



**Dallas School District
Dallas, Pennsylvania
Luzerne County**

Financial Statements
Year Ended June 30, 2017



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DALLAS SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

**Board of School Directors
Dallas School District
Dallas, Pennsylvania**

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Report on Summarized Comparative Information

We have previously audited Dallas School District's 2016 financial statements, and we expressed unmodified opinions on those audited financial statements in our report dated February 9, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule – General Fund, the other post-employment benefits schedule of funding progress and the schedules of the District's proportionate share of the net pension liability and pension plan contributions on pages 3 through 13 and 41 through 44 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 Dallas School District's basic financial statements. The schedule of expenditures of federal awards and certain state grants is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards and certain state grants 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 and certain state grants 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 February 21, 2018, on our consideration of Dallas School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Dallas School District's internal control over financial reporting and compliance.

BBD, LLP

**Philadelphia, Pennsylvania
February 21, 2018**

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

Management's discussion and analysis ("**MD&A**") of the Dallas School District (the "**District**") provides an overview of the District's financial performance for fiscal year ended June 30, 2017. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

DISTRICT PROFILE

The District consists of four schools – two elementary schools, a middle school and a senior high school consisting of approximately 2,620 students. The District encompasses the municipal subdivisions of the Borough of Dallas and the Townships of Dallas, Franklin and Kingston in Luzerne County Pennsylvania and covers approximately 46.1 square miles. The area comprised of these four municipalities is known locally as the Back Mountain and through the years has gained the reputation of a prestigious residential area. The District is located in the north central section of Luzerne County, Pennsylvania, about ten miles northwest of the City of Wilkes Barre. There are approximately 297 full and part-time employees in the District including 181 instructional staff, 10 administrators and 106 support staff.

The mission of the District is to provide excellence in education to enable all students to learn, lead and succeed.

FINANCIAL HIGHLIGHTS

- On a government-wide basis including all governmental activities and the business type activities, the liabilities and the deferred inflows of resources of the District exceeded the assets and deferred outflows of resources resulting in a deficit of total net position at the close of the 2016-2017 fiscal year of \$45,152,415. During the 2016-2017 fiscal year, the District had an increase in total net position of \$263,101. The net position of governmental activities increased by \$267,405 and the net position of the business-type activities decreased by \$4,304.
- The General Fund reported an increase in fund balance of \$1,090,544, bringing the cumulative balance to \$3,725,967 at the conclusion of the 2016-2017 fiscal year.
- At June 30, 2017, the General Fund fund balance includes \$17,329 which is considered nonspendable, \$1,386,501 committed to capital projects and unassigned amounts of \$2,322,137 or 6.06% of the \$38,294,170 2017-2018 General Fund expenditure budget. This is in compliance with guidelines prescribed by the Pennsylvania Department of Education which allows a district to maintain an unassigned maximum General Fund fund balance of 8% of the following year's expenditure budget.
- During prior years, the School Board had committed a total of \$3,204,486 of accumulated fund balance to be used for future capital projects of which \$1,386,501 remained as of June 30, 2016 and available for appropriation during the 2016-2017 fiscal year. During 2016-2017, the District did not utilize any fund balance committed for capital projects.
- Budgeted amounts in the General Fund used \$530,039 of fund balance as of June 30, 2016 to balance the 2016-2017 General Fund budget. Actual results during 2016-2017 resulted in an increase of \$1,090,544 to the General Fund fund balance for a positive variance of \$1,620,583.

OVERVIEW OF THE FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position (Deficit)* presents information on all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position (deficit). Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating. To assess the District's overall health, the reader will need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

The government-wide financial statements distinguish the functions of the District that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. In the government-wide financial statements, the District's activities are divided into two categories:

Governmental Activities

Most of the District's basic services are included here, such as regular and special education, support services, maintenance, transportation and administration.

Business-Type Activities

The District charges fees to cover the costs of its food services program.

The government-wide financial statements can be found on Pages 14 and 15 of this report.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the District's funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

Most of the District's activities are included in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governmental near-term financing decisions. Both the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains two major individual governmental funds. Information is presented separately in the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* for each of the major funds.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget.

The governmental fund financial statements can be found on Pages 16 through 19 of this report.

Proprietary Funds

The District maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Food Service Fund is reported as an enterprise fund of the proprietary fund type. Internal service funds are used to accumulate and allocate certain costs internally among the District's various functions. The District uses its internal service fund to account for the District's self-funded healthcare plan. Because an internal service fund predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

The proprietary fund financial statements provide separate financial information for its major fund and internal service fund. The proprietary fund financial statements can be found on Pages 20 through 22 of this report.

Fiduciary Funds

The District is the trustee, or fiduciary, for assets that belong to others, consisting of a student activity fund. The District is responsible for ensuring that the assets reported in this fund are used for their intended purpose and by those to whom the assets belong. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The fiduciary fund financial statement can be found on Page 23 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The notes to the financial statements can be found on Pages 24 through 40 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which consists of the budgetary comparison schedule for the General Fund, a schedule of the District's progress in funding its obligation to provide other post-employment benefits and schedules of net pension liability and District pension contributions.

The required supplementary information can be found on Pages 41 through 44 of this report.

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted above, net position may serve over time as a useful indicator of the District's financial position. At the close of the 2016-2017 fiscal year the District's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$45,152,415. The following table presents condensed information for the *Statement of Net Position (Deficit)* of the District at June 30, 2017 and 2016.

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
ASSETS						
Current assets	\$ 10,519,654	\$ 8,667,120	\$224,749	\$253,852	\$ 10,744,403	\$ 8,920,972
Noncurrent assets	<u>57,032,086</u>	<u>58,912,594</u>	<u>39,826</u>	<u>47,121</u>	<u>57,071,912</u>	<u>58,959,715</u>
Total assets	<u>67,551,740</u>	<u>67,579,714</u>	<u>264,575</u>	<u>300,973</u>	<u>67,816,315</u>	<u>67,880,687</u>
DEFERRED OUTFLOWS						
Deferred charges - pensions	<u>9,122,359</u>	<u>4,123,264</u>	<u>-</u>	<u>-</u>	<u>9,122,359</u>	<u>4,123,264</u>
LIABILITIES						
Current liabilities	6,278,272	5,600,347	198,207	230,301	6,476,479	5,830,648
Noncurrent liabilities	<u>113,885,610</u>	<u>111,168,225</u>	<u>-</u>	<u>-</u>	<u>113,885,610</u>	<u>111,168,225</u>
Total liabilities	<u>120,163,882</u>	<u>116,768,572</u>	<u>198,207</u>	<u>230,301</u>	<u>120,362,089</u>	<u>116,998,873</u>
DEFERRED INFLOWS						
Deferred credits - pensions	<u>1,729,000</u>	<u>420,594</u>	<u>-</u>	<u>-</u>	<u>1,729,000</u>	<u>420,594</u>
NET POSITION (DEFICIT)						
Net investment in capital assets	498,446	(54,003)	39,826	47,121	538,272	(6,882)
Restricted	313,792	237,714	-	-	313,792	237,714
Unrestricted	<u>(46,031,021)</u>	<u>(45,669,899)</u>	<u>26,542</u>	<u>23,551</u>	<u>(46,004,479)</u>	<u>(45,646,348)</u>
Total net position (deficit)	<u>\$ (45,218,783)</u>	<u>\$ (45,486,188)</u>	<u>\$ 66,368</u>	<u>\$ 70,672</u>	<u>\$ (45,152,415)</u>	<u>\$ (45,415,516)</u>

The District's total assets as of June 30, 2017 were \$67,816,315 of which \$7,763,131 or 11.45% consisted of cash and \$57,071,912 or 84.16% consisted of the District's investment in capital assets. The District's total liabilities as of June 30, 2017 were \$120,362,089 of which \$56,311,692 or 46.79% consisted of general obligation debt used to acquire and construct capital assets and \$54,810,000 or 45.54% consisted of the actuarially determined net pension liability.

The District had a deficit in unrestricted net position of \$46,004,479 at June 30, 2017. The District's unrestricted net position decreased by \$358,131 primarily due to the change in the actuarially determined net pension liability and related items.

A portion of the District's net position reflects its restricted net position which totaled \$313,792 as of June 30, 2017. All of the District's restricted net position related to amounts restricted for capital expenditures.

Another portion of the District's net assets reflects its investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. For the year ended June 30, 2017, the District's net investment in capital assets increased by \$545,154 because the District's the debt used to acquire capital assets was being repaid faster than the capital assets were being depreciated and capital assets were acquired with funding sources other than long-term debt.

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

The following table presents condensed information for the *Statement of Activities* of the District for 2017 and 2016:

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
REVENUES						
Program revenues						
Charges for services	\$ 28,809	\$ 34,567	\$502,925	\$595,201	\$ 531,734	\$ 629,768
Operating grants and contributions	6,370,981	6,017,307	352,046	371,326	6,723,027	6,388,633
General revenues						
Property taxes levied for general purposes	21,334,581	19,955,628	-	-	21,334,581	19,955,628
Earned income taxes levied for general purposes	3,063,554	3,177,288	-	-	3,063,554	3,177,288
Other taxes levied for general purposes	546,181	497,706	-	-	546,181	497,706
Grants and entitlements not restricted to specific programs	6,172,091	6,137,620	-	-	6,172,091	6,137,620
Investment earnings	<u>37,315</u>	<u>20,784</u>	<u>265</u>	<u>259</u>	<u>37,580</u>	<u>21,043</u>
Total revenues	<u>37,553,512</u>	<u>35,840,900</u>	<u>855,236</u>	<u>966,786</u>	<u>38,408,748</u>	<u>36,807,686</u>
EXPENSES						
Instruction	23,491,995	22,947,499	-	-	23,491,995	22,947,499
Instructional student support services	2,258,252	2,219,184	-	-	2,258,252	2,219,184
Administrative and financial support services	3,450,041	3,618,051	-	-	3,450,041	3,618,051
Operation and maintenance of plant services	3,482,955	3,520,656	-	-	3,482,955	3,520,656
Pupil transportation	1,374,908	1,349,175	-	-	1,374,908	1,349,175
Student activities	941,718	836,738	-	-	941,718	836,738
Community services	33,992	31,504	-	-	33,992	31,504
Interest and amortization expense related to noncurrent liabilities	2,252,246	2,647,287	-	-	2,252,246	2,647,287
Food service	<u>-</u>	<u>-</u>	<u>859,540</u>	<u>966,985</u>	<u>859,540</u>	<u>966,985</u>
Total expenses	<u>37,286,107</u>	<u>37,170,094</u>	<u>859,540</u>	<u>966,985</u>	<u>38,145,647</u>	<u>38,137,079</u>
CHANGE IN NET POSITION (DEFICIT)	<u>\$ 267,405</u>	<u>\$ (1,329,194)</u>	<u>\$ (4,304)</u>	<u>\$ (199)</u>	<u>\$ 263,101</u>	<u>\$ (1,329,393)</u>

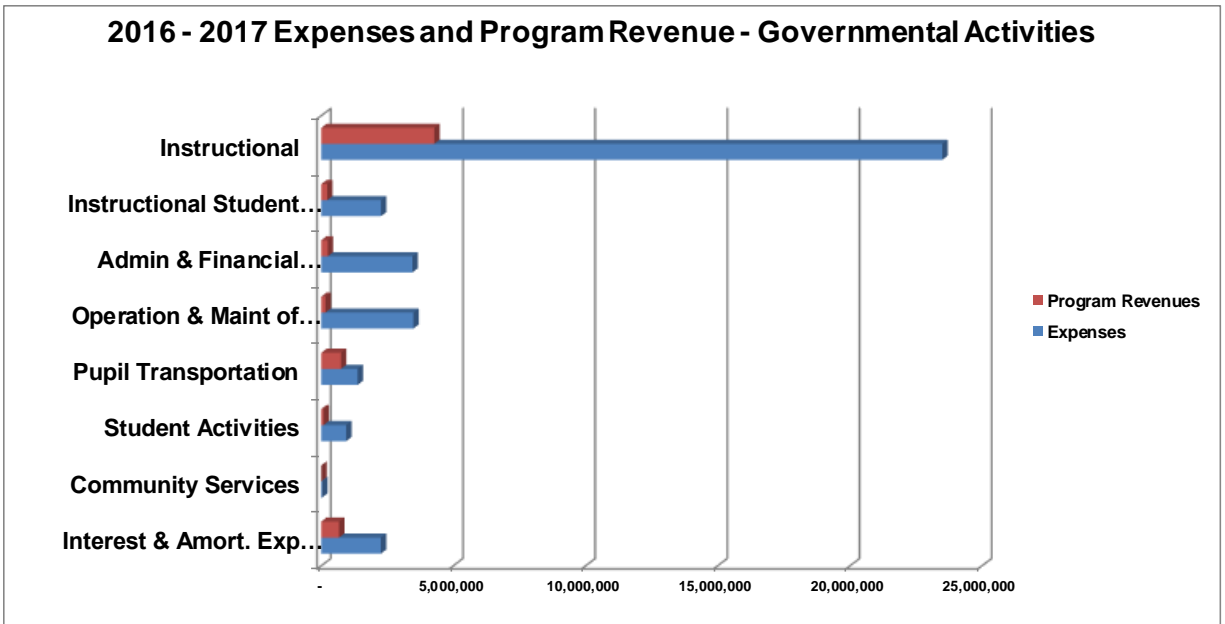
Overall, the District's financial position has been improving, but challenges such as increased medical costs and pension contributions, state-mandated programs and negotiated contracts have a potential to offset these gains in future fiscal years. Management of the District continues to aggressively implement cost efficiencies and revenue-generating strategies to combat these factors. In the governmental activities, the District's assessed property tax base drives the majority of the revenue generated. A majority of the District's property tax base is in the form of residential housing whose growth has slowed in recent years. Although the District is primarily a residential community, the District also has a property tax base derived from commercial facilities.

DALLAS SCHOOL DISTRICT

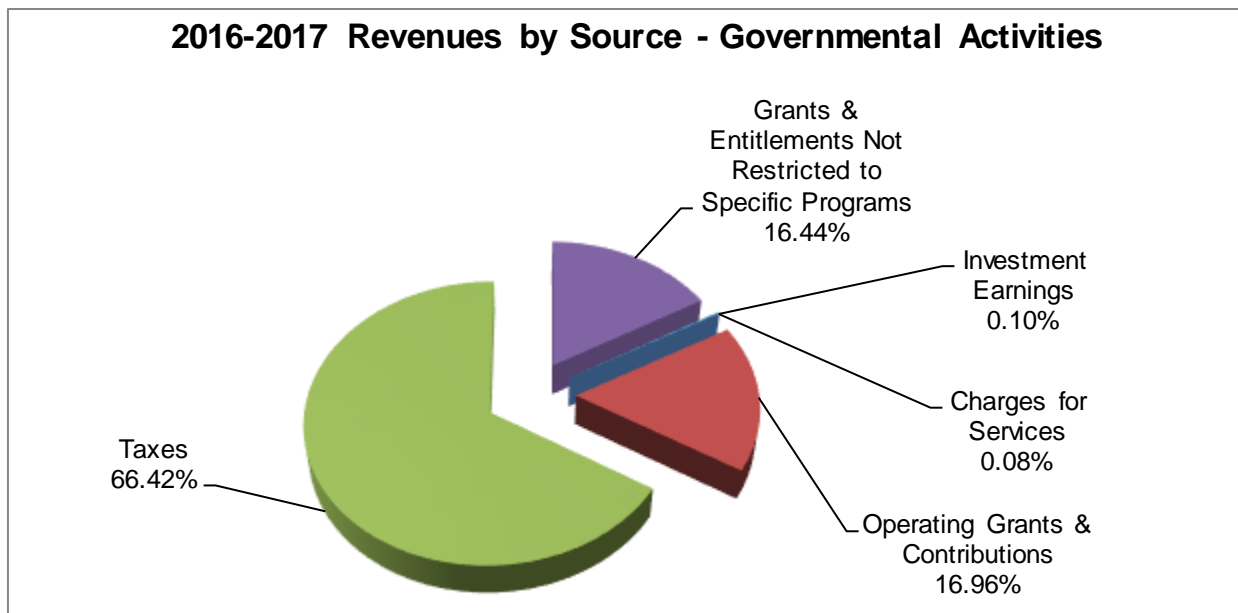
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

The *Statement of Activities* provides detail that focuses on how the District finances its services. The *Statement of Activities* compares the costs of the District functions and programs with the resources those functions and programs generate themselves in the form of program revenues. As demonstrated by the following graph, all of the District's governmental activities are not self-supporting, raising enough program revenue to cover their costs, as most traditional governmental services are not.



To the degree that the District's functions or programs cost more than they raise, the *Statement of Activities* shows how the District chose to finance the difference through general revenues. The following chart shows that the District relies on tax revenues to finance its governmental activities.



DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

GOVERNMENTAL FUNDS

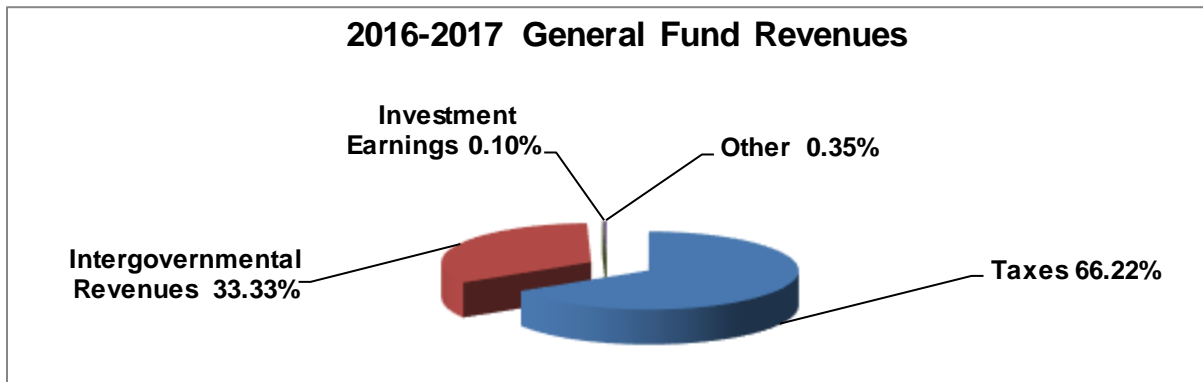
The governmental fund financial statements provide detailed information of the District's major funds. Some funds are required to be established by State statute while other funds are established by the District to manage monies restricted for a specific purpose. As of June 30, 2017, the District's governmental funds reported a combined fund balance of \$4,039,759 which is an increase of \$1,166,622 from the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2017 and 2016 and the total 2017 change in governmental fund balances.

	<u>2017</u>	<u>2016</u>	<u>Change</u>
General Fund	\$3,725,967	\$2,635,423	\$1,090,544
Capital Projects Fund	<u>313,792</u>	<u>237,714</u>	<u>76,078</u>
	<u>\$4,039,759</u>	<u>\$2,873,137</u>	<u>\$1,166,622</u>

GENERAL FUND

The General Fund is the District's primary operating fund. At the conclusion of the 2016-2017 fiscal year, the General Fund fund balance was \$3,725,967 representing an increase of \$1,090,544 in relation to the prior year. The increase in the District's General Fund fund balance is due to many factors. The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2016-2017 fiscal year.

The District's reliance upon tax revenues is demonstrated by the graph below that indicates 66.22% of General Fund revenues are derived from local taxes.



General Fund Revenues

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Tax revenues	\$24,923,290	\$23,906,773	\$1,016,517	4.25
Intergovernmental revenues	12,543,071	12,154,925	388,146	3.19
Investment earnings	36,494	20,263	16,231	80.10
Other	<u>133,601</u>	<u>60,649</u>	<u>72,952</u>	<u>120.29</u>
	<u>\$37,636,456</u>	<u>\$36,142,610</u>	<u>\$1,493,846</u>	<u>4.13</u>

Tax revenues increased \$1,016,517 or 4.25% primarily due to an increase in the real estate tax millage to 13.1380 mills or 4.06% in 2016-2017 compared to 12.6261 mills in 2015-2016.

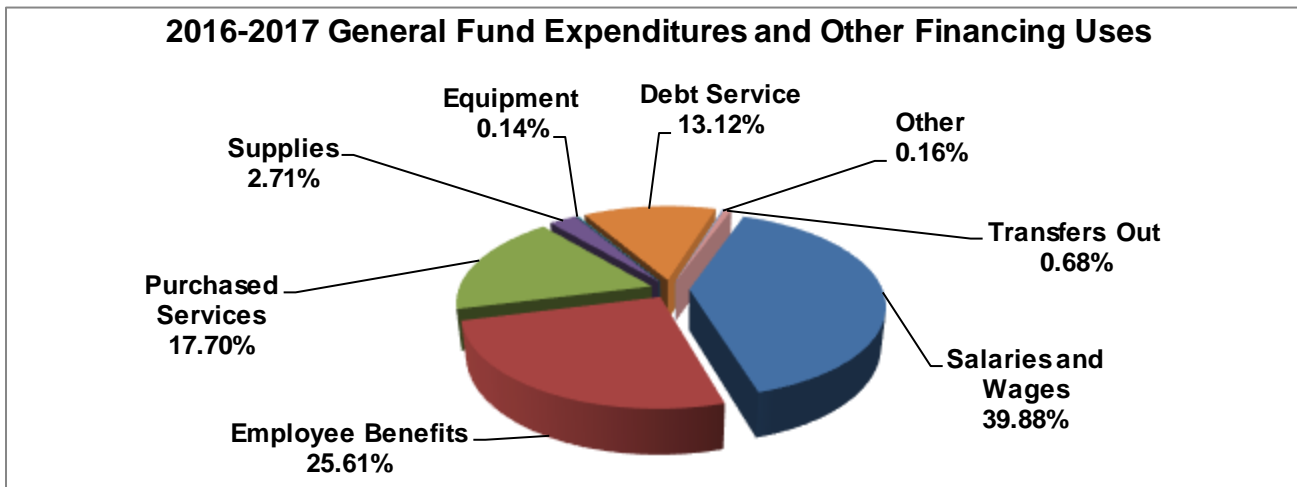
DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

Intergovernmental revenues increased by \$388,146 or 3.19% in 2016-2017 when compared to 2015-2016 primarily due to additional funding received for the state retirement subsidy which increased commensurate with the employee annual contribution percentage and additional funding received through the basic education subsidy.

As the graph below illustrates, the largest portion of General Fund expenditures are for salaries and benefits. The District is an educational service entity and as such is labor intensive.



General Fund Expenditures and Other Financing Uses

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Salaries and wages	\$14,575,672	\$14,636,652	\$ (60,980)	(0.42)
Employee benefits	9,358,529	8,836,949	521,580	5.90
Purchased services	6,466,772	6,258,385	208,387	3.33
Supplies	988,429	1,022,961	(34,532)	(3.38)
Equipment	52,955	60,720	(7,765)	(12.79)
Other	59,431	122,895	(63,464)	(51.64)
Debt service	4,794,124	4,322,504	471,620	10.91
Transfers out	<u>250,000</u>	<u>275,000</u>	<u>(25,000)</u>	<u>(9.09)</u>
	<u>\$36,545,912</u>	<u>\$35,536,066</u>	<u>\$1,009,846</u>	<u>2.84</u>

Employee benefits increased primarily due to an increase in the required employer annual retirement contribution to 30.03% in 2016-2017 from 25.84% in 2015-2016 which represents a 16.22% increase over the prior year. Increasing health insurance costs also contributed to the increase.

Debt service expenditures increased by \$471,620 or 10.91% as a result of increases in scheduled debt service requirements under current long-term debt repayment agreements.

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for construction and renovation activity associated with the District's buildings and major equipment purchases. The Capital Projects Fund receives the majority of its revenues from the issuance of general obligation debt and transfers from the General Fund. During 2016-2017, the Capital Projects Fund reported an increase in its fund balance of \$76,078 due to transfers from the General Fund in excess of current year capital outlay. As of June 30, 2017, the Capital Projects Fund had a fund balance of \$313,792 which is restricted for capital expenditures.

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

GENERAL FUND BUDGET INFORMATION

The District maintains its financial records and prepares its financial reports on the modified accrual basis of accounting. The District budgets and expends funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by management and submitted to the School Board for approval prior to the beginning of the fiscal year on July 1 each year. The most significant budgeted fund is the General Fund.

Budgeted amounts in the General Fund used \$530,039 as of June 30, 2016 to balance the 2016-2017 General Fund budget. Actual results during the 2016-2017 fiscal year resulted in an increase of \$1,090,544 for a positive variance of \$1,620,583. Total General Fund revenues were \$1,150,614 or 3.15% more than budgeted amounts and total General Fund expenditures and other financing uses were \$469,969 or 1.27% less than budgeted amounts.

BUSINESS-TYPE ACTIVITIES AND FOOD SERVICE FUND

During 2016-2017, the net position of the business-type activities and Food Service Fund decreased by \$4,304. As of June 30, 2017, the business-type activities and Food Service Fund had net position of \$66,368.

CAPITAL ASSETS

The District's investment in capital assets for its governmental and business-type activities as of June 30, 2017 amounted to \$57,071,912 net of accumulated depreciation. This investment in capital assets includes land, buildings and improvements and furniture and equipment. The total decrease in the District's investment in capital assets for the current fiscal year was \$1,887,803 or 3.20%. The decrease was the result of current year depreciation expense in excess of current year capital additions.

Current year capital additions were \$382,593 and depreciation expense was \$2,270,396.

Major capital additions for the current fiscal year include the following:

- Information technology equipment - capital lease \$233,040
- Wycallis Elementary concrete project \$149,553

NONCURRENT LIABILITIES

At the end of the current fiscal year, the District had total general obligation debt of \$56,311,692 consisting of \$52,125,000 in bonds payable, \$2,706,670 in notes payable and net deferred credits of \$1,480,022. The entire amount is backed by the full faith and credit of the District. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior obligation debt. The District's general obligation debt decreased by \$2,548,884 or 4.33% during the fiscal year.

State statutes limit the amount of general obligation debt the District may issue up to 225% of its borrowing base capacity which is calculated as the annual arithmetic average of the total revenues for the preceding three fiscal years. The District's outstanding general obligation debt of \$56,311,692 is within the current debt limitation of the District which was \$80,606,980 as of June 30, 2017.

The District maintains an A1 rating from Moody's Investors Service.

The District reports its allocated portion of its defined benefit unfunded benefit obligation related to its participation in the Pennsylvania State Employee Retirement System ("**PSERS**"). The District's allocated portion of the net pension liability is an actuarially determined estimate of the unfunded cost of the pension plan obligation which totaled \$54,810,000 as of June 30, 2017. The District's net pension liability increased by \$4,824,000 or 9.65% during the fiscal year.

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

Other noncurrent liabilities consist of the District's liabilities for capital leases, compensated absences and its net obligation for post-employment benefits, which totaled \$2,763,918 as of June 30, 2017. These liabilities increased by \$442,269 or 19.05% during the fiscal year primarily due to the increase in the District's estimated net post-employment benefit (OPEB).

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District adopted a balanced 2017-2018 budget totaling \$38,294,170 which used \$561,125 of General Fund fund balance as of June 30, 2017 to balance the 2017-2018 budget and the real estate tax millage was increased to 13.4323 mills or 2.25% in comparison to the 2016-2017 real estate tax millage rate.
- In August 2017, the Board of School Directors approved the construction of a new Dallas Intermediate School to replace the current Dallas Elementary School at a cost of approximately \$20 million. Students from kindergarten through second grade will attend Wycallis Elementary while students from third to fifth grade will now attend the new Dallas Intermediate School. In September 2017, the District issued \$18,350,000 of general obligation bonds and in November 2017 transferred approximately \$1.4 million of committed fund for capital projects from the General Fund to the Capital Projects Fund to finance the construction project.
- The District is anticipating a moderate decrease in enrollment over the next several fiscal years.
- The District's collective bargaining agreement with the Dallas Education Association expired at the conclusion of the 2014-2015 school year and is currently still in negotiations, while the collective bargaining agreement with the Dallas Educational Support Personnel Association expires at the conclusion of the 2020-2021 school year.
- In 2006, Act 1 was passed which repealed Act 72, which provides taxpayer relief through gambling revenues generated at the State level. The intent of this legislation is to provide a mechanism to relieve the burden of funding public education from property owners. This new legislation has put a "ceiling" on the percentage increase of local real estate taxes that can be levied year-to-year in order to balance the school district budget. Pennsylvania school districts are now required to either change their taxing strategies to make up for the shortfall of increased real estate tax refunds or seek the taxpayers' approval through back-end referendum to increase taxes higher than the approved index. This law puts an already increased burden on the District's revenue stream in future years. This legislation introduced certain new requirements on school districts which include the following:
 - ◆ That in the event a school district wishes to increase the property tax millage rate by more than an index annually prescribed by the state (3.00% for Dallas School District for 2017-2018), the school district must seek voter approval (known commonly as a "back-end referendum") prior to implementing the millage rate increase. In the event voters do not approve the millage rate increase, the school district must limit its millage rate increase to the index.
 - ◆ Certain exceptions are provided under Act 1 that, if approved by the appropriate authority, may permit increases above the Act 1 index without the need for a back-end referendum. Typically, these exceptions relate to emergencies and cost increases in excess of the Act 1 index (e.g., retirement system contributions) over which the school district has no control.
 - ◆ Any revenues distributed under the provisions of Act 1 are to be used for the purpose of reducing property taxes for homesteaders and farmsteaders.

DALLAS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

- On November 23, 2010, Governor Edward Rendell signed Pension Reform Legislation ("**House Bill 2497**") into law. The legislation is now known as Act 120 of 2010. House Bill 2497 includes a series of actuarial and funding changes to the public school employee's retirement system ("**PSERS**") and benefit reductions for individuals who become new members of PSERS on or after July 1, 2011. House Bill 2497 will not impact the pension benefits of current or retired PSERS members. As a result of the legislation, the employer contribution rate for 2018-2019 is projected at 33.43%. Currently, the employer contribution rate for 2017-2018 is 32.04% which is an increase of 8.45% from the 2016-2017 employer contribution rate of 30.03%. The increase in the employer contribution rate in 2017-2018 is estimated to increase the District's retirement contribution by approximately \$360,000, of which the District's share is approximately \$180,000.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Manager, Dallas School District, P.O. Box 2000, Dallas, Pennsylvania 18612.

DALLAS SCHOOL DISTRICT

STATEMENT OF NET POSITION (DEFICIT)

June 30, 2017 with summarized comparative totals for 2016

	Governmental Activities	Business-type Activities	Totals	
			2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS				
Cash	\$ 7,629,418	\$ 133,713	\$ 7,763,131	\$ 6,054,826
Taxes receivable	1,525,780	-	1,525,780	1,416,734
Due from other governments	1,323,495	99,954	1,423,449	1,418,169
Internal balances	22,832	(22,832)	-	-
Other receivables	800	-	800	-
Inventories	17,329	13,914	31,243	31,243
Total current assets	<u>10,519,654</u>	<u>224,749</u>	<u>10,744,403</u>	<u>8,920,972</u>
NONCURRENT ASSETS				
Capital assets, net	57,032,086	39,826	57,071,912	58,959,715
Total assets	<u>67,551,740</u>	<u>264,575</u>	<u>67,816,315</u>	<u>67,880,687</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charges on proportionate share of pension	9,122,359	-	9,122,359	4,123,264
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)				
CURRENT LIABILITIES				
Accounts payable	784,240	181,597	965,837	590,956
Accrued salaries, payroll withholdings and benefits	4,793,395	-	4,793,395	4,381,013
Insurance claims payable	97,501	-	97,501	244,813
Accrued interest payable	546,609	-	546,609	539,603
Unearned revenues	-	16,610	16,610	17,736
Other liabilities	56,527	-	56,527	56,527
Total current liabilities	<u>6,278,272</u>	<u>198,207</u>	<u>6,476,479</u>	<u>5,830,648</u>
NONCURRENT LIABILITIES				
Due within one year	2,701,588	-	2,701,588	2,617,444
Due in more than one year	111,184,022	-	111,184,022	108,550,781
Total noncurrent liabilities	<u>113,885,610</u>	<u>-</u>	<u>113,885,610</u>	<u>111,168,225</u>
Total liabilities	<u>120,163,882</u>	<u>198,207</u>	<u>120,362,089</u>	<u>116,998,873</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred credits of proportionate share of pension	1,729,000	-	1,729,000	420,594
NET POSITION (DEFICIT)				
Net investment in capital assets	498,446	39,826	538,272	(6,882)
Restricted	313,792	-	313,792	237,714
Unrestricted (deficit)	(46,031,021)	26,542	(46,004,479)	(45,646,348)
Total net position (deficit)	<u>\$ (45,218,783)</u>	<u>\$ 66,368</u>	<u>\$ (45,152,415)</u>	<u>\$ (45,415,516)</u>

See accompanying notes

DALLAS SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2017 with summarized comparative totals for 2016

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position (Deficit)</u>			
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>	
							<u>2017</u>	<u>2016</u>
GOVERNMENTAL ACTIVITIES								
Instruction	\$ 23,491,995	\$ -	\$ 4,275,710	\$ -	\$ (19,216,285)	\$ -	\$ (19,216,285)	\$ (19,041,489)
Instructional student support services	2,258,252	-	222,258	-	(2,035,994)	-	(2,035,994)	(1,920,832)
Administrative and financial support services	3,450,041	-	244,652	-	(3,205,389)	-	(3,205,389)	(3,415,046)
Operation and maintenance of plant services	3,482,955	-	156,552	-	(3,326,403)	-	(3,326,403)	(3,362,385)
Pupil transportation	1,374,908	-	744,561	-	(630,347)	-	(630,347)	(616,625)
Student activities	941,718	28,809	56,473	-	(856,436)	-	(856,436)	(758,958)
Community services	33,992	-	-	-	(33,992)	-	(33,992)	(31,504)
Interest and amortization expense related to noncurrent liabilities	2,252,246	-	670,775	-	(1,581,471)	-	(1,581,471)	(1,971,381)
Total governmental activities	<u>37,286,107</u>	<u>28,809</u>	<u>6,370,981</u>	<u>-</u>	<u>(30,886,317)</u>	<u>-</u>	<u>(30,886,317)</u>	<u>(31,118,220)</u>
BUSINESS-TYPE ACTIVITIES								
Food service	859,540	502,925	352,046	-	-	(4,569)	(4,569)	(458)
Total primary government	<u>\$ 38,145,647</u>	<u>\$ 531,734</u>	<u>\$ 6,723,027</u>	<u>\$ -</u>	<u>(30,886,317)</u>	<u>(4,569)</u>	<u>(30,890,886)</u>	<u>(31,118,678)</u>
GENERAL REVENUES								
Property taxes levied for general purposes					21,334,581	-	21,334,581	19,955,628
Earned income taxes levied for general purposes					3,063,554	-	3,063,554	3,177,288
Other taxes levied for general purposes					546,181	-	546,181	497,706
Grants and entitlements not restricted to specific programs					6,172,091	-	6,172,091	6,137,620
Investment earnings					37,315	265	37,580	21,043
Total general revenues					<u>31,153,722</u>	<u>265</u>	<u>31,153,987</u>	<u>29,789,285</u>
CHANGE IN NET POSITION (DEFICIT)					267,405	(4,304)	263,101	(1,329,393)
NET POSITION (DEFICIT)								
Beginning of year					(45,486,188)	70,672	(45,415,516)	(44,086,123)
End of year					<u>\$ (45,218,783)</u>	<u>\$ 66,368</u>	<u>\$ (45,152,415)</u>	<u>\$ (45,415,516)</u>

See accompanying notes

DALLAS SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2017 with summarized comparative totals for 2016

	<u>Major Funds</u>		<u>Totals</u>	
	<u>General</u>	<u>Capital</u>		
	<u>Fund</u>	<u>Projects</u>	<u>2017</u>	<u>2016</u>
ASSETS				
Cash	\$ 7,204,175	\$ 313,792	\$ 7,517,967	\$ 5,912,029
Taxes receivable	1,525,780	-	1,525,780	1,416,734
Due from other governments	1,323,495	-	1,323,495	1,385,947
Due from other funds	22,832	-	22,832	-
Other receivables	800	-	800	-
Inventories	17,329	-	17,329	17,329
Total assets	<u>\$ 10,094,411</u>	<u>\$ 313,792</u>	<u>\$ 10,408,203</u>	<u>\$ 8,732,039</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 784,240	\$ -	\$ 784,240	\$ 378,391
Due to other funds	-	-	-	309,732
Accrued salaries, payroll withholdings and benefits	4,793,395	-	4,793,395	4,381,013
Other liabilities	56,527	-	56,527	56,527
Total liabilities	<u>5,634,162</u>	<u>-</u>	<u>5,634,162</u>	<u>5,125,663</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues - property and per capita taxes	734,282	-	734,282	733,239
FUND BALANCES				
Nonspendable				
Inventories	17,329	-	17,329	17,329
Restricted for				
Capital projects	-	313,792	313,792	237,714
Committed to				
Capital projects	1,386,501	-	1,386,501	1,386,501
Unassigned	2,322,137	-	2,322,137	1,231,593
Total fund balances	<u>3,725,967</u>	<u>313,792</u>	<u>4,039,759</u>	<u>2,873,137</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 10,094,411</u>	<u>\$ 313,792</u>	<u>\$ 10,408,203</u>	<u>\$ 8,732,039</u>

See accompanying notes

DALLAS SCHOOL DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION (DEFICIT)

June 30, 2017

TOTAL GOVERNMENTAL FUND BALANCES	\$ 4,039,759
<p>Amounts reported for governmental activities in the statement of net position (deficit) are different because:</p>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	57,032,086
Some of the District's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the governmental funds balance sheet.	734,282
The Internal Service Fund is used by management to charge the cost of health insurance claims to the General Fund. The assets and liabilities of the District's Internal Service Fund are included in the governmental activities on the government-wide statement of net position.	13,950
Deferred outflows of resources and deferred inflows of resources related to pensions are not reported as assets and liabilities in the governmental funds balance sheet.	7,393,359
Noncurrent liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds balance sheet.	(113,885,610)
Accrued interest payable on noncurrent liabilities is included in the statement of net position (deficit), but is excluded from the governmental funds balance sheet until due and payable.	<u>(546,609)</u>
NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	<u>\$ (45,218,783)</u>

DALLAS SCHOOL DISTRICT

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

Year ended June 30, 2017 with summarized comparative totals for 2016

	Major Funds		Totals	
	General Fund	Capital Projects Fund	2017	2016
REVENUES				
Local sources	\$ 25,093,884	\$ 821	\$ 25,094,705	\$ 23,988,206
State sources	11,509,709	-	11,509,709	11,114,423
Federal sources	1,032,863	-	1,032,863	1,040,502
Total revenues	<u>37,636,456</u>	<u>821</u>	<u>37,637,277</u>	<u>36,143,131</u>
EXPENDITURES				
Current				
Instruction	20,922,844	-	20,922,844	20,549,444
Support services	9,691,790	233,040	9,924,830	9,854,474
Operation of noninstructional services	880,072	-	880,072	785,482
Facilities acquisition, construction and improvement services	7,082	174,743	181,825	57,375
Debt service	4,794,124	-	4,794,124	4,322,504
Total expenditures	<u>36,295,912</u>	<u>407,783</u>	<u>36,703,695</u>	<u>35,569,279</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,340,544</u>	<u>(406,962)</u>	<u>933,582</u>	<u>573,852</u>
OTHER FINANCING SOURCES (USES)				
Refund of prior year receipts	-	-	-	(32,777)
Issuance of debt - refunding	-	-	-	19,405,000
Payment of debt - refunding	-	-	-	(20,937,190)
Bond premiums	-	-	-	1,835,305
Proceeds from extended term financing	-	233,040	233,040	-
Transfers in	-	250,000	250,000	275,000
Transfers out	(250,000)	-	(250,000)	(275,000)
Total other financing sources (uses)	<u>(250,000)</u>	<u>483,040</u>	<u>233,040</u>	<u>270,338</u>
NET CHANGE IN FUND BALANCES	1,090,544	76,078	1,166,622	844,190
FUND BALANCES				
Beginning of year	<u>2,635,423</u>	<u>237,714</u>	<u>2,873,137</u>	<u>2,028,947</u>
End of year	<u>\$ 3,725,967</u>	<u>\$ 313,792</u>	<u>\$ 4,039,759</u>	<u>\$ 2,873,137</u>

See accompanying notes

DALLAS SCHOOL DISTRICT

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF ACTIVITIES

Year ended June 30, 2017

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 1,166,622

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 and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

Capital outlay expenditures	\$ 382,593	
Depreciation expense	<u>(2,263,101)</u>	(1,880,508)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred inflows of resources increased by this amount in the current period.

Deferred inflows of resources June 30, 2016	(733,239)	
Deferred inflows of resources June 30, 2017	<u>734,282</u>	1,043

The Internal Service Fund is used by management to charge the cost of health insurance premiums and claims to the General Fund. The change in net position of the Internal Service Fund is reported with the governmental activities.

13,950

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on the change in net position of governmental activities. Also, governmental funds report the effect of premiums, discounts and similar items when long-term debt is issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Repayment of bonds and notes payable	2,413,687	
Amortization of discounts and premiums	135,197	
Proceeds from extended-term financing	(233,040)	
Repayment of extended-term financing	<u>117,113</u>	2,432,957

Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore are not reported as expenditures on governmental funds.

Change in net pension liability and related deferred inflows and outflows	(1,133,311)	
Current year change in accrued interest payable	(7,006)	
Current year change in compensated absences	4,945	
Current year change in net post-employment benefit (OPEB) obligation	<u>(331,287)</u>	<u>(1,466,659)</u>

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES **\$ 267,405**

See accompanying notes

DALLAS SCHOOL DISTRICT

STATEMENT OF NET POSITION (DEFICIT) - PROPRIETARY FUNDS

June 30, 2017 with summarized comparative totals for 2016

	<u>Major Fund</u> <u>Food Service</u> <u>Fund</u>	<u>Internal</u> <u>Service</u> <u>Fund</u>	<u>Totals</u>	
			<u>2017</u>	<u>2016</u>
ASSETS				
CURRENT ASSETS				
Cash	\$ 133,713	\$ 111,451	\$ 245,164	\$ 142,797
Due from other governments	99,954	-	99,954	32,222
Due from other funds	-	-	-	309,732
Inventories	<u>13,914</u>	<u>-</u>	<u>13,914</u>	<u>13,914</u>
Total current assets	<u>247,581</u>	<u>111,451</u>	<u>359,032</u>	<u>498,665</u>
NONCURRENT ASSETS				
Capital assets, net	<u>39,826</u>	<u>-</u>	<u>39,826</u>	<u>47,121</u>
Total assets	<u>287,407</u>	<u>111,451</u>	<u>398,858</u>	<u>545,786</u>
LIABILITIES AND NET POSITION				
LIABILITIES				
Accounts payable	181,597	-	181,597	212,565
Due to other funds	22,832	-	22,832	-
Insurance claims payable	-	97,501	97,501	244,813
Unearned revenues	<u>16,610</u>	<u>-</u>	<u>16,610</u>	<u>17,736</u>
Total liabilities	<u>221,039</u>	<u>97,501</u>	<u>318,540</u>	<u>475,114</u>
NET POSITION				
Net investment in capital assets	39,826	-	39,826	47,121
Unrestricted	<u>26,542</u>	<u>13,950</u>	<u>40,492</u>	<u>23,551</u>
Total net position	<u>\$ 66,368</u>	<u>\$ 13,950</u>	<u>\$ 80,318</u>	<u>\$ 70,672</u>

See accompanying notes

DALLAS SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (DEFICIT) - PROPRIETARY FUNDS

Year ended June 30, 2017 with summarized comparative totals for 2016

	<u>Major Fund</u>	<u>Internal</u>	<u>Totals</u>	
	<u>Food Service</u>	<u>Service</u>	<u>2017</u>	<u>2016</u>
	<u>Fund</u>	<u>Fund</u>		
OPERATING REVENUES				
Charges for services	\$ 502,925	\$ 3,999,437	\$ 4,502,362	\$ 4,366,737
OPERATING EXPENSES				
Employee benefits	-	3,985,972	3,985,972	3,587,774
Purchased services	382,402	-	382,402	510,742
Supplies	411,751	-	411,751	468,711
Depreciation	7,295	-	7,295	7,295
Other	58,092	-	58,092	55,514
Total operating expenses	<u>859,540</u>	<u>3,985,972</u>	<u>4,845,512</u>	<u>4,630,036</u>
Operating loss	<u>(356,615)</u>	<u>13,465</u>	<u>(343,150)</u>	<u>(263,299)</u>
NONOPERATING REVENUES				
Earnings on investments	265	485	750	666
State sources	22,029	-	22,029	25,133
Federal sources	330,017	-	330,017	346,193
Total nonoperating revenues	<u>352,311</u>	<u>485</u>	<u>352,796</u>	<u>371,992</u>
CHANGE IN NET POSITION	(4,304)	13,950	9,646	108,693
NET POSITION				
Beginning of year	<u>70,672</u>	<u>-</u>	<u>70,672</u>	<u>(38,021)</u>
End of year	<u>\$ 66,368</u>	<u>\$ 13,950</u>	<u>\$ 80,318</u>	<u>\$ 70,672</u>

See accompanying notes

DALLAS SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended June 30, 2017 with summarized comparative totals for 2016

	<u>Major Fund</u>	<u>Internal</u>	<u>Totals</u>	
	<u>Food Service</u>	<u>Service</u>	<u>2017</u>	<u>2016</u>
	<u>Fund</u>	<u>Fund</u>		
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from charges for services	\$ 639,657	\$ -	\$ 639,657	\$ 571,033
Cash received for assessments made to other fund	-	4,194,143	4,194,143	3,576,830
Cash payments to suppliers for goods and services	(767,174)	-	(767,174)	(788,166)
Cash paid for insurance claims	-	(4,133,284)	(4,133,284)	(3,513,283)
Cash paid for operating expenses	(58,092)	-	(58,092)	(75,277)
Net cash provided by (used for) operating activities	<u>(185,609)</u>	<u>60,859</u>	<u>(124,750)</u>	<u>(228,863)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State sources	17,145	-	17,145	25,272
Federal sources	209,222	-	209,222	277,391
Net cash provided by noncapital financing activities	<u>226,367</u>	<u>-</u>	<u>226,367</u>	<u>302,663</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings on investments	265	485	750	666
Net increase in cash	41,023	61,344	102,367	74,466
CASH				
Beginning of year	92,690	50,107	142,797	68,331
Ending of year	<u>\$ 133,713</u>	<u>\$ 111,451</u>	<u>\$ 245,164</u>	<u>\$ 142,797</u>
Reconciliation of operating loss to net cash provided by (used for) operating activities:				
Operating loss	\$ (356,615)	\$ 13,465	\$ (343,150)	\$ (263,299)
Adjustments to reconcile operating loss to net cash used for operating activities				
Depreciation	7,295	-	7,295	7,295
Donated commodities used	57,947	-	57,947	68,004
(Increase) decrease in				
Due from other funds	115,026	194,706	309,732	(219,426)
Inventories	-	-	-	(849)
Increase (decrease) in				
Accounts payable	(30,967)	-	(30,967)	104,369
Due to other funds	22,832	-	22,832	-
Insurance claims payable	-	(147,312)	(147,312)	74,491
Unearned revenue	(1,127)	-	(1,127)	552
Net cash provided by (used for) operating activities	<u>\$ (185,609)</u>	<u>\$ 60,859</u>	<u>\$ (124,750)</u>	<u>\$ (228,863)</u>
SUPPLEMENTAL DISCLOSURE				
Noncash noncapital financing activity				
USDA donated commodities	\$ 57,947	\$ -	\$ 57,947	\$ 68,004

See accompanying notes

DALLAS SCHOOL DISTRICT

STATEMENT OF NET POSITION - FIDUCIARY FUND

June 30, 2017 with summarized comparative totals for 2016

	Agency	
	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	<u>\$ 132,797</u>	<u>\$ 117,626</u>
LIABILITIES		
Due to student groups	<u>\$ 132,797</u>	<u>\$ 117,626</u>

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Dallas School District (the "**District**") operates two elementary schools, a middle school and a senior high school to provide education and related services to the residents in the Townships of Dallas, Kingston and Franklin and the Borough of Dallas. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the third class. The District operates under a locally elected nine-member board form of government (the "**School Board**").

The financial statements of the District have been prepared in accordance with generally accepted accounting principles ("**GAAP**") as applied to governmental units. The Governmental Accounting Standards Board ("**GASB**") is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

Reporting Entity

GASB has established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the District's accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship. The District is considered to be an independent reporting entity and has no component units.

Basis of Presentation

Government-Wide Financial Statements

The statement of net position (deficit) and the statement of activities display information about the District as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. These statements include the financial activities of the primary government except for fiduciary funds.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of the related cash flow. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared as further defined below. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

The government-wide statement of net position (deficit) presents the financial position of the District which is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources and is classified in one of three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing or improving those assets. The net position of the District is reported as restricted when constraints placed on net position use is either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Unrestricted net position is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

The statement of net position (deficit) includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

The government-wide statement of activities presents a comparison between expenses and program revenues for each function of the business-type activities of the District and for each governmental function. Expenses are those that are specifically associated with a service or program and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the District.

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

Fund Financial Statements

During the school year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Fiduciary fund financial statements are presented by fund type.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The District reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Projects Fund accounts for financial resources restricted, committed or assigned to be used for capital expenditures or for the acquisition, construction of capital facilities, improvements and/or equipment.

Revenue Recognition

In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Deferred inflows of resources are reported in connection with receivables for tax revenues that are not considered to be available to liquidate liabilities of the current period. Revenue from federal, state and other grants designated for payment of specific District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as unearned revenues until earned. Other receipts are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, special termination benefits, other post-employment benefits and claims and judgments are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Proprietary Funds

Like the government-wide financial statements, proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The District reports the following proprietary funds:

The Food Service Fund accounts for the revenues and costs of providing meals to students during the school year.

The Internal Service Fund is used to account for the District's self-funded healthcare plan.

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's proprietary funds are charges for services. Operating expenses for the District's proprietary funds include employee benefits, purchased services, supplies and other costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary Funds

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organizations and/or governmental units and are, therefore, not available to support the District's own programs. The District accounts for these assets in an agency fund. The agency fund accounts for funds held on behalf of the students in the District. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Cash and Cash Equivalents

The 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.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/due from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes

Taxes are levied on July 1 and are payable in the following periods:

July 14 – September 12	- Discount period, 2% of gross levy
September 13 – November 11	- Face period
November 12 - collection	- Penalty period, 10% of gross levy
January 1	- Lien date

The County Board of Assessments determines assessed valuations of property, and the District's taxes are billed and collected by local elected tax collectors. The tax on real estate for public school purposes for fiscal 2016-2017 was 13.1380 mills (\$13.1380 for \$1,000 of assessed valuation). The District experiences very small losses from uncollectible property taxes. Property taxes constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Taxpayers within the District have the option of paying in three installments. These installments have the following due dates:

Installment One	-	August 31
Installment Two	-	October 31
Installment Three	-	December 15

The discount (two percent) is not applicable to installment payments; however, the penalty (10 percent) will be added if second and third installments are paid subsequent to the due dates.

Prepaid Items and Inventories

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

All inventories are valued at the lower of cost (first-in, first-out method) or market.

Unearned Revenues

Unearned revenue arises when assets are recognized before revenue recognition criteria have been met.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

Property, plant and equipment (net of salvage value) of the District is depreciated using the straight-line method over the following estimated useful lives: buildings and improvements – 15-50 years and furniture and equipment – 5-20 years.

Impairment of Long-Lived Assets

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. If a capital asset is considered to be impaired, the amount of impairment is measured by the method that most reflects the decline in service utility of the capital asset at the lower of carrying value or fair value for impaired capital assets that will no longer be used by the District. No impairment losses were recognized in the year ended June 30, 2017.

Compensated Absences

District policies permit employees to accumulate earned but unused vacation and sick days. The liability for these compensated absences is recorded as a noncurrent liability in the government-wide financial statements. A liability for these amounts is recorded in the governmental funds' financial statements only to the extent they have matured, for example, as a result of employee resignations and retirements.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts are deferred and amortized over the life of the bonds. Deferred amounts on refunding are recorded as a deferred outflow of resources and amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amounts are amortized using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources and uses. Premiums received and discounts paid on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures except for refundings paid from proceeds which are reported as other financing costs.

Fund Equity

As prescribed by GASB, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The District reports the following fund balance classifications:

Nonspendable

Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form – such as inventory or prepaid insurance or (b) legally or contractually required to be maintained intact – such as a trust that must be retained in perpetuity.

Restricted

Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed

Committed fund balances are amounts that can only be used for specific purposes determined by a formal action of the District's highest level of decision-making authority, the School Board. Committed amounts cannot be used for any other purpose unless the School Board removes those constraints by taking the same type of formal action (e.g., resolution).

Assigned

Assigned fund balances are amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the Business Administrator or (b) an appointed body (e.g., finance committee) or (c) an official to which the District has delegated the authority to assign, modify or rescind amounts to be used for specific purposes.

Assigned fund balance includes (a) all remaining amounts that are reported in governmental funds (other than the General Fund) that are not classified as non-spendable, restricted or committed, and (b) amounts in the General Fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue fund or the capital projects fund are assigned for purposes in accordance with the nature of their fund type.

Unassigned

Unassigned fund balance is the residual classification for the General Fund. This classification represents General Fund balance that has not been assigned to other funds, and that has not been restricted, committed or assigned to specific purposes within the General Fund.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, then unrestricted resources—committed, assigned or unassigned—in order as needed.

The School Board has set a General Fund maximum unassigned fund balance of 8% of the following year's expenditure budget in accordance with guidelines prescribed by the Pennsylvania Department of Education.

Use of Estimates

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

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Implementation of New Accounting Pronouncements

Effective July 1, 2016, the District adopted the provisions of GASB Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*", GASB Statement No. 74 "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", GASB Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*", GASB Statement No. 77, "*Tax Abatement Disclosures*"; GASB Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*" and GASB Statement No. 79, "*Certain External Investment Pools and Pool Participants*".

The objective of GASB Statement No. 76 is to identify—in the context of the current governmental financial reporting environment—the hierarchy of GAAP. The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 77 is intended to improve financial reporting by requiring governments that enter into tax abatement agreements to disclose certain information about the agreements. The implementation of GASB Statement No. 77 had no impact on the financial statements of the District for the year ended June 30, 2017.

GASB Statement No. 78 amends the scope and applicability of GASB No. Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan meeting certain criteria. The implementation of GASB Statement No. 78 had no impact on the financial statements of the District for the year ended June 30, 2017.

The objective of GASB Statement No. 79 is to address for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. The implementation of GASB Statement No. 79 had no impact on the financial statements of the District for the year ended June 30, 2017.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, *"Accounting and Financial Reporting for Pensions"*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB Statement No. 68. It also amends certain provisions of GASB Statement No. 67, *"Financial Reporting for Pension Plans"*, and GASB Statement No. 68 for pension plans and pensions that are within their respective scopes.

GASB Statement No. 74 replaces GASB Statements No. 43, *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"*, as amended, and GASB Statement No. 57, *"OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans"*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statement No. 25, *"Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans"*, as amended, GASB Statement No. 43, and GASB Statement No. 50, *"Pension Disclosures"*.

New Accounting Pronouncements

GASB Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"* will be effective for the District for the year ended June 30, 2018. GASB Statement No. 75 replaces the requirements of GASB Statement No. 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

GASB Statement No. 80 *"Blending Requirements for Certain Component Units-amendment of GASB Statement No. 14"* will be effective for the District for the year ended June 30, 2018. GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, *"Determining Whether Certain Organizations Are Component Units"*.

GASB Statement No. 81 *"Irrevocable Split-Interest Agreements"* will be effective for the District for the year ended June 30, 2018. GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, GASB Statement No. 81 requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. GASB Statement No. 81 requires that a government recognize revenue when the resources become applicable to the reporting period.

GASB Statement No. 82 *"Pension Issues-an amendment of GASB Statements No. 67, No. 68 and No. 73"* will be effective for the District for the year ended June 30, 2018. GASB Statement No. 82 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.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted prior to the beginning of each year for the General Fund on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required, although project-length financial plans are adopted for the Capital Projects fund.

The District is required to publish notice by advertisement at least once in two newspapers of general circulation in the municipalities in which it is located, and within 20 days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative offices of the District. Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least 10 days prior to when final action on adoption is taken by the School Board.

After the legal adoption of the budget, the School Board is required to file a copy of the budget with the Pennsylvania Department of Education by July 31. Additional copies of the budget also are required to be filed with the Housing Education Committee and the Senate Education Committee by September 15.

Legal budgetary control is maintained at the sub-function/major object level. The School Board may make transfers of funds appropriated in any particular item of expenditure by legislative action in accordance with Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without approval from the School Board. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

(3) DEPOSITS

State statutes authorize the District to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, state treasurer's investment pools or mutual funds.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At June 30, 2017, the carrying amount of the District's deposits was \$7,895,928 and the bank balance was \$7,975,703. The District is required by state statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, Commonwealth of Pennsylvania or any political subdivision. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit. Of the bank balance, \$500,000 was covered by federal depository insurance and \$7,475,703 was collateralized by the District's depositories in accordance with Act 72 and the collateral was held by the depositories' agent in pooled public funds.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(4) CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 371,280	\$ -	\$ -	\$ 371,280
Capital assets being depreciated				
Buildings and improvements	80,453,622	149,553	-	80,603,175
Furniture and equipment	3,195,810	233,040	-	3,428,850
Total capital assets being depreciated	<u>83,649,432</u>	<u>382,593</u>	<u>-</u>	<u>84,032,025</u>
Less accumulated depreciation for				
Buildings and improvements	(22,396,670)	(2,093,415)	-	(24,490,085)
Furniture and equipment	(2,711,448)	(169,686)	-	(2,881,134)
Total accumulