funded employee health insurance program to ensure future cost controls.
- The Board authorized Eckles architectural firm to evaluate district building facilities for future renovation projects. Specifically, the Northwestern Primary is in need of renovation or replacement to meet the education needs for the future. Other projects will need to be considered for Blackhawk High School, Blackhawk Intermediate School, and Patterson Primary School. Blackhawk High School and the maintenance buildings are in need of major roof repairs. The district did renovations to a portion of the high school roof this summer and will finish the high school and maintenance building roofs in the coming year.
- The potential development of an Ethane “cracker” plant by the Shell Oil Company in Beaver County could spur future residential development in the District with subsequent increased enrollment in District schools. If that development occurs, District facilities may need renovations and/or additions to address the potential increase in enrollment.

#### **ECONOMIC FACTORS**

From a regional perspective, the District is well positioned for potential growth with a transportation system connecting it to the Pittsburgh metropolitan area, the Pittsburgh International Airport, and eastern Ohio. Residential and commercial development continue within the specific areas of the District. Community infrastructure improvements are needed to open additional areas of the District for future development. The District continues to be a prime location to live and to work.

Development of the Shell Plant in Potter Township will create numerous jobs in close proximity to the District. This could provide both commercial and residential growth that would increase revenues to the District in the future.

Currently the development has not materialized, but hopefully in the near future this positive economic impact will occur for the Blackhawk School District.

#### **CONTACTING THE DISTRICT FINANCIAL MANAGEMENT**

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances and to show the School Board's accomplishment of fiscal responsibility for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Mr. Eric A. Brandenburg, Business Manager, at Blackhawk School District, 500 Blackhawk Road, Beaver Falls, PA 15010; (724) 846-6600, ext. 1104.

**BLACKHAWK SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 11,349,338	\$ 440,953	\$ 11,790,291
Taxes Receivable, net			
Property Taxes	900,697	0	900,697
Earned Income Taxes	394,061	0	394,061
Due From Fiduciary Funds	17,225	0	17,225
Internal Balances	960,311	(960,311)	0
Due From Other Governments	1,225,719	745	1,226,464
Other Receivables	20,788	0	20,788
Inventories	0	29,872	29,872
<b>Total Current Assets</b>	<b>\$ 14,868,139</b>	<b>\$ (488,741)</b>	<b>\$ 14,379,398</b>
<b>Noncurrent Assets</b>			
Land	\$ 540,161	\$ 0	\$ 540,161
Site Improvements (net of depreciation)	3,257,264	0	3,257,264
Building & Building Improvements (net of depreciation)	39,285,282	0	39,285,282
Furniture & Equipment (net of depreciation)	1,282,160	414,258	1,696,418
<b>Total Noncurrent Assets</b>	<b>\$ 44,364,867</b>	<b>\$ 414,258</b>	<b>\$ 44,779,125</b>
<b>TOTAL ASSETS</b>	<b>\$ 59,233,006</b>	<b>\$ (74,483)</b>	<b>\$ 59,158,523</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pensions	\$ 9,928,506	\$ 228,042	10,156,548
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts Payable	\$ 2,122,645	\$ 4,186	\$ 2,126,831
Short-Term Payables	105,573	0	105,573
Accrued Salaries and Benefits	2,701,659	0	2,701,659
Unearned Revenue	0	14,147	14,147
Estimated Insurance Claims Payable	618,222	0	618,222
Long-Term Liabilities Due Within One Year	1,937,140	0	1,937,140
Net Pension Liability Due Within One Year	4,172,708	95,840	4,268,548
<b>Total Current Liabilities</b>	<b>\$ 11,657,947</b>	<b>\$ 114,173</b>	<b>\$ 11,772,120</b>
<b>Noncurrent Liabilities</b>			
Bonds Payable	\$ 41,020,000	\$ 0	\$ 41,020,000
Unamortized bond discount/premium	(174,826)	0	(174,826)
Other Post-Employment Benefits	1,400,858	0	1,400,858
Compensated Absences	531,817	1,785	533,602
Retiree Incentives	129,600	14,400	144,000
Authority Lease Obligations	330,567	0	330,567
Net Pension Liability	48,001,923	1,102,528	49,104,451
<b>Total Noncurrent Liabilities</b>	<b>\$ 91,239,939</b>	<b>\$ 1,118,713</b>	<b>\$ 92,358,652</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 102,897,886</b>	<b>\$ 1,232,886</b>	<b>\$ 104,130,772</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pensions	\$ 3,161,388	\$ 72,612	3,234,000
<b>NET POSITION</b>			
Invested in Capital Assets, Net of Related Debt	\$ 5,181,638	\$ 414,258	\$ 5,595,896
Unrestricted (deficit)	(42,079,400)	(1,566,197)	(43,645,597)
<b>TOTAL NET POSITION</b>	<b>\$ (36,897,762)</b>	<b>\$ (1,151,939)</b>	<b>\$ (38,049,701)</b>

See Accompanying Notes to Financial Statements

**BLACKHAWK SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>GOVERNMENTAL ACTIVITIES:</b>							
<b>Instruction:</b>							
Regular Instruction	\$ 16,310,871	\$ 0	\$ 2,479,828	\$ 0	\$ (13,831,043)	\$ 0	\$ (13,831,043)
Special Instruction	5,299,094	0	2,281,353	0	(3,017,741)	0	(3,017,741)
Vocational Instruction	2,287,859	0	150,172	0	(2,137,687)	0	(2,137,687)
Other Instructional Programs	127,580	0	19,630	0	(107,950)	0	(107,950)
Pre-Kindergarten	0	0	0	0	0	0	0
<b>Total Instructional Services</b>	<b>\$ 24,025,404</b>	<b>\$ 0</b>	<b>\$ 4,930,983</b>	<b>\$ 0</b>	<b>\$ (19,094,421)</b>	<b>\$ 0</b>	<b>\$ (19,094,421)</b>
<b>Support Services:</b>							
Pupil Personnel	\$ 838,624	\$ 0	\$ 106,566	\$ 0	\$ (732,058)	\$ 0	\$ (732,058)
Instructional Staff	981,873	0	60,297	0	(921,576)	0	(921,576)
Administration	2,704,755	0	153,778	0	(2,550,977)	0	(2,550,977)
Pupil Health	413,670	0	100,028	0	(313,642)	0	(313,642)
Business Services	480,833	0	49,644	0	(431,189)	0	(431,189)
Operation of Plant and Maintenance Services	3,413,034	128,243	275,030	0	(3,009,761)	0	(3,009,761)
Student Transportation Services	2,180,240	0	1,647,711	0	(532,529)	0	(532,529)
Central	0	0	0	0	0	0	0
Other Support Services	20,375	0	0	0	(20,375)	0	(20,375)
<b>Total Support Services</b>	<b>\$ 11,033,404</b>	<b>\$ 128,243</b>	<b>\$ 2,393,054</b>	<b>\$ 0</b>	<b>\$ (8,512,107)</b>	<b>\$ 0</b>	<b>\$ (8,512,107)</b>
<b>Non-Instructional Services:</b>							
Student Activities	\$ 540,390	\$ 66,275	\$ 108,146	\$ 0	\$ (365,969)	\$ 0	\$ (365,969)
Community Services	0	99,000	0	0	99,000	0	99,000
Capital Expenditures not subject to capitalization	299,880	0	0	0	(299,880)	0	(299,880)
Interest on Long-Term Debt	2,044,675	0	1,269,634	0	(775,041)	0	(775,041)
Unallocated Depreciation Expense	1,005,141	0	0	0	(1,005,141)	0	(1,005,141)
<b>Total Non-Instructional Services</b>	<b>\$ 3,890,086</b>	<b>\$ 165,275</b>	<b>\$ 1,377,780</b>	<b>\$ 0</b>	<b>\$ (2,347,031)</b>	<b>\$ 0</b>	<b>\$ (2,347,031)</b>
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 38,948,894</b>	<b>\$ 293,518</b>	<b>\$ 8,701,817</b>	<b>\$ 0</b>	<b>\$ (29,953,559)</b>	<b>\$ 0</b>	<b>\$ (29,953,559)</b>
<b>BUSINESS-TYPE ACTIVITIES</b>							
Food Services	1,103,974	453,484	497,847	0	0	(152,643)	(152,643)
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 40,052,868</b>	<b>\$ 747,002</b>	<b>\$ 9,199,664</b>	<b>\$ 0</b>	<b>\$ (29,953,559)</b>	<b>\$ (152,643)</b>	<b>\$ (30,106,202)</b>
<b>GENERAL REVENUES</b>							
Taxes:							
Property taxes, levied for general purposes, net					\$ 15,265,894	\$ 0	\$ 15,265,894
Property tax relief					861,653	0	861,653
Other taxes levied for general purposes, net					2,524,425	0	2,524,425
Grants, subsidies & contributions not restricted					9,252,608	0	9,252,608
Investment earnings					28,601	590	29,191
Fines and Penalties					0	0	0
Miscellaneous revenue					6,253	0	6,253
Refunds of prior year expenditures					10,723	0	10,723
Refunds of prior year receipts					0	0	0
Private Contributions					144,750	0	144,750
Insurance recoveries					56,100	0	56,100
Transfer to Fiduciary Funds					0	0	0
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>					<b>\$ 28,151,007</b>	<b>\$ 590</b>	<b>\$ 28,151,597</b>
<b>CHANGE IN NET POSITION</b>					<b>\$ (1,802,552)</b>	<b>\$ (152,053)</b>	<b>\$ (1,954,605)</b>
<b>NET POSITION - BEGINNING</b>					<b>(35,095,210)</b>	<b>(999,886)</b>	<b>(36,095,096)</b>
<b>NET POSITION - ENDING</b>					<b>\$ (36,897,762)</b>	<b>\$ (1,151,939)</b>	<b>\$ (38,049,701)</b>

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

	General	Capital Projects	Total Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 4,712,013	\$ 4,104,478	\$ 8,816,491
Taxes Receivable (net):			
Property Taxes	900,697	0	900,697
Earned Income Taxes	394,061	0	394,061
Interfund Receivables	1,078,498	0	1,078,498
Intergovernmental Receivables	1,225,719	0	1,225,719
Other Receivables	8,227	0	8,227
<b>TOTAL ASSETS</b>	<b>\$ 8,319,215</b>	<b>\$ 4,104,478</b>	<b>\$ 12,423,693</b>
<b>LIABILITIES</b>			
Interfund Payables	\$ 704,585	\$ 0	\$ 704,585
Accounts Payable	527,877	1,581,254	2,109,131
Accrued Salaries & Benefits	2,701,659	0	2,701,659
<b>TOTAL LIABILITIES</b>	<b>\$ 3,934,121</b>	<b>\$ 1,581,254</b>	<b>\$ 5,515,375</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue - Property Taxes	\$ 808,647	\$ 0	\$ 808,647
<b>FUND BALANCES</b>			
Assigned Fund Balance			
Capital Projects	\$ 518,604	\$ 0	\$ 518,604
Next Year's Budget	207,521	0	207,521
Unassigned	2,850,322	2,523,224	5,373,546
<b>TOTAL FUND BALANCES</b>	<b>\$ 3,576,447</b>	<b>\$ 2,523,224</b>	<b>\$ 6,099,671</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 8,319,215</b>	<b>\$ 4,104,478</b>	<b>\$ 12,423,693</b>

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

<b>TOTAL FUND BALANCES - GOVERNMENTAL FUNDS</b>	<b>\$</b>	<b>6,099,671</b>
<p>Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities that are not financial and therefore are not reported as assets in governmental funds.</p>		
Add: Capital Assets		80,401,745
Deduct: Accumulated Depreciation		(36,036,878)
<p>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.</p>		
Add: Property Taxes		808,647
<p>Internal Service Funds are used by the District to charge the costs of health and dental insurance to the other funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Statement of Net Position.</p>		
		2,517,295
<p>Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in governmental funds.</p>		
Deduct: Net Pension Liability		(52,174,631)
<p>Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in governmental funds.</p>		
Add: Deferred Outflows of Resources Related to Pensions	\$	9,928,506
Deduct: Deferred Inflows of Resources Related to Pensions		<u>(3,161,388)</u>
		6,767,118
<p>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:</p>		
Deduct: Bonds Payable	\$	(42,905,000)
Deduct: Leases Payable		(382,707)
Add: Unamortized Discount/Premium		174,826
Deduct: Accrued Interest on Debt		(105,573)
Deduct: Compensated Absences, Retiree Incentives, and Other Post-Employment Benefits		<u>(2,062,275)</u>
		<u>(45,280,729)</u>
<b>TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b><u>(36,897,762)</u></b>

**BLACKHAWK SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUND TYPES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Local Sources	\$ 18,878,691	\$ 77,176	\$ 18,955,867
State Sources	18,097,410	0	18,097,410
Federal Sources	<u>376,453</u>	<u>0</u>	<u>376,453</u>
<b>TOTAL REVENUES</b>	<u>\$ 37,352,554</u>	<u>\$ 77,176</u>	<u>\$ 37,429,730</u>
<b>EXPENDITURES</b>			
Instruction	\$ 20,055,630	\$ 0	\$ 20,055,630
Support Services	10,851,423	207,491	11,058,914
Non-Instructional Services	1,180,877	0	1,180,877
Capital Outlay	439,936	1,812,520	2,252,456
Debt Services	<u>3,011,710</u>	<u>382,029</u>	<u>3,393,739</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 35,539,576</u>	<u>\$ 2,402,040</u>	<u>\$ 37,941,616</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>\$ 1,812,978</u>	<u>\$ (2,324,864)</u>	<u>\$ (511,886)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Refund of Prior Year Expenses	\$ 10,724	\$ 0	\$ 10,724
Insurance Proceeds	56,100	16,885,000	16,941,100
Lease Proceeds	<u>404,946</u>	<u>(12,036,912)</u>	<u>(11,631,966)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ 471,770</u>	<u>\$ 4,848,088</u>	<u>\$ 5,319,858</u>
<b>NET CHANGE IN FUND BALANCES</b>	\$ 2,284,748	\$ 2,523,224	\$ 4,807,972
<b>FUND BALANCE - BEGINNING</b>	<u>1,291,699</u>	<u>0</u>	<u>1,291,699</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 3,576,447</u>	<u>\$ 2,523,224</u>	<u>\$ 6,099,671</u>

See Accompanying Notes to Financial Statements

**BLACKHAWK SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES, CHANGES IN FUND BALANCE**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

**NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS** \$ 4,807,972

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	\$ 2,189,633	
	Less: Depreciation Expense	<u>(1,918,202)</u>	
			271,431

Because some property and earned income taxes will not be collected for several months after the District's fiscal year end, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues decreased by this amount this year. (361,032)

Internal Service Funds are used by the District to charge the costs of health and dental insurance to other funds. The net income of the Internal Service Funds is reported within the governmental activities. (339,874)

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	\$ 4,172,708	
	Less: Cost of Benefits Earned Net of Employee Contributions	<u>(5,162,172)</u>	
			(989,464)

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

	Repayment of Bond Principal	\$ 9,725,000	
	Repayment of Lease Principal	3,912,050	
	Bond Proceeds	(16,885,000)	
	Lease Proceeds	(404,946)	
	Amortization of Bond Discount/Premium	(419,924)	
	Interest Expense	<u>191,089</u>	
			(3,881,731)

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 decreased by this amount. (1,309,854)

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** \$ (1,802,552)

**BLACKHAWK SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND TYPES**  
**JUNE 30, 2017**

	Business-Type Activities <u>Food Service</u>	Governmental Activities Internal Service <u>Insurance Program</u>	Governmental Activities Internal Service Health <u>Insurance Program</u>	Governmental Activities Internal Service Vision <u>Insurance Program</u>
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and Cash Equivalents	\$ 440,953	\$ 374,218	\$ 2,157,356	\$ 1,273
Investments	0	0	0	0
Due from Other Funds	0	71,294	704,585	6,374
Other Accounts Receivable	0	1,128	11,283	150
Due from Other Governments	745	0	0	0
Inventories	<u>29,872</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Current Assets</b>	<b>\$ 471,570</b>	<b>\$ 446,640</b>	<b>\$ 2,873,224</b>	<b>\$ 7,797</b>
<b>Noncurrent Assets:</b>				
Machinery & Equipment (net)	<u>\$ 414,258</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>Total Noncurrent Assets</b>	<b>\$ 414,258</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>TOTAL ASSETS</b>	<b>\$ 885,828</b>	<b>\$ 446,640</b>	<b>\$ 2,873,224</b>	<b>\$ 7,797</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred Outflows of Resources related to Pensions	<u>\$ 228,042</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Due to Other Funds	\$ 960,311	\$ 63,695	\$ 77,668	\$ 37,267
Accounts Payable	4,186	10,458	388,060	2,845
Other Post-Employment Benefits Payable	0	0	0	0
Unearned Revenue	14,147	0	0	0
Estimated Insurance Claims Payable	0	19,486	206,867	4,020
Net Pension Liability Due Within One Year	<u>95,840</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Current Liabilities</b>	<b>\$ 1,074,484</b>	<b>\$ 93,639</b>	<b>\$ 672,595</b>	<b>\$ 44,132</b>
<b>Noncurrent Liabilities:</b>				
Compensated Absences	\$ 1,785	\$ 0	\$ 0	\$ 0
Retiree Incentives	14,400	0	0	0
Net Pension Liability	<u>1,102,528</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Noncurrent Liabilities</b>	<b>\$ 1,118,713</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 2,193,197</b>	<b>\$ 93,639</b>	<b>\$ 672,595</b>	<b>\$ 44,132</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred Inflows of Resources related to Pensions	<u>\$ 72,612</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>NET POSITION</b>				
Invested in Capital Assets, Net of Related Debt	\$ 414,258	\$ 0	\$ 0	\$ 0
Unrestricted	<u>(1,566,197)</u>	<u>353,001</u>	<u>2,200,629</u>	<u>(36,335)</u>
<b>TOTAL NET POSITION</b>	<b>\$ (1,151,939)</b>	<b>\$ 353,001</b>	<b>\$ 2,200,629</b>	<b>\$ (36,335)</b>

See Accompanying Notes to Financial Statements

**BLACKHAWK SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**

**PROPRIETARY FUND TYPES**

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

	<u>Business-Type Activities Food Service</u>	<u>Governmental Activities Internal Service Dental Insurance Program</u>	<u>Governmental Activities Internal Service Health Insurance Program</u>	<u>Governmental Activities Internal Service Vision Insurance Program</u>
<b>OPERATING REVENUES:</b>				
Food Service Revenue	\$ 453,484	\$ 0	\$ 0	\$ 0
Charges to Other Funds	0	169,348	3,383,336	22,678
Other Operating Revenue	<u>0</u>	<u>0</u>	<u>157,646</u>	<u>0</u>
<b>TOTAL OPERATING REVENUES</b>	<u>\$ 453,484</u>	<u>\$ 169,348</u>	<u>\$ 3,540,982</u>	<u>\$ 22,678</u>
<b>OPERATING EXPENSES:</b>				
Salaries	\$ 361,880	\$ 0	\$ 0	\$ 0
Employee Benefits	256,078	0	0	0
Purchased Professional & Technical Service	17,124	0	0	0
Purchased Property Service	6,266	0	0	0
Supplies	400,916	0	0	0
Depreciation	61,710	0	0	0
Administrative Fees	0	0	395,590	3,043
Claims Expense	<u>0</u>	<u>144,411</u>	<u>3,510,451</u>	<u>30,205</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$ 1,103,974</u>	<u>\$ 144,411</u>	<u>\$ 3,906,041</u>	<u>\$ 33,248</u>
<b>OPERATING INCOME (LOSS)</b>	<u>\$ (650,490)</u>	<u>\$ 24,937</u>	<u>\$ (365,059)</u>	<u>\$ (10,570)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
State Sources	\$ 86,356	\$ 0	\$ 0	\$ 0
Federal Sources	411,491	0	0	0
Investment Earnings	<u>590</u>	<u>1,143</u>	<u>9,672</u>	<u>3</u>
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u>\$ 498,437</u>	<u>\$ 1,143</u>	<u>\$ 9,672</u>	<u>\$ 3</u>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS</b>	<u>\$ (152,053)</u>	<u>\$ 26,080</u>	<u>\$ (355,387)</u>	<u>\$ (10,567)</u>
Operating Transfers In (Out)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ (152,053)</u>	<u>\$ 26,080</u>	<u>\$ (355,387)</u>	<u>\$ (10,567)</u>
<b>NET POSITION - BEGINNING</b>	<u>(999,886)</u>	<u>326,921</u>	<u>2,556,016</u>	<u>(25,768)</u>
<b>NET POSITION - ENDING</b>	<u>\$ (1,151,939)</u>	<u>\$ 353,001</u>	<u>\$ 2,200,629</u>	<u>\$ (36,335)</u>

See Accompanying Notes to Financial Statements

**BLACKHAWK SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND TYPES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Food Service</u>	<u>Governmental Activities Internal Service Dental Insurance Program</u>	<u>Governmental Activities Internal Service Health Insurance Program</u>	<u>Governmental Activities Internal Service Vision Insurance Program</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash Received from Users	\$ 453,027	\$ 207	\$ 163,773	\$ 9,260
Cash Received from Charges to Other Funds	0	169,348	3,391,412	22,678
Other Operating Cash Receipts	0	0	0	0
Cash Payments to Employees for Services	(434,827)	0	0	0
Cash Payments to Insurance Claims	0	(71,636)	(3,303,584)	(31,045)
Cash Payments to Suppliers for Goods and Services	<u>(415,387)</u>	<u>8,113</u>	<u>(278,899)</u>	<u>(551)</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ (397,187)</u>	<u>\$ 106,032</u>	<u>\$ (27,298)</u>	<u>\$ 342</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
State Sources	\$ 86,307	\$ 0	\$ 0	\$ 0
Federal Sources	<u>410,795</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES</b>	<u>\$ 497,102</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Facilities Acquisition/Construction/Impr. Services	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investments Purchased	\$ 0	\$ 100,701	\$ 508,861	\$ 0
Earnings on Investments	<u>590</u>	<u>1,143</u>	<u>9,672</u>	<u>3</u>
<b>NET CASH PROVIDED (USED) FROM INVESTING ACTIVITIES</b>	<u>\$ 590</u>	<u>\$ 101,844</u>	<u>\$ 518,533</u>	<u>\$ 3</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>\$ 100,505</u>	<u>\$ 207,876</u>	<u>\$ 491,235</u>	<u>\$ 345</u>
<b>CASH AND CASH EQUIVALENTS - BEGINNING</b>	<u>340,448</u>	<u>166,342</u>	<u>1,666,121</u>	<u>928</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u>\$ 440,953</u>	<u>\$ 374,218</u>	<u>\$ 2,157,356</u>	<u>\$ 1,273</u>

See Accompanying Notes to Financial Statements

**BLACKHAWK SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
**PROPRIETARY FUND TYPES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Food Service</u>	<u>Governmental Activities Internal Service Dental Insurance Program</u>	<u>Governmental Activities Internal Service Health Insurance Program</u>	<u>Governmental Activities Internal Service Vision Insurance Program</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u></b>				
<b>Operating Income (Loss)</b>	\$ (650,490)	\$ 24,937	\$ (365,059)	\$ (10,570)
Depreciation and Net Amortization	\$ 61,710	\$ 0	\$ 0	\$ 0
Use of Donated Commodities	0	0	0	0
<b>Change in Assets and Liabilities</b>				
(Increase) Decrease in Interfund Receivables	0	0	8,076	0
(Increase) Decrease in Other Accounts Receivable	0	207	6,127	33
(Increase) Decrease in Inventories	5,542	0	0	0
(Increase) Decrease in Deferred Outflows of Resources	(115,628)	0	0	0
Increase (Decrease) in Interfund Payables	173,105	71,437	0	9,227
Increase (Decrease) in Accounts Payable	3,377	8,113	116,691	2,492
Increase (Decrease) in Unearned Revenue	(457)	0	0	0
Increase (Decrease) in Estimated Insurance Claims Payable	0	1,338	206,867	(840)
Increase (Decrease) in Compensated Absences	55	0	0	0
Increase (Decrease) in Retiree Incentives	(7,200)	0	0	0
Increase (Decrease) in Net Pension Liability	67,139	0	0	0
Increase (Decrease) in Deferred Inflows of Resources	65,660	0	0	0
<b>Total Adjustments</b>	<b>\$ 253,303</b>	<b>\$ 81,095</b>	<b>\$ 337,761</b>	<b>\$ 10,912</b>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ (397,187)</b>	<b>\$ 106,032</b>	<b>\$ (27,298)</b>	<b>\$ 342</b>

See Accompanying Notes to Financial Statements

**BLACKHAWK SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2017**

	<b>Private- Purpose Trust Fund</b>	<b>Lunt Fund</b>	<b>Student Activities Fund</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 12,967	\$ 169,889	\$ 225,219
Due from General Fund	0	0	0
<b>TOTAL ASSETS</b>	<b>\$ 12,967</b>	<b>\$ 169,889</b>	<b>\$ 225,219</b>
<b>LIABILITIES</b>			
Due to Student Groups	\$ 0	\$ 0	\$ 214,432
Interfund Payable	6,438	0	10,787
Deferred Revenue	0	169,889	0
<b>TOTAL LIABILITIES</b>	<b>\$ 6,438</b>	<b>\$ 169,889</b>	<b>\$ 225,219</b>
<b>TOTAL NET POSITION</b>	<b>\$ 6,529</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 12,967</b>	<b>\$ 169,889</b>	<b>\$ 225,219</b>

See Accompanying Notes to Financial Statements

**BLACKHAWK SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Private- Purpose Trust Fund</u>
<b>ADDITIONS</b>	
Private Donations	\$ 0
Earnings on Investment	<u>15</u>
<b>TOTAL ADDITIONS</b>	<u><u>\$ 15</u></u>
<b>DEDUCTIONS</b>	
Scholarships & Other Deductions	<u>\$ 500</u>
<b>TOTAL DEDUCTIONS</b>	<u>\$ 500</u>
<b>CHANGE IN NET POSITION</b>	\$ (485)
<b>NET POSITION -- BEGINNING</b>	<u>7,014</u>
<b>NET POSITION -- ENDING</b>	<u><u>\$ 6,529</u></u>

See Accompanying Notes to Financial Statements

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

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>	<u>Budget to GAAP Difference</u>	<u>Actual Amounts GAAP Basis</u>
	<u>Original</u>	<u>Final</u>				
<b>REVENUES</b>						
Local revenues	\$ 19,226,072	\$ 19,226,072	\$ 18,878,691	\$ (347,381)	\$ 0	\$ 18,878,691
State program revenues	16,427,548	16,427,548	18,097,410	1,669,862	0	18,097,410
Federal program revenues	<u>372,000</u>	<u>372,000</u>	<u>376,453</u>	<u>4,453</u>	<u>0</u>	<u>376,453</u>
<b>TOTAL REVENUES</b>	<u>\$ 36,025,620</u>	<u>\$ 36,025,620</u>	<u>\$ 37,352,554</u>	<u>\$ 1,326,934</u>	<u>\$ 0</u>	<u>\$ 37,352,554</u>
<b>EXPENDITURES</b>						
Regular Programs	\$ 14,778,208	\$ 14,778,208	\$ 14,499,381	\$ 278,827	\$ 0	\$ 14,499,381
Special Programs	4,222,581	4,222,581	4,207,113	15,468	0	4,207,113
Vocational Programs	1,464,761	1,464,761	1,273,252	191,509	0	1,273,252
Other Instructional Programs	143,246	143,246	75,884	67,362	0	75,884
Pre-Kindergarten	0	0	0	0	0	0
Pupil Personnel Services	914,231	914,231	805,820	108,411	0	805,820
Instructional Staff Services	995,918	995,918	1,082,689	(86,771)	0	1,082,689
Administrative Services	2,144,061	2,144,061	2,428,739	(284,678)	0	2,428,739
Pupil Health	419,224	419,224	408,944	10,280	0	408,944
Business Services	574,148	574,148	472,062	102,086	0	472,062
Operation & Maintenance of Plant Services	3,804,757	3,804,757	3,452,554	352,203	0	3,452,554
Student Transportation Services	2,123,000	2,123,000	2,180,240	(57,240)	0	2,180,240
Other Support Services	20,500	20,500	20,375	125	0	20,375
Student Activities	1,268,766	1,268,766	1,175,877	92,889	0	1,175,877
Community Services	5,500	5,500	5,000	500	0	5,000
Capital Outlay	0	0	439,936	(439,936)	0	439,936
Debt Services	<u>3,019,608</u>	<u>3,019,608</u>	<u>3,011,710</u>	<u>7,898</u>	<u>0</u>	<u>3,011,710</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 35,898,509</u>	<u>\$ 35,898,509</u>	<u>\$ 35,539,576</u>	<u>\$ 358,933</u>	<u>\$ 0</u>	<u>\$ 35,539,576</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 127,111</u>	<u>\$ 127,111</u>	<u>\$ 1,812,978</u>	<u>\$ 1,685,867</u>	<u>\$ 0</u>	<u>\$ 1,812,978</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Refund of Prior Year Expenses	\$ 0	\$ 0	\$ 10,724	\$ 10,724	\$ 0	\$ 10,723
Insurance Proceeds	0	0	56,100	56,100	0	56,100
Lease Proceeds	<u>0</u>	<u>0</u>	<u>404,946</u>	<u>404,946</u>	<u>0</u>	<u>404,946</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 471,770</u>	<u>\$ 471,770</u>	<u>\$ 0</u>	<u>\$ 471,769</u>
Net change in fund balances	\$ 127,111	\$ 127,111	\$ 2,284,748	\$ 2,157,637	\$ 0	\$ 2,284,747
<b>FUND BALANCE- BEGINNING</b>	<u>1,897,473</u>	<u>1,897,473</u>	<u>1,291,699</u>	<u>(605,774)</u>	<u>0</u>	<u>1,291,699</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 2,024,584</u>	<u>\$ 2,024,584</u>	<u>\$ 3,576,447</u>	<u>\$ 1,551,863</u>	<u>\$ 0</u>	<u>\$ 3,576,446</u>

See Accompanying Notes to Financial Statements

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDING JUNE 30, 2017**

**NOTE 1 – REPORTING ENTITY**

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

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure 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 Blackhawk School District, this includes general operations, internal service funds, 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. Blackhawk School District does not have any component units.

The Beaver Valley Intermediate Unit, Blackhawk Foundation, Inc., and Beaver County Career and Technology 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 Blackhawk School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental 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 considered business-

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDING JUNE 30, 2017**

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

type activities. Internal Service Fund activity is eliminated to avoid “doubling up” revenues and expenses.

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 governmental function or business-type activity 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. Fiduciary funds are reported by fund 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 associated with past and current fiscal periods are deferred in the Governmental fund financial statements.

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDING JUNE 30, 2017**

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

The School District reports the following major Governmental Funds:

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

*Capital Projects Fund* – The Capital Projects Fund accounts for resources accumulated and payments made for the acquisition and improvement of sites, construction and remodel of facilities, and procurement of equipment necessary for providing educational programs for all students within the School District.

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 and the accrual basis of accounting. 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 cash flow needs of its proprietary activities. All proprietary funds, with the exception of the internal service funds, are shown on the government-wide statements as business-type activities.

The School District reports the following major proprietary funds:

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

*Internal Service Funds* – Internal Service funds are used to account for the financing of goods or services provided by one department or agency, another on a cost-reimbursement basis. The Dental, Health, and Vision Self-Insurance Programs of the School District are accounted for in these funds:

Governmental Activities Internal Service Dental Insurance Program: It is the policy of the School District not to purchase commercial insurance for risks of losses associated with Dental claims incurred by School District employees. Instead, School District management believes it is more economical to manage its risks internally and set aside assets for claim settlement in its internal service dental insurance fund. The fund allocates the cost of providing claims servicing and claims payment by charging a “premium” to the General and Food Service Funds.

Governmental Activities Internal Service Health Insurance Program: It is the policy of the School District not to purchase commercial insurance for risks of losses associated with Health claims incurred by School District employees. Instead, School District management believes it is more economical to manage its risks internally and set aside assets for claim settlement in its internal service health insurance fund.

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDING JUNE 30, 2017**

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

Governmental Activities Internal Service Vision Insurance Program: It is the policy of the School District not to purchase commercial insurance for risks of losses associated with Vision claims incurred by School District employees. Instead, School District management believes it is more economical to manage its risks internally and set aside assets for claim settlement in its internal service health insurance fund.

Fiduciary Funds are used to account for assets held by the School in a trustee capacity or as an agent for individuals, private organizations, or other governments. The Fiduciary Funds are prepared under the economic resources measurement focus and the accrual basis of accounting. These include private-purpose trust and agency funds. Private-purpose trust funds account for resources, including both principal and earnings, which must be expended according to the provision of a trust agreement, and are accounted for in essentially the same manner as proprietary funds. Agency Funds are purely custodial and thus do not involve measurement of results of operations.

The School District reports the following as Fiduciary Funds:

*Private Purpose Trust Fund* – This fund represents Certificates of Deposits held for scholarship purposes in accordance with the grantor agreement. Revenues consist of donations and interest income. Expenditures represent scholarships that are awarded in accordance with the grantor agreement.

*Lunt Fund* – This fund represents money received from a grantor that is to be used exclusively to fund field trips or other educational programs not funded by the regular School District budget for all members of the student body of Blackhawk, kindergarten through twelfth grade. The restricted agreement contains restrictions on how the unused funds are to be invested as well.

*Student Activity Fund* – This fund is an agency fund that is established to account for receipts and disbursements of various school activities administered for the general welfare of the students and completion of certain planned objectives and special programs of school groups. The School District retains no equity interest in these funds. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Accordingly, the statement shown for the School District is only the statement of fiduciary net position. There is no statement required for the changes in fiduciary net position.

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

**C. Budgetary Process**

The School District passed an appropriated budget for the fiscal year ending June 30, 2017 with revenues totaling \$36,025,620 and expenditures totaling \$35,898,509.

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2017**

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

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

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

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

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

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

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

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

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

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

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2017**

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

**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. 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 that 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 assets, except for amounts due to/from other funds, which are not presented in the statement of net position.

**F. Inventories**

On government-wide financial statements, inventories are stated at cost using the purchase method. The purchase method means that food products, materials, and supplies are charged as expenditures when acquired. Inventory on hand at the end of the period is then recorded as an asset by offsetting the appropriate expense account. Inventory for governmental activities are not reported as of June 30, 2017 due to their immaterial balance. Inventory for business-type activities are \$29,872 at June 30, 2017.

On fund financial statements, inventories are stated at cost using the purchase method for proprietary funds. Inventories are not maintained in governmental funds for fund financial statement reporting.

**G. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDING JUNE 30, 2017**

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

materially extend an asset’s life are not. Interest incurred during the construction of capital assets utilized by the enterprise funds is also capitalized.

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:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Site Improvements	15-20 years	N/A
Buildings and Improvements	20-40 years	20-40 years
Furniture and Equipment	5-20 years	5-20 years

**H. Compensated Absences/Retirement Incentives**

*Compensated Absences*

School District employees accrue nine to twelve days of sick leave each year, without limit. Upon retirement or separation of service, the employee is paid for each unused sick day at a rate between \$25 per day for 99 days accrued or less for teachers and \$50 for each day if the employee has accrued 100 days or more. Teachers must have completed at least twenty years of service prior to separation of service in order to be entitled to the payment. The School District has no liability for unused vacation pay. Teachers do not receive paid vacations but are paid only for the 187 days they are required to work each year. Administrators have to be over 50 years of age and have 7 years of service to receive \$80 for each unused sick day. Confidential secretaries with 15 years of service receives \$20 up to 99 days and \$30 for every day after. Professional secretaries, Paraprofessionals, Maintenance, Cafeteria workers and Custodians are the same as the confidential secretaries except they need 20 years of service.

Administrative, maintenance, and secretarial employees are granted vacation leave in varying amounts. In the event of separation of service, an employee is reimbursed for any unused leave. The School District has no liability for unused vacation pay since all vacation leave is used or lost if not taken each year. Vacation pay is charged to operations when taken by the employees of the School District.

*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 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. For the School District, the liability associated with the “retirement incentive” as actuarially valued under GASB 45 is the School District’s commitment to provide fully-paid medical coverage to eligible retirees until such

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2017**

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

retirees reach the age of 62. Eligible retirees for these purposes are those that retired under the Early Retirement Incentives of 2012 and 2015, respectively. Additionally, the District's commitment to provide benefits for retirees under Act 110/43 is included in the liability valuation. The guidance in the GASB 45 statement rests on the assumption that OPEB should be accrued as service is provided by employees.

In addition, for retirees who meet state requirements for full retirement benefits and certain District service requirements, which vary by bargaining unit, the School District will make a lump-sum payment into the retirees' 403(b) account in the District-maintained 403(b) program. The liability for this incentive is recognized when it can be reasonably determined that the District will be obligated to make such payment.

The entire liability for the above items is reported on the government-wide financial statements. For governmental funds, the current portion of the liability is the amount that is normally expected to be paid using expendable financial resources. In proprietary funds, if applicable, the entire amount of the liability 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 proprietary fund financial statements.

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

**J. Elimination of Internal Activity and Classification of Internal Service Funds' Revenues and Expenditures**

Transactions between funds that would be treated as revenues, expenditures, or expenses if they involve entities external to the School District are accounted for as revenues, expenditures, or expenses in the funds. At year-end, outstanding balances between funds are reported in the fund financial statements. Amounts reported in the funds as due to or due from other funds are eliminated in the governmental activities column of the statement of net position.

The School District eliminates its internal service activity in the statement of activities. This is accomplished by eliminating the revenues and expenses of the internal service funds against each other and then distributing the residual amount among the various functions based upon the volume of activity they had during the year with each internal service fund.

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2017**

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

**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.

**L. Fund Equity**

Fund equity at the governmental fund financial reporting level is classified as “fund balance.” Fund equity for all other reporting is classified as “net position.”

*Fund Balance*

The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), 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 or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – Fund balances that contain self-imposed constraints of the government from its highest level of decision making authority, the Blackhawk School District Board of Directors. Commitments may be established, modified, or rescinded only through resolutions approved by the Blackhawk School District Board of Directors.

Assigned – Fund balances that do not meet the criteria to be classified as restricted or committed but that contain other self-imposed constraints of the government to be used for specific purposes. As of June 30, 2016, the Blackhawk School District Board of Directors has not authorized other personnel to assign fund balances.

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

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2017**

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

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.

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

*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 and net of accumulated depreciation reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. This net investment in capital assets amount also is adjusted by any bond issuance deferral amounts. 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.

**M. Bond Premium and Discount**

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 amount of the bonds using the straight-line method, which approximates the effective interest method.

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

In addition to assets, the statement of net position and/or balance sheet includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District reported \$9,928,506 in the Government Activities and \$228,042 in the Business-type 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 or fund balance 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 \$3,161,388 in the Government Activities and \$72,612 in the Business-type Activities as deferred inflows of resources related to pension. The School District also had \$808,647 of deferred inflow of resources from unavailable property tax revenue reported on the Balance Sheet – Governmental Funds as of June 30, 2017.

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2017**

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

**O. Pensions**

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

**P. Date of Management's Review**

Blackhawk School District evaluated its June 30, 2017 financial statements for subsequent events through the date of the Independent Auditor's Report, the date the financial statements were available to be issued. The School District is not aware of subsequent events that would require recognition or disclosure in the financial statements.

**NOTE 3 – CASH / INVESTMENTS**

**A. 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. The School District does not have a policy for custodial credit risk. As of June 30, 2017, \$11,759,455 of the District's bank balance of \$12,272,422 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	\$	11,759,455

**B. Reconciliation to Financial Statements**

Uncollateralized Amount Above	\$ 11,759,455
Collateralized Amount Above	<u>512,967</u>
Carrying Amount - Bank Balances	\$ 12,272,422
Less: Outstanding Items	(74,056)
Less: Fiduciary Funds	<u>(408,075)</u>
Total Cash and Investments	<u>\$ 11,790,291</u>

**C. Interest Rate Risk**

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

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDING JUNE 30, 2017**

**NOTE 3 – CASH / INVESTMENTS – CONTINUED**

**D. Custodial Credit Risk**

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

**E. 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.

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

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

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2017**

**NOTE 4 – TAXES**

**A. 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 2016-2017 is as follows:

July 1, 2016 - tax levy date  
Through August 31, 2016 - 2% discount period  
Through October 31, 2016 - face payment period  
Beginning November 1, 2016 - 5% penalty period  
April 1, 2017 - lien date

The School District tax rate for all purposes in 2016-2017 was 63.99 mills for Beaver County (\$63.99 per \$1,000 assessed valuation) and 20.53 mills for Lawrence County (\$20.53 per \$1,000 assessed valuation). Total collections for the 2016-2017 year were \$14,947,396.

As of June 30, 2017, property taxes receivable by the School District includes uncollected taxes assessed as of July 1, 2016 or earlier. It is estimated that 90% of all assessed taxes (including delinquencies plus accrued interest and penalties) will be collected; therefore, property taxes receivable reflect this estimate. Delinquent property tax receivable is recognized as revenue in the government-wide financial statements. Only the portion of property taxes receivable that meets the revenue recognition criteria is reported as revenue in the fund financial statements.

**B. Income Taxes**

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

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2017**

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 540,161	\$ 0	\$ 0	\$ 540,161
Construction-in-Progress	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Capital Assets, not being depreciated	<u>\$ 540,161</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 540,161</u>
Capital assets, being depreciated:				
Site Improvements	\$ 6,293,709	\$ 157,218	\$ 0	\$ 6,450,927
Building and Building Improvements	63,810,494	1,880,304	0	65,690,798
Furniture and Equipment	<u>7,567,748</u>	<u>152,111</u>	<u>0</u>	<u>7,719,859</u>
Total Capital Assets, being depreciated	<u>\$ 77,671,951</u>	<u>\$ 2,189,633</u>	<u>\$ 0</u>	<u>\$ 79,861,584</u>
Accumulated depreciation for:				
Site Improvements	\$ (2,858,717)	\$ (334,946)	\$ 0	\$ (3,193,663)
Building and Building Improvements	(25,038,632)	(1,366,884)	0	(26,405,516)
Furniture and Equipment	<u>(6,221,327)</u>	<u>(216,372)</u>	<u>0</u>	<u>(6,437,699)</u>
Total accumulated depreciation	<u>\$ (34,118,676)</u>	<u>\$ (1,918,202)</u>	<u>\$ 0</u>	<u>\$ (36,036,878)</u>
Total Capital Assets, being depreciated, net:	<u>\$ 43,553,275</u>	<u>\$ 271,431</u>	<u>\$ 0</u>	<u>\$ 43,824,706</u>
Governmental activities capital assets, net:	<u>\$ 44,093,436</u>	<u>\$ 271,431</u>	<u>\$ 0</u>	<u>\$ 44,364,867</u>
<b>Business-type Activities:</b>				
Capital assets, being depreciated:				
Furniture and Equipment	<u>\$ 981,774</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 981,774</u>
Total Capital Assets, being depreciated	<u>\$ 981,774</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 981,774</u>
Accumulated depreciation for:				
Furniture and Equipment	<u>\$ (505,806)</u>	<u>\$ (61,710)</u>	<u>\$ 0</u>	<u>\$ (567,516)</u>
Total accumulated depreciation	<u>\$ (505,806)</u>	<u>\$ (61,710)</u>	<u>\$ 0</u>	<u>\$ (567,516)</u>
Total Capital Assets, being depreciated, net:	<u>\$ 475,968</u>	<u>\$ (61,710)</u>	<u>\$ 0</u>	<u>\$ 414,258</u>
Business-type activities capital assets, net:	<u>\$ 475,968</u>	<u>\$ (61,710)</u>	<u>\$ 0</u>	<u>\$ 414,258</u>
<b>Total Governmental &amp; Business-type activities, net</b>	<u><u>\$ 44,569,404</u></u>	<u><u>\$ 209,721</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 44,779,125</u></u>

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2017**

**NOTE 5 – CAPITAL ASSETS – CONTINUED**

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

**Governmental Activities:**

Instruction:	
Regular Instruction	\$ 701,484
Special Instruction	65,603
Vocational Instruction	576
Other Instructional Programs	49,872
Support Services:	
Pupil Personnel	23,018
Instructional Staff	11,893
Pupil Health	192
Operation of Plant and Maintenance Services	20,908
Non-Instructional Services:	
Student Activities	39,515
Unallocated Depreciation Expense**	<u>1,005,141</u>
Total Depreciation expense, Governmental Activities:	<u>\$ 1,918,202</u>

**Business-type Activities:**

Food Services	<u>\$ 61,710</u>
Total Depreciation expense, Business-type Activities:	<u>\$ 61,710</u>

Total Depreciate expense, Governmental and Business-type Activities:	<u><u>\$ 1,979,912</u></u>
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\*\*Unallocated Depreciation Expense represents assets or portions of assets that are not able to be identified with any particular function (eg: building hallways, certain computer labs, etc.)

**NOTE 6 – PENSION PLAN**

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

General Information about the Pension Plan

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

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2017**

**NOTE 6 – PENSION PLAN – CONTINUED**

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

Participants are eligible for disability retirement benefits after completion of 5 years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least 1 year of credited service (age 65 with at least 3 years of credited service for Class T-E and Class T-F members) or who has at least 5 years of credited service (10 years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

*Contributions:*

*Member Contributions:*

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

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

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

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

**BLACKHAWK SCHOOL DISTRICT**  
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**NOTE 6 – PENSION PLAN – CONTINUED**

fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

**Employer Contributions:**

The school districts' contractually required contribution rate for the fiscal year ended June 30, 2017 was 29.20% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$4,268,548 for the year ended June 30, 2017.

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

At June 30, 2017, the District reported a liability of \$53,372,999 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2015 to June 30, 2016. The District's proportion of the net pension liability was calculated utilizing the employer's 1-year reported covered payroll as it related to the total 1-year reported covered payroll. At June 30, 2016, the District's proportion was 0.1077%, which was a decrease of 0.0080% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$5,285,254. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 0	\$ 445,000
Changes in assumptions	1,927,000	0
Net difference between projected and actual investment earnings	2,975,000	0
Changes in proportions	986,000	2,789,000
Difference between employer contributions and proportionate share of total contributions	0	0
District contributions subsequent to the measurement date	<u>4,268,548</u>	<u>0</u>
<b>Total</b>	<b><u>\$ 10,156,548</u></b>	<b><u>\$ 3,234,000</u></b>

The District reported \$4,268,548 as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date and will be recognized as a reduction of the

**BLACKHAWK SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDING JUNE 30, 2017**

**NOTE 6 – PENSION PLAN – CONTINUED**

net pension liability in the year ended June 30, 2017. 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	\$	539,000
2018	\$	539,000
2019	\$	1,153,000
2020	\$	423,000

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

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

- The Investment Rate of Return was adjusted from 7.50% to 7.25%
- The inflation assumption was decreased from 3.00% to 2.75%
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth, and for merit or seniority increases of 2.50%, to an effective average of 5.00% comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Tables for Males and Females, adjusted to reflect PSERS’ experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants, rates were modified from the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS’ experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the 5-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the Board at its June 10, 2016 Board meeting, and were effective beginning with the June 30, 2016 actuarial valuation.

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.

**BLACKHAWK SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDING JUNE 30, 2017**

**NOTE 6 – PENSION PLAN – CONTINUED**

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	22.5%	5.3%
Fixed income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute return	10.0%	3.3%
Risk parity	10.0%	3.9%
Infrastructure/MLPs	5.0%	4.8%
Real estate	12.0%	4.0%
Alternative investments	15.0%	6.6%
Cash	3.0%	0.2%
Financing (LIBOR)	-14.0%	0.5%
	<u>100.0%</u>	

The above was the Board’s adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016.

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

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	6.25%	7.25%	8.25%
School District's proportionate share of net pension liability	\$ 65,289,000	\$ 53,372,999	\$ 43,359,000

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2017**

**NOTE 6 – 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.pa.gov](http://www.psers.pa.gov).

**NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS**

**A. Post-Employment Benefits**

From an accrual accounting perspective, the cost of other post-employment benefits (“OPEB”), 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 Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2009, the School District recognizes the cost of post-employment benefits 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.

**B. Plan Description**

The provisions for OPEB that are considered significant and upon which the valuation is based is the School District’s commitment to provide fully-paid medical coverage to eligible retirees until such retirees reach the age of 62. Eligible retirees for these purposes are those that retired under the Early Retirement Incentives of 2012 and 2015, respectively. Additionally, the School District’s commitment to provide benefits for retirees under Act 110/43 is included in the liability valuation.

A bi-annual actuarial valuation is made to determine whether the contributions are sufficient to meet the plan obligations. The latest actuarial valuation was made July 1, 2016. The post-retirement plan does not issue stand-alone financial reports.

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

Retirees and beneficiaries receiving benefits	64
Active plan members	<u>225</u>
<b>Total</b>	<u><u>289</u></u>

**C. Funding Policy**

The required contribution is based upon continuation of the plan as unfunded (i.e. projected on a pay-as-you-go financing requirement).

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 Actuarial Cost Method.

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2017**

**NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS – CONTINUED**

**D. Annual OPEB Cost and Net OPEB Obligation**

For the year ended June 30, 2017, the School District’s annual OPEB cost for the Plan was \$2,047,942. The School District’s annual OPEB cost and the net OPEB obligation for the year ended June 30, 2017, were as follows:

Annual Required Contribution	\$ 2,086,237
Interest on Net OPEB Obligation	3,132
Adjustment to Annual Required Contribution	<u>(41,427)</u>
Annual OPEB Cost	\$ 2,047,942
Estimated Contributions Made	<u>(725,381)</u>
Increase in Net OPEB Obligation	\$ 1,322,561
Net OPEB Obligation - June 30, 2016	<u>78,297</u>
Net OPEB Obligation - June 30, 2017	<u>\$ 1,400,858</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 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, 2016 is estimated to be \$3,884,525. The School’s contributions represent payments made for premiums for insured individuals.

**E. Trend Information**

Three-year trend information for the Plan is as follows:

GASB45 Schedule of Employer Contributions (\$000's)			
Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2017	\$ 2,048	35.4%	\$ 1,401
June 30, 2016	\$ 741	67.2%	\$ 79
June 30, 2015	\$ 871	18.4%	\$ (164)

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2017**

**NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS – CONTINUED**

**F. Funded Status and Funding Progress**

The funded status of the plan as of June 30, 2017, was as follows:

Schedule of Funding Progress (\$000's)						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL	Funded Ratio	Covered Payroll (Total)	UAAL as a Percentage of Payroll
7/1/2016	\$ 0	\$ 3,885	\$ 3,885	0%	\$ 12,231	31.76%
1/1/2014	\$ 0	\$ 3,007	\$ 3,007	0%	\$ 12,833	23.43%

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 employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**G. Actuarial Methods and Assumptions**

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

The annual OPEB cost was determined as part of the actuarial valuation. Additional information as of the last actuarial valuations follows:

Valuation Date:	July 1, 2016
Actuarial Cost Method:	Entry Age Normal Actuarial Cost Method
Asset Valuation Method:	No assets were valued
Amortization Method:	Level dollar amortization
Remaining Amortization Period	Two year open period
Actuarial Assumptions:	
Investment rate of return	Not utilized being there are no assets
Inflation rate	3.00%

**H. Retirement Incentives**

For retirees who meet state requirements for full retirement benefits and certain District service requirements, which vary by bargaining unit, the District will provide medical coverage for the retiree and his/her dependents. The liability for this incentive is recognized when it can be reasonably determined that the District will be obligated to make such payment. This incentive was included in the GASB 45 actuarial valuation for valuations as of July 1, 2016.

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2017**

**NOTE 8 – LONG-TERM DEBT**

Long-term liability for the year ended June 30, 2017 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Reclassify</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>						
Bonds Payable:						
General obligation bonds/notes	\$ 35,745,000	\$ 16,885,000	\$ (9,725,000)	\$ 0	\$ 42,905,000	\$ 1,885,000
Deferred amounts for issuance premium/(discount)	<u>(594,750)</u>	<u>0</u>	<u>419,924</u>	<u>0</u>	<u>(174,826)</u>	<u>0</u>
Total bonds payable, net	\$ 35,150,250	\$ 16,885,000	\$ (9,305,076)	\$ 0	\$ 42,730,174	\$ 1,885,000
Capital Lease Obligation	3,889,811	404,946	(3,912,050)	0	382,707	52,140
Compensated Absences	510,634	21,183	0	0	531,817	0
Other Postemployment Benefits	78,297	1,322,561	0	0	1,400,858	0
Retiree Incentives	275,000	0	(145,400)	0	129,600	0
Net Pension Liability	<u>48,984,771</u>	<u>3,189,860</u>	<u>0</u>	<u>0</u>	<u>52,174,631</u>	<u>4,172,708</u>
Total governmental activity long-term liabilities	\$ 88,888,763	\$ 21,823,550	\$ (13,362,526)	\$ 0	\$ 97,349,787	\$ 6,109,848
<b>Business-type activities:</b>						
Compensated Absences	\$ 1,730	\$ 55	\$ 0	\$ 0	\$ 1,785	\$ 0
Retiree Incentives	21,600	0	(7,200)	0	14,400	0
Net Pension Liability	<u>1,131,229</u>	<u>67,139</u>	<u>0</u>	<u>0</u>	<u>1,198,368</u>	<u>95,840</u>
Total business-type activity long-term liabilities	\$ 1,154,559	\$ 67,194	\$ (7,200)	\$ 0	\$ 1,214,553	\$ 95,840
<b>Total governmental &amp; business-type activities long-term liabilities</b>	<u>\$ 90,043,322</u>	<u>\$ 21,890,744</u>	<u>\$ (13,369,726)</u>	<u>\$ 0</u>	<u>\$ 98,564,340</u>	<u>\$ 6,205,688</u>

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

For the year ended June 30, 2017, total interest and debt fees incurred of \$1,465,013 were charged to expense; no interest costs were capitalized during the period.

The annual requirements to amortize all general obligation bonds outstanding as of June 30, 2017, including interest payments, are as follows:

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDING JUNE 30, 2017**

**NOTE 8 – LONG-TERM DEBT – CONTINUED**

Year ending	<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$	1,660,000	\$ 1,410,662	\$ 3,070,662
2019		1,650,000	1,425,510	3,075,510
2020		1,690,000	1,386,878	3,076,878
2021		1,750,000	1,343,452	3,093,452
2022		1,810,000	1,294,640	3,104,640
2023-2027		9,725,000	5,715,233	15,440,233
2028-2032		11,335,000	4,083,335	15,418,335
2033-2037		10,850,000	1,973,002	12,823,002
2038		<u>2,435,000</u>	<u>91,313</u>	<u>2,526,313</u>
Total		<u>\$ 42,905,000</u>	<u>\$ 18,724,025</u>	<u>\$ 61,629,025</u>

General obligation bonds payable at June 30, 2017 with their outstanding balances are as follows:

\$20,000,000 2011 general obligation note, due in annual installments of \$405,000 to \$1,925,000 beginning June 30, 2012 through June 30, 2037, interest from 2.0% to 4.75%	\$ 17,430,000
\$9,450,000 2012 general obligation note, due in semi-annual installments of \$5,000 to \$2,425,000 beginning March 1, 2013 through June 1, 2038, interest from 2.0% to 4.15%	0
\$9,780,000 2012 A general obligation refunding bonds, due in semi-annual installments of \$5,000 to \$660,000 beginning March 1, 2018 through March 1, 2032, interest from 1.2% to 3.0%	8,590,000
\$9,130,000 2017 general obligation refunding bonds, due in semi-annual installments of \$265,000 to \$2,435,000 beginning March 1, 2018 through March 1, 2038, interest from 1.7% to 3.84%	9,130,000
\$7,755,000 2017 A general obligation refunding bonds, due in semi-annual installments of \$435,000 to \$620,000 beginning March 1, 2018 through September 1, 2031, interest from 1.0% to 3.35%	7,755,000
	<u>\$ 42,905,000</u>

On March 3, 2017, Blackhawk School District issued \$9,130,000 in General Obligation Bonds, Refunding Series of 2017. Total interest and principal payments over the scheduled life of the Bond is \$13,484,532, with interest rates between 1.20% and 3.84%. The bonds are scheduled to mature on March 1, 2038.

The proceeds of the bonds were used to refund the School District's General Obligation Bonds, Series 2012 and to pay the cost of issuing the bonds. As a result, the \$8,585,000 Bonds are considered defeased, and the liability has been removed from the balances of bonds payable. The total interest and principal payments of the defeased amounts to be paid out over the life of the bond issue at the

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 8 – LONG-TERM DEBT – CONTINUED**

time of refunding were \$13,484,328, with interest rates between 2.00% and 4.15%. The bonds are scheduled to mature on March 1, 2038.

On April 19, 2017, Blackhawk School District issued \$7,755,000 in General Obligation Bonds, Refunding Series of 2017. Total interest and principal payments over the scheduled life of the Bond is \$9,470,193, with interest rates between 1.00% and 3.35%. The bonds are scheduled to mature on September 1, 2031.

The proceeds of the bonds were used for various capital projects, to prepay the School District’s Master Equipment Lease dated as of August 1, 2008, and to pay the cost of issuing the bonds. As a result, the \$3,451,912 Master Equipment Lease liability has been satisfied, and the liability has been removed from the balances of leases payable. The total interest and principal payments of the satisfied amounts to be paid out over the life of the lease at the time of remittance were \$3,873,992, with the interest rate set at 2.97%. The lease was scheduled to mature on July 1, 2023.

During the 2016-17 school year, the School District entered into a five year lease for copiers. This lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of their future minimum lease payments as of the inception date. During the fiscal year, the School District made principal payments on the lease in the amount of \$22,238 and interest payments of \$41,962. The liability associated with this capital lease is \$382,707 at June 30, 2017.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30 were as follows:

Year ending <u>June 30</u>	<u>Total</u>
2018	\$ 128,400
2019	128,400
2020	128,400
2021	128,400
2022	<u>96,997</u>
Total minimum lease payment	\$ 610,597
Less: Amount representing interest	<u>(227,890)</u>
Present value of future minimum lease payments	<u><u>\$ 382,707</u></u>

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2017**

**NOTE 9 – INTERFUND BALANCES**

Interfund balances at June 30, 2017 consisted of the following fund receivables and payables:

	<u>Receivables</u>	<u>Payables</u>
General Fund: Food Service Fund	\$ 960,311	\$ 0
General Fund: Dental Insurance Program	63,695	0
General Fund: Vision Insurance Program	37,267	0
General Fund: Health Insurance Program	0	704,585
General Fund: Private-Purpose Trust Fund	6,438	0
General Fund: Student Activities Fund	10,787	
Food Service Fund: General Fund	0	960,311
Dental Insurance Program: General Fund	0	63,695
Dental Insurance Program: Health Insurance Program	71,294	0
Vision Insurance Program: General Fund	0	37,267
Vision Insurance Program: Health Insurance Program	6,374	0
Health Insurance Program: General Fund	704,585	0
Health Insurance Program: Dental Insurance Program	0	71,294
Health Insurance Program: Vision Insurance Program	0	6,374
Private-Purpose Trust Fund: General Fund	0	6,438
Student Activities Fund: General Fund	0	10,787
Totals	<u>\$ 1,860,751</u>	<u>\$ 1,860,751</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. Some of the balances above are not expected to be collected in the subsequent year.

**NOTE 10 – CONTINGENCIES**

**A. Litigation**

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

**B. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2017.

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2017**

**NOTE 11 – RISK MANAGEMENT**

The School District offers dental, health, and vision insurance options to employees of the School District under a self-insured arrangement. Third party administrators are responsible for the processing of claims and cost containment. The Dental, Health, and Vision Insurance Fund accounts for these activities, and this is reported in respective internal service funds.

Under the self-funded arrangements, the District pays all claims for dental, health (medical, maintenance prescriptions, and emergency prescriptions), and vision claims to the applicable provider. The School District does not have any reserves with their providers, and all payments are made on a pay-as-you-go basis. Additionally, the School District pays administrative fees based on membership and/or utilization relating to the benefits to various companies. Premiums are paid through payroll deductions and internal charges and are recognized as revenue on the internal service funds. Premiums are determined internally and have historically been based upon an insurance company’s rate structure over recent years.

During fiscal year end June 30, 2017, the internal service fund for health had expenses in excess of revenues by \$355,387 while the internal service fund for vision insurance had expenses in excess of revenues of \$10,567. The internal service fund for dental had revenues greater than expenses of \$26,080. These plans cover approximately 300 participants and are designed to be self-sustaining through actuarially determined premiums established by the insurance companies. As of June 30, 2017, the General Fund owed \$704,585 to the health internal service fund and carried a receivable of \$63,695 from the dental internal service fund and \$37,267 from the vision internal service fund.

**A. Health Internal Service Fund**

To minimize risk, the School District has two types of stop loss coverage for their self-insured health program. The first tier is a specific stop loss of \$150,000 per covered unit with a specific lifetime reimbursement maximum of \$1,850,000. The second tier is an aggregate funding factor that involves an attachment point. The attachment point fluctuates based upon the number of covered units in the plan with a minimum annual aggregate deductible of \$3,826,339 for the year ended June 30, 2017. The School District would be eligible for up to \$1 million dollars of maximum annual reimbursement for claims paid over the annual aggregate deductible, subject to certain limitations.

Changes in the claims liability for health benefits for the past three years ended were as follows:

	Liability at Beginning of Fiscal Year	Current Year Claims and Changes in Estimates	Claims Payments	Liability at End of Fiscal Year
2015	\$ 596,558	\$ 2,753,998	\$ 2,984,005	\$ 366,551
2016	\$ 366,551	\$ 3,180,930	\$ 3,276,113	\$ 271,368
2017	\$ 271,368	\$ 3,514,107	\$ 3,190,548	\$ 594,927

The above accrued liabilities include provisions for claims reported and claims incurred but not reported. According to industry standards, the liability at the end of the year is based on claim payments for the first 45 days after year end for medical and the first 15 days after year end for prescriptions. This fund has a net position balance of \$2,200,629 as of June 30, 2017.

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDING JUNE 30, 2017**

**NOTE 11 – RISK MANAGEMENT – CONTINUED**

**B. Dental Internal Service Fund**

No individual stop loss was obtained by the School District for the dental program due to the risk being minimal. Changes in the claims liability for dental benefits for the past three years ended were as follows:

	Liability at Beginning <u>of Fiscal Year</u>	Current Year Claims and <u>Changes in Estimates</u>	Claims <u>Payments</u>	Liability at End of <u>Fiscal Year</u>
2015	\$ 42,664	\$ 137,246	\$ 156,398	\$ 23,512
2016	\$ 23,512	\$ 133,351	\$ 136,370	\$ 20,493
2017	\$ 20,493	\$ 132,363	\$ 122,912	\$ 29,944

The above accrued liabilities include provisions for claims reported and claims incurred but not reported. According to industry standards, the liability at the end of the year is based on claim payments for the first 45 days after year end.

**C. Vision Internal Service Fund**

No individual stop loss was obtained by the School District for the vision program due to the risk being minimal. Changes in the claims liability for vision benefits for the past three years ended were as follows:

	Liability at Beginning <u>of Fiscal Year</u>	Current Year Claims and <u>Changes in Estimates</u>	Claims <u>Payments</u>	Liability at End of <u>Fiscal Year</u>
2015	\$ 8,765	\$ 24,975	\$ 29,138	\$ 4,602
2016	\$ 4,602	\$ 28,026	\$ 27,415	\$ 5,213
2017	\$ 5,213	\$ 30,133	\$ 28,481	\$ 6,865

The above accrued liabilities include provisions for claims reported and claims incurred but not reported. According to industry standards, the liability at the end of the year is based on claim payments for the first 45 days after year end.

**NOTE 12 – LEASE ARRANGEMENT**

The School District has leases for all the oil and gas and their liquid constituents, underlying the District's 158.8 acres to Chesapeake Appalachia, LLC. The primary lease term expired July 20, 2016 but shall continue beyond the primary term contingent on various satisfactions. The District will receive royalties of 15 percent of all oil, gas, and any constituents thereof produced and marketed from the lease.

**BLACKHAWK SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDING JUNE 30, 2017**

**NOTE 13 – RECENT/FUTURE GASB PRONOUNCEMENTS**

GASB issued Statement No. 75, *Accounting and Financial Reporting for Post-employment 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.

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.

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.

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

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

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which is effective fiscal 2018.  
GASB 86 provides guidance for transactions in which cash and other monetary assets acquired with existing resources, other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt.

The effects of implementing GASB Statements No. 81-84, and 86 on the District's financial statements have not yet been determined.

**NOTE 14 – SUBSEQUENT EVENTS**

The School District evaluated its June 30, 2017 financial statements for subsequent events through the date of the Independent Auditor's Report, the date the statements were available to be issued. The School District is not aware of additional subsequent events that would require recognition or disclosure in the financial statements.

**REQUIRED SUPPLEMENTAL INFORMATION**

**BLACKHAWK SCHOOL DISTRICT**

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

**YEAR ENDING JUNE 30, 2017**

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

Schedule of Funding Progress (\$000's)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL	Funded Ratio	Covered Payroll (Total)	UAAL as a Percentage of Payroll
7/1/2016	\$ 0	\$ 3,885	\$ 3,885	0%	\$12,231	31.8%
1/1/2014	\$ 0	\$ 3,007	\$ 3,007	0%	\$12,833	23.4%
1/1/2012	\$ 0	\$ 2,820	\$ 2,820	0%	NA	NA
1/1/2010	\$ 0	\$ 2,057	\$ 2,057	0%	NA	NA
1/1/2008	\$ 0	\$ 2,605	\$ 2,605	0%	NA	NA

**BLACKHAWK SCHOOL DISTRICT**

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

**YEAR ENDING JUNE 30, 2017**

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 from the July 1, 2016 actuarial report are stated below:

Valuation Date:	July 1, 2016
Actuarial Cost Method:	Entry Age Normal Actuarial Cost Method
Asset Valuation Method:	Market Value
Amortization Method:	Level dollar amortization
Remaining Amortization Period	Two-year open period
Actuarial Assumptions:	
Investment rate of return	Not utilized because the valuation had no assets
Inflation rate	3.00%

**BLACKHAWK SCHOOL DISTRICT**

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

**YEAR ENDING JUNE 30, 2017**

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)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.1077%	0.1157%	0.1133%
District's Proportionate Share of the Net Pension Liability (Asset)	\$53,372,999	\$ 50,116,000	\$ 44,845,000
District's Covered-Employee Payroll	\$13,953,367	\$ 14,891,667	\$ 14,459,341
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	382.51%	336.54%	310.15%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	50.14%	54.36%	57.24%

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

**BLACKHAWK SCHOOL DISTRICT**

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

**YEAR ENDING JUNE 30, 2017**

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

	June 30, 2017	June 30, 2016	June 30, 2015
Contractually Required Contribution	\$ 4,268,548	\$ 3,580,443	\$ 3,214,414
Contributions in Relation to			
Contractually Required Contribution	4,268,548	3,580,443	3,214,414
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
District's Covered Employee Payroll	\$ 13,953,367	\$ 14,891,667	\$ 14,459,341
Contribution as a Percentage of Covered Employee Payroll	30.59%	24.04%	22.23%

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.

**BLACKHAWK SCHOOL DISTRICT**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

**YEAR ENDING JUNE 30, 2017**

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

**A. Changes of benefit terms**

There were no changes of benefit terms for the year ended June 30, 2017.

**B. Changes of assumptions**

The following were changes of benefit assumptions for the year ended June 30, 2017:

1. The investment Rate of Return was adjusted from 7.50% to 7.25%
2. The inflation assumption was decreased from 3.00% to 2.75%.
3. Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth, and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
4. Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants, the rates were modified from the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

**SINGLE AUDIT SUPPLEMENTARY REPORTS**

**BLACKHAWK SCHOOL DISTRICT**

**LIST OF REPORT DISTRIBUTION**

<b>1 copy</b>	Bureau of Audits Special Audit Services Division Forum Place – Eighth Floor 555 Walnut Street Harrisburg, PA 17101 On-line Submission
<b>1 copy</b>	Beaver County Court House Prothonotary 810 Third Street Beaver, PA 15009
<b>15 copies</b>	Blackhawk School District 500 Blackhawk Road Beaver Falls, PA 15010
<b>1 copy</b>	Cottrill, Arbutina & Associates, P.C. 525 Third Street Beaver, PA 15009
<b>1 copy</b>	Bank of America, N.A. 2059 Northlake Parkway, 4 <sup>th</sup> Floor Tucker, Georgia 30084-4431

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

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 @ 7/1/16	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue @ 6/30/17	Passed Through To Subrecipients
U.S. Department of Education											
Passed through the PA Department of Education:											
Title I Part A, Title I Grants to Local Education Agencies	I	84.010	013-160038	07/01/15-09/30/16	\$ 221,997	\$ 120,304	\$ 120,304	\$ 0	\$ 0	\$ 0	\$ 0
Title I Part A, Title I Grants to Local Education Agencies	I	84.010	013-170038	07/01/16-09/30/17	281,953	264,783	0	271,318	271,318	6,535	0
Total Title I Part A, Title I Grants to Local Education Agencies; CFDA 84.10						\$ 385,087	\$ 120,304	\$ 271,318	\$ 271,318	\$ 6,535	\$ 0
Title II Part A, Supporting Effective Instruction State Grant	I	84.367	020-160038	07/01/15-09/30/16	\$ 74,216	\$ 57,562	\$ 57,562	\$ 0	\$ 0	\$ 0	\$ 0
Title II Part A, Supporting Effective Instruction State Grant	I	84.367	020-170038	07/01/16-09/30/17	73,359	63,727	0	73,359	73,359 *	9,632	0
Total Title II Part A, Supporting Effective Instruction State Grant; CFDA 84.367						\$ 121,289	\$ 57,562	\$ 73,359	\$ 73,359	\$ 9,632	\$ 0
Total PA Department of Education						\$ 506,376	\$ 177,866	\$ 344,677	\$ 344,677	\$ 16,167	\$ 0
Passed through the Beaver Valley Intermediate Unit #27:											
Special Education - Grants to States (IDEA, Part B)											
Special Education - Grants to States (IDEA, Part B)	I	84.027	N/A	07/01/15-06/30/16	\$ 263,542	\$ 87,748	\$ 87,748	\$ 0	\$ 0	\$ 0	\$ 0
Special Education - Grants to States (IDEA, Part B)	I	84.027	N/A	07/01/16-06/30/17	292,335	114,492	0	292,335	292,335	177,843	0
Total CFDA 84.027						\$ 202,240	\$ 87,748	\$ 292,335	\$ 292,335	\$ 177,843	\$ 0
Special Education - Preschool Grants (IDEA Preschool)	I	84.173	N/A	07/01/15-06/30/16	3,864	\$ 3,864	\$ 3,864	\$ 0	\$ 0	\$ 0	\$ 0
Special Education - Preschool Grants (IDEA Preschool)	I	84.173	N/A	07/01/16-06/30/17	5,031	0	0	5,031	5,031	5,031	0
Total CFDA 84.173						\$ 3,864	\$ 3,864	\$ 5,031	\$ 5,031	\$ 5,031	\$ 0
Total Special Education (IDEA) Cluster						\$ 206,104	\$ 91,612	\$ 297,366	\$ 297,366	\$ 182,874	\$ 0
Total Beaver Valley Intermediate Unit #27						\$ 206,104	\$ 91,612	\$ 297,366	\$ 297,366	\$ 182,874	\$ 0
Total U.S. Department of Education						\$ 712,480	\$ 269,478	\$ 642,043	\$ 642,043	\$ 199,041	\$ 0
U.S. Department of Health and Human Services:											
Passed through the PA Department of Public Welfare:											
Medical Assistance Program	I	93.778	N/A	07/01/16-06/30/17	N/A	\$ 3,792	\$ 0	\$ 3,792	\$ 3,792	\$ 0	\$ 0
Total Medicaid Cluster; CFDA 93.778						\$ 3,792	\$ 0	\$ 3,792	\$ 3,792	\$ 0	\$ 0
Total U.S. Department of Health and Human Services						\$ 3,792	\$ 0	\$ 3,792	\$ 3,792	\$ 0	\$ 0
U.S. Department of Agriculture:											
Passed through the PA Department of Education:											
National School Lunch Program	I	10.555	N/A	07/01/16-06/30/17	N/A	\$ 284,059	\$ 0	\$ 284,755	\$ 284,755 *	\$ 696	\$ 0
Passed through the PA Department of Agriculture:						\$ 284,059	\$ 0	\$ 284,755	\$ 284,755	\$ 696	\$ 0
National School Lunch Program: Value of USDA Donated Commodities	I	10.555	N/A	07/01/16-06/30/17	N/A	64,409 a	0	64,409	64,409 *	0	0
Total CFDA 10.555						\$ 348,468	\$ 0	\$ 349,164	\$ 349,164	\$ 696	\$ 0
Passed through the PA Department of Education:											
School Breakfast Program	I	10.553	N/A	07/01/16-06/30/17	N/A	62,327	0	62,327	62,327 *	0	0
Total Child Nutrition Cluster						\$ 410,795	\$ 0	\$ 411,491	\$ 411,491	\$ 696	\$ 0
Total U.S. Department of Agriculture						\$ 410,795	\$ 0	\$ 411,491	\$ 411,491	\$ 696	\$ 0
Total Federal Assistance						\$ 1,127,067	\$ 269,478	\$ 1,057,326	\$ 1,057,326	\$ 199,737	\$ 0

See Accompanying Notes to Schedule of Expenditures of Federal Awards

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

Source Codes:  
 I=Indirect Funding

Footnotes:  
 a) Total amount of commodities received  
 from Department of Agriculture  
  
 \* Selected for testing

Test of 40% rule:  
 Total Expenditures per above

\$ 1,057,326

Child Nutrition Cluster	\$	411,491		
Title II Part A, Supporting Effective Instruction State Grant		<u>73,359</u>		
Total Federal Expenditures	\$	1,057,326	=	<u>45.86%</u> (High risk auditee 40% required)

See Accompanying Notes to Schedule of Expenditures of Federal Awards

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

**NOTE 2 – BUDGETARY DATA**

The District passed and had approved by the appropriate agency budgets for the fiscal year ending June 30, 2017 for all federal programs.

**NOTE 3 – DE MINIMIS RATE FOR INDIRECT COSTS**

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

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

To the Board of Directors  
Blackhawk School District  
500 Blackhawk Road  
Beaver Falls, Pennsylvania 15010

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Blackhawk School District as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the Blackhawk School District's basic financial statements and have issued our report thereon dated March 20, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Blackhawk School District's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Blackhawk School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Blackhawk 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; 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 the following deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: findings 2017-1 through 2017-6.

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. Item 2017-7 is considered a significant deficiency.

## **Compliance and Other Matters**

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

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

Blackhawk School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Blackhawk 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, 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  
March 20, 2018

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

To the Board of Directors  
Blackhawk School District  
500 Blackhawk Road  
Beaver Falls, Pennsylvania 15010

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

We have audited the Blackhawk School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Blackhawk School District's major federal programs for the year ended June 30, 2017. Blackhawk School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

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

*Auditor's Responsibility*

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

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

*Opinion on Each Major Federal Program*

In our opinion, the Blackhawk 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, 2017.

*Other Matters*

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

**Report on Internal Control over Compliance**

Management of the Blackhawk 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 Blackhawk School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Blackhawk 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; therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-8 and 2017-9, that we consider to be significant deficiencies.

Blackhawk School District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Blackhawk School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

*Cottrill, Arbutina and Assoc.*

Beaver, PA 15009  
March 20, 2018

**BLACKHAWK SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2017**

**A. SUMMARY OF AUDIT RESULTS**

**Financial Statements**

Type of auditor's report issued:

Internal control over financial reporting:

Unmodified

Material weakness identified:

Yes  No

Significant deficiencies identified that are not considered to be material weakness(es):

Yes  No

Noncompliance material to financial statement noted?

Yes  No

**Federal Awards**

Internal control over major programs:

Material weakness identified:

Yes  No

Significant deficiencies identified that are not considered to be material weakness(es):

Yes  No

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

Unmodified

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

Yes  No

Identification of the major programs:

CFDA Number(s)	Name of Federal Program
10.553	Child Nutrition Cluster:
10.555	School Breakfast Program
84.367	National School Lunch Program
	Title II Part A, Supporting Effective Instruction State Grant

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

Yes  No

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

**Material Weaknesses**

*2017-1 Preparation of Financial Statements*

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

Criteria: The District's annual financial statements, including the schedule of federal awards, are prepared in accordance with accounting principles generally accepted in the United States of America. The District relies on Cottrill, Arbutina & Associates, P.C., as its auditors, to prepare its annual financial

**BLACKHAWK SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2017**

statements in order to conform to accounting principles generally accepted in the United States of America. We realize that additional staffing costs would be needed to acquire the internal expertise to perform this function, which could significantly outweigh the benefits derived. We, as your auditors, can propose adjustments and assist the District in assembling or drafting of the financial statements; however, we cannot establish or maintain the District's controls over preventing or detecting material misstatements in the preparation of financial statements. We proposed and you approved 60 various adjusting journal entries to properly report on the modified accrual basis of accounting and 18 journal entries to convert District books from modified accrual to full accrual in order to properly report in accordance with GASB 34. All of these journal entries were presented to the District along with the letter of representation, in which you took responsibility and approved each of these entries.

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

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

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

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

*2017-2 Concentration of Duties*

Condition: The District has a concentration of duties among the staff responsible for or access to:

- |                         |                                  |
|-------------------------|----------------------------------|
| a. receipts             | e. account coding                |
| b. check writing        | f. posting to the general ledger |
| c. bank reconciliations | g. fixed asset records           |
| d. bank transfers       | h. inventory records             |

Because of this internal control situation, the responsibility of the Business Manager is greatly increased because the Board must rely on his knowledge of the everyday operations to discover any material changes in the District's financial position. The same is also true for the Cafeteria, Athletic, and Activity Funds and the various administrators who maintain those funds.

Criteria: Although the size of the District's office staff limits the extent of separation of duties, we believe certain steps could be taken to separate incompatible duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

**BLACKHAWK SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2017**

Cause: Insufficient number of employees in the business office to properly segregate duties.

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

Recommendation: We realize that hiring sufficient staff to segregate all duties is impractical, if not impossible. However, the District can implement processes in some areas to assist with overcoming the weakness of limited number of staff. Some examples of lack of segregation of duties at the District are as follows:

Personnel in the payables function are not completely independent of functions such as receiving, disbursing, general ledger functions, and other functions such as reconciling bank statements. Personnel preparing the payroll are not independent of other payroll duties (e.g., timekeeping, distribution and printing of checks, editing the employee master file).

Personnel making deposits are not completely independent of recording the activity in the accounting system and reconciling the bank account. This could be overcome by someone independent of these processes keeping a log of money received (checks and cash coming in directly to the Business Office) prior to giving it to the employee processing and reconciling the deposit; then the person keeping the log could cross reference it to the monthly reconciliation.

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

*2017-3 General Controls Over Activity Funds*

Condition: Controls over the Middle School Activity Fund are insufficient.

Criteria: The Middle School Activity Fund lacks proper internal controls in order to produce reliable, accurate financial statements. Some items were noted during the testing of the Activity Funds are as follows:

1. During our receipts testing, we were unable to obtain documentation that reconciles deposits to evidence of receipts.
2. During our disbursement testing, we noted several instances where no signature was present and instances where no supporting documentation was attached to the voucher.
3. It came to our attention that some transactions were processed through the Middle School Activity Fund that were not in relation to a student club.

Cause: Lack of supporting documentation and overall controls.

Recommendation: The following is a list of recommendations that we encourage the District to implement for the Middle School Activity Fund:

1. All bank statements should be reviewed, initialed, and dated by a member of management.
2. There is no record of fund balance per student group available for the Middle School Activity Fund. We recommend that fund balance be tracked by group on a monthly basis, preferably after the bank reconciliations are prepared. We recommend documenting supporting

## BLACKHAWK SCHOOL DISTRICT

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2017

- information for all transactions to provide evidence of receipts (example: candy, ski trips, or yearbook sales) as well as disbursements.
3. The Middle School is subject to limited staff. Because of the limited number of staff, there is more responsibility put on management to review the transactions and monthly reports. Management should set up a list of procedures to perform each month that may include some of the following:
    - a. Review balances of all clubs and compare with the prior month
    - b. Examine a check register to see if all payments appear reasonable
    - c. Review check images on the bank statements to see if payees appear reasonable
    - d. Test a sample of vouchers to see if they possess the proper approvals, specifically looking for students' sign offs.
  4. All transactions that are processed through the Middle School Activity Fund should be in direct relation to a board-recognized student club. Any transactions outside not fitting this description should be run through the general fund.

Effect: Activity Fund assets could be misstated or misappropriated.

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

#### *2017-4 Recommendations for Best Practices*

Condition: There are various areas where the District can implement internal controls to strengthen its general business practices.

#### Criteria:

1. Internal Service Funds are used to account for services provided on a cost-reimbursement basis (i.e. without profit or loss). Charges to other funds for Internal Service Fund services are intended only to recoup the total cost of such services. Internal Service Funds are not designed to produce any significant profit in the long run. Therefore, surpluses or deficits in the Internal Service Fund may be an indication that other funds were not charged properly for the services they received. The cost-reimbursement basis applies to the operations of the fund over time. If Internal Service Funds consistently report significant deficits or surpluses, the charges made to other funds must be reassessed. If it is determined that the charges made to other funds are more or less than is needed to recover cost over a reasonable period, then the excess or deficiency should be charged back to the participating fund. Charges to the insured funds should be actuarially determined or based on historic need. The Standards allow for a reasonable provision for expected future catastrophe losses. In prior years, we have recommended that the District obtain an actuarial valuation to determine the amount of net position that should be reserved in case of future catastrophe loss. The excess net position in the fund should be charged back to the participating funds. We noted that the District obtained an analysis showing that the self-funded health benefit plan should maintain a recommended minimum reserve level of \$1,814,145. As of June 30, 2017, the self-funded health benefit plan had a balance of \$2,200,629. The net position is \$386,484 above the recommended minimum. The District has obtained analysis on recommended monthly charges.
2. During the year, the District engaged certain service organizations from whom we could not obtain assurance on their internal controls. The District engaged the services of various entities to

# BLACKHAWK SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2017

provide outsourced processing services. As such, the District's transactions—from the way in which such transactions are initiated, recorded in the accounting records, processed, and reported in the financial statements—will be affected not by the District's own internal controls but by those controls that the various entities use to process transactions for its users. Therefore, as part of its monitoring efforts to ensure that internal controls over financial reporting are effective, management should understand that such controls are suitably designed and effective. Generally, the most efficient way to do that is to obtain a report on controls used to process transactions at the service organizations from its auditor. Such a report, which is commonly referred to as a service organization control (SOC) report, typically includes a description of the service organization's relevant processes and related controls (description of controls) and a service auditor's opinion on the controls identified therein. The School District was not able to obtain a SOC report from the general ledger software company utilized during the year. This was due to the fact that this entity does not have this type of audit performed. The District relies on this company's controls to host the financial information of the District and to ensure the safety and accuracy of the data.

3. The Lunt Fund, an endowment fund that is maintained by the School District, was established in 2005 for the purpose of funding field trips or any other educational programs not funded by the regular school district budget. In the agreement, it is stated that the funds shall be invested in thirty-year maturity United States Treasury Bonds or similar interest-bearing obligations of the United States Government. While the funds currently reside in a fully-insured, interest-bearing checking account, the type of account is not in compliance with the endowment agreement.
4. During our review of cafeteria receipts, we noted that there is no review being done on manual entries that are made to the POS system.

Cause: Lack of strong internal controls over the aforementioned areas.

Recommendation: We make the following recommendations:

1. We recommended applying proper monthly charges to utilize the excess funding while maintaining the recommended minimum reserve level.
2. To facilitate the audit of the District's 2017-2018 financial statements, we recommend that the District request a Type 2 service organization control report from all service organizations.
3. We recommend that the School District invest the funds into investments that are in accordance with the endowment agreement.
4. We recommend that all manual entries made to the POS system be reviewed on a monthly basis and that the entries be initialed for evidence of review.

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

### *2017-5 Fixed Assets*

Condition: We tested a random sample of assets recorded on the fixed asset ledger. The results of the test showed that a portion of the assets did not have tags.

Criteria: The fixed asset ledger should properly reflect the existing fixed assets in the District, their acquisition cost, accumulated depreciation, current year depreciation, and net book value. Additionally,

**BLACKHAWK SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2017**

each asset should have a tag in order that the District can track individual assets and their location and reconcile each asset to the ledger.

Cause: It appears as though fixed assets are included on the fixed asset ledger that are not properly tagged.

Recommendation: Since it has been over 10 years since the District had the initial fixed asset valuation performed to comply with GASB Statement No. 34, we recommend the District consider having a new valuation done that would give the District a clean start in documenting, tracking, and tagging fixed assets. Additionally, we recommend the District consider implementing more controls over the processing and tracking of fixed assets in order ensure the fixed asset ledger is maintained and accurate in the ensuing years.

Effect: Fixed assets could be misstated on the District's financial statements.

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

*2017-6 Controls Over the Athletic Documents and Bookkeeping*

Condition: Controls over the Athletic Fund activity should be strengthened.

Criteria: During our audit, we noted the following with regards to the Athletic Fund cash account:

1. The School District was unable to provide supporting documentation on game receipts. Therefore, we were unable to test or verify athletic game revenues.
2. Some checks pre-signed and given to teams for post-game meals.

Cause: All game sales records should be maintained and discourage the School District from generating pre-signed checks.

Recommendation: We recommend that the District establish and practice internal controls that do the following:

1. All game financial records should be properly secured and maintained.
2. Generating pre-signed checks can be extremely risky with the possibility of someone other than District personnel obtaining the check and using it for personal purposes. We encourage the District to refrain from generating or maintaining pre-signed checks.

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

**BLACKHAWK SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2017**

**Significant Deficiencies**

*2017-7 Review of Journal Entries*

Condition: Journal Entries were not reviewed and approved by management.

Criteria: Due to the potential of significant amounts flowing through journal entries, in an ideal accounting system, journal entries are prepared by one person and reviewed and posted by a second person, possibly at the management level.

Cause: Journal entries are not currently reviewed prior to posting.

Effect: Errors or inappropriate financial activity could be included in journal entries which could result in a misappropriation of assets.

Recommendation: We recommend the adoption of a policy whereby all journal entries will be approved by a designated member of the District. All entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals.

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

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

**Significant Deficiencies**

*2017-8 Approval of Invoices Related to Federal Programs*

Type of Finding: Significant Deficiency in Internal Control Over Compliance

Federal Program(s): National School Lunch Program – CFDA 10.555  
School Breakfast Program CFDA 10.553

Compliance Requirement(s): B-Allowable Costs/Cost Principles

Condition: During our testing of cafeteria disbursements, we noted some items did not have evidence of review or approval for payment documented on the invoice.

Criteria: During our audit, we tested several cafeteria disbursements by reviewing invoices, receiving reports, check images, and other supporting documentation. Some of the items we reviewed did not have documented approval and/or review by a member of the District.

Cause: Some cafeteria disbursements did not have documented review or approval.

Recommendation: We recommend that a member of management or designated employee review and approve each cafeteria invoice and document their review and approval by signing or initialing each invoice.

**BLACKHAWK SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2017**

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

*2017-9 System Award Management Review*

Type of Finding: Significant Deficiency in Internal Control Over Compliance

Federal Program(s): National School Lunch Program – CFDA 10.555  
School Breakfast Program CFDA 10.553

Compliance Requirement(s): I-Procurement and Suspension and Debarment

Condition: The District did not check the System Award Management (SAM) web site when spending federal dollars over \$25,000 to ensure vendors were not disbarred or suspended.

Criteria: According to the Compliance Supplement, the District is required to check the SAM web site when disbursing federal dollars over \$25,000 with one vendor. As the District spent dollars related to the Child Nutrition Cluster, it did not review the SAM web site to ensure the vendor was not suspended or disbarred.

Cause: The District did not review the SAM web site when applicable.

Recommendation: We recommend that District establish and practice procedures where any expenditure of federal dollars over \$25,000 generates a review of the SAM web site. Additionally, the review should include the District's findings on the web site and documentation of who did the review and when.

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

**BLACKHAWK SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**JUNE 30, 2017**

**A. FINDINGS - FINANCIAL STATEMENTS AUDIT**

**Material Weaknesses**

*2016-01 Preparation of Financial Statements*

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

Current Status: This finding continues in the current fiscal year.

*2016-02 Interfund Reconciliations*

Condition: During the audit, the District did not properly record interfund activity in compliance with accounting principles generally accepted in the United States of America. The primary interfund issues generally were centered in the General Fund, Capital Projects Fund, Food Service Fund, and Internal Service Funds.

Current Status: The District has implemented procedures whereby interfund balances are reconciled.

*2016-03 Payroll Liabilities*

Condition: None of the payroll liabilities of the District were properly reconciled throughout the year.

Current Status: The District has implemented procedures whereby payroll liabilities are reconciled.

*2016-04 Concentration of Duties*

Condition: The District has a concentration of duties among the staff responsible for or access to:

- |                         |                                  |
|-------------------------|----------------------------------|
| a. receipts             | e. account coding                |
| b. check writing        | f. posting to the general ledger |
| c. bank reconciliations | g. fixed asset records           |
| d. bank transfers       | h. inventory records             |

Because of this internal control situation, the responsibility of the Business Manager is greatly increased because the Board must rely on his knowledge of the everyday operations to discover any material changes in the District's financial position. The same is also true for the Cafeteria, Athletic, and Activity Funds and the various administrators who maintain those funds.

Current Status: This finding continues in the current fiscal year.

*2016-05 Controls over School District Credit Cards*

Condition: Credit card transactions are not supported by adequate documentation.

**BLACKHAWK SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**JUNE 30, 2017**

Current Status: The District implemented procedures whereby all credit cards are kept in the accounting office. A log book shows who signed it out, the date, and the date it is returned. Additionally, credit card statements/payments were signed off on by the Business Manager.

*2016-06 General Controls Over Activity Funds*

Condition: Controls over Middle School and High School Activity Funds are insufficient.

Current Status: There were some Middle School Activities transactions that lacked proper approvals, which continues to be a finding in the current fiscal year.

*2016-07 Recommendations for Best Practices*

Condition: The District should apply proper monthly charges to utilize the excess funding while maintaining the recommended minimum reserve level.

Current Status: This finding continues in the current fiscal year.

Condition: The District did not obtain necessary Service Organization Control Type 2 reports.

Current Status: This finding continues in the current fiscal year.

Condition: The District did not comply with investment guidelines related to the Private Purpose Trust Fund.

Current Status: This finding continues in the current fiscal year.

Condition: The District did not review or approve manual entries in the Food Service POS system.

Current Status: This finding continues in the current fiscal year.

*2016-8 Transfer from Internal Service Fund*

Condition: The District made a transfer from the Health Internal Service Fund to General Fund in the amount of \$500,000.

Current Status: There were no transfers of this kind in the current fiscal year.

**Significant Deficiencies**

*2016-9 Controls Over the Athletic Fund*

Condition:

1. Bank reconciliations had outstanding checks older than six months totaling over \$6,200. Additionally, bank reconciliations are not reviewed and initialed by someone other than the preparer.
2. On the bank reconciliation, the "Register Balance" does not match the cash balance in the accounting system.

**BLACKHAWK SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**JUNE 30, 2017**

3. During our testing of game personnel, we were not able to verify the pay rates that various personnel receive for their responsibilities.

Current Status:

1. The District has reconciled previous stale checks. Although bank reconciliations are performed, there was no evidence that the reconciliations were reviewed by a second party.
2. The District reconciles the register balance in the accounting system to the bank statement.
3. Game personnel rates were approved by the board.

*2016-10 Invoice Approval*

Condition: During our testing of disbursements, we noted some items did not have evidence of review or approval for payment documented on the invoice.

Current Status: The District has implemented proper approval procedures.

*2016-11 Tagging of Fixed Assets*

Condition: During our testing of fixed assets, we noted some items were not properly tagged with an identifying tag that would allow District personnel to reconcile fixed assets with the fixed asset ledger.

Current Status: This finding continues in the current fiscal year.

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

**Significant Deficiencies**

*2016-12 Approval of Invoices Related to Federal Programs*

Condition: During our testing of cafeteria disbursements, we noted some items did not have evidence of review or approval for payment documented on the invoice.

Current Status: This finding continues in the current fiscal year.

*2016-13 Uniform Guidance – Written Policies Over Federal Awards*

Condition: During audit testing, we noted that the School District did not implement policies and procedures under the 2016 Compliance Supplement.

Current Status: The written procedures were adopted August 8, 2016, identified as Board Policy #626 with 5 separate attachments, and published on the District website.

*2016-14 System Award Management Review*

Condition: The District did not check the System Award Management (SAM) web site when spending federal dollars over \$25,000 to ensure vendors were not disbarred or suspended.

Current Status: This finding continues in the current fiscal year.

**BLACKHAWK SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**JUNE 30, 2017**

*2016-15 Child Nutrition Cluster – Eligibility Applications*

Condition: Three student applications did not agree with the eligibility roster.

Current Status: The District implemented procedures to properly agree applications with the eligibility roster.



## CORRECTIVE ACTION PLAN

Department of Education:

The Blackhawk School District respectfully submits the following corrective action plan for the year ended June 30, 2017.

Name and address of the independent public accounting firm:

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

Audit period: July 1, 2016 through June 30, 2017

The findings for the year ended June 30, 2017 schedule of findings are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

### SECTION B – FINANCIAL STATEMENT FINDINGS

#### *2017-1 Preparation of Financial Statements*

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

Management's Response: The district will continue to monitor the financial statements and work to reduce the number of adjusting journal entries required by the auditor's recommendations.

#### *2017-2 Concentration of Duties*

Recommendation: We realize that hiring sufficient staff to segregate all duties is impractical, if not impossible. However, the District can implement processes in some areas to assist with overcoming the weakness of limited number of staff. Some examples of lack of segregation of duties at the District are as follows:

Personnel in the payables function are not completely independent of functions such as receiving, disbursing, general ledger functions, and other functions such as reconciling bank statements. Personnel preparing the payroll are not independent of other payroll duties (e.g., timekeeping, distribution and printing of checks, editing the employee master file).

Personnel making deposits are not completely independent of recording the activity in the accounting system and reconciling the bank account. This could be overcome by someone independent of these processes keeping a log of money received (checks and cash coming in directly to the Business Office)

prior to giving it to the employee processing and reconciling the deposit; then, the person keeping the log could cross reference it to the monthly reconciliation.

Management's Response: The district is logging checks and cash coming in with employees signing off on transactions. We will continue to work on concentration of duties. With the limited staff, as the problem remains, one position has not been filled in two (2) years that would make segregation of duties fundamentally possible. Without that position, the district continues to cross-reference checks and balances that includes more than one signer on all financial documents to reduce the risk factor.

### *2017-3 General Controls Over Activity Funds*

Recommendation: The following is a list of recommendations that we encourage the District to implement for the Middle School Activity Fund:

1. All bank statements should be reviewed, initialed, and dated by a member of management.
2. There is no record of fund balance per student group available for the Middle School Activity Fund. We recommend that fund balance be tracked by group on a monthly basis, preferably after the bank reconciliations are prepared. We recommend documenting supporting information for all transactions to provide evidence of receipts (example: candy, ski trips, or yearbook sales) as well as disbursements.
3. The Middle School is subject to limited staff. Because of the limited number of staff, there is more responsibility put on management to review the transactions and monthly reports. Management should set up a list of procedures to perform each month that may include some of the following:
  - a. Review balances of all clubs and compare with the prior month
  - b. Examine a check register to see if all payments appear reasonable
  - c. Review check images on the bank statements to see if payees appear reasonable
  - d. Test a sample of vouchers to see if they possess the proper approvals, specifically looking for students' sign offs.
4. All transactions that are processed through the Middle School Activity Fund should be in direct relation to a board-recognized student club. Any transactions outside not fitting this description should be run through the general fund.

### Management's Response:

From 3 above:

- a. Each month, the Principal reviews, signs, and dates the reconciliation statement. The per student group record is available via a report from the recording software. Not all clubs have monthly activity, but when activity occurs these are balanced.
- b. A check register is accessible to the Principal at all times and is constantly reviewed.
- c. Check images are located on the reconciliation that is signed.
- d. Reviewing vouchers for proper approvals is done when the Principal signs them.

From 4 above:

The only funds that are not club related would be general Student Activities monies that the District collects from participation in school fundraisers, collecting admission for Activity Night, and collecting admission from other approved activities. These funds are used as student need arises. For example, if a student needs a new pair of shoes or jacket for winter, we can purchase them. Additionally, if there is a passing of a parent of a student, we use that money to benefit that student's absolute need.

#### *2017-4 Recommendations for Best Practices*

Recommendation: We make the following recommendations:

1. We recommended applying proper monthly charges to utilize the excess funding while maintaining the recommended minimum reserve level.
2. To facilitate the audit of the District's 2017-2018 financial statements, we recommend that the District request a Type 2 service organization control report from all service organizations.
3. We recommend that the School District invest the funds into investments that are in accordance with the endowment agreement.
4. We recommend that all manual entries made to the POS system be reviewed on a monthly basis and that the entries be initialed for evidence of review.

Management's Response:

1. Monthly review of balances are occurring and transfers are being made to make sure the balances are correct in the internal service funds.
2. The district will continue to request a report from the service organizations for the SOC report.
3. The district is compliance with proper investments of the endowment as set up with FNB Bank.
4. The Food Service Director implemented the process to review and initial the manual entries.

#### *2017-5 Fixed Assets*

Recommendation: Since it has been over 10 years since the District had the initial fixed asset valuation performed to comply with GASB Statement No. 34, we recommend the District consider having a new valuation done that would give the District a clean start in documenting, tracking, and tagging fixed assets. Additionally, we recommend the District consider implementing more controls over the processing and tracking of fixed assets in order to ensure the fixed asset ledger is maintained and accurate in the ensuing years.

Management's Response: The district is getting quotes from Industrial and American Appraisal to do a complete valuation of all fixed assets of the district. Through our software system, we have a Fixed Asset system, and we are attempting to implement training. The position that has remained unfilled would have the job responsibility of maintaining the fixed assets and all duties needed to comply with audit recommendations.

#### *2017-6 Controls Over the Athletic Documents and Bookkeeping*

Recommendation: We recommend that the District establish and practice internal controls that do the following:

1. All game financial records should be properly secured and maintained.
2. Generating pre-signed checks can be extremely risky with the possibility of someone other than District personnel obtaining the check and using it for personal purposes. We encourage the District to refrain from generating or maintaining pre-signed checks.

Management's Response: The Athletic Director implemented a game receipt ledger for all athletic events and the A.D. and all ticket sellers sign off at each event to maintain and secure all records for audit purposes. Additionally, the Athletic Department implemented procedures for properly recording checks for the specific amount to each vendor. Check stubs are attached to invoices and no checks are pre-signed.

## **Significant Deficiencies**

### *2017-7 Review of Journal Entries*

Recommendation: We recommend the adoption of a policy whereby all journal entries will be approved by a designated member of the District. All entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals.

Management's Response: All journal entries will be initialized by the preparer and approved by the business manager or properly assigned designee.

## **E. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD AUDIT**

### **Significant Deficiencies**

#### *2017-8 Approval of Invoices Related to Federal Programs*

Recommendation: We recommend that a member of management or designated employee review and approve each cafeteria invoice and document their review and approval by signing or initialing each invoice.

Management's Response: The Food Service Director reviews all invoices on a monthly basis prior to them being submitted to the Business Office for payment. We receive multiple invoices from most of our vendors over the course of a month. We compile a spreadsheet for each vendor listing dates, invoice numbers, and amounts. The director reviews the invoices and then signs off on the spreadsheet with all compiled information prior to the invoices being submitted to the Business Office. When there is just one invoice, the director will sign and date the invoice itself.

#### *2017-9 System Award Management Review*

Recommendation: We recommend that District establish and practice procedures where any expenditure of federal dollars over \$25,000 generates a review of the SAM web site. Additionally, the review should include the District's findings on the web site and documentation of who did the review and when.

Management's Response: The Food Service Director will check the SAM Website on a semi-annual basis to verify the district vendors have not been disbarred or suspended.

March 20, 2018

To the Board of Directors  
Blackhawk School District  
500 Blackhawk Road  
Beaver Falls, Pennsylvania 15010

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Blackhawk School District for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance) as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 6, 2015. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Blackhawk School District are described in Note 2 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2017. We noted no transactions entered into by Blackhawk School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

The estimate for the earned income taxes receivable. This was discussed and agreed upon by the Business Manager;

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

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

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

The disclosure of cash and investments in Note 3 to the financial statements;

The disclosure of capital assets in Note 5 to the financial statements;  
The disclosure of pension benefits in Note 6 to the financial statements;  
The disclosure of long-term debt in Note 8 to the financial statements;

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

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

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

#### *Corrected and Uncorrected Misstatements*

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

#### *Disagreements with Management*

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

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated March 20, 2018.

#### *Management Consultations with Other Independent Accountants*

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

#### *Other Audit Findings or Issues*

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

#### **Other Matters**

We applied certain limited procedures to the management's discussion and analysis, post-employment benefits other than pension benefits (OPEB) and Public School Employees' Retirement System (PSERS) information, which are part of required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

**Restriction on Use**

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

Very truly yours,

*Cottrill, Arbutina and Assoc.*

Beaver, PA 15009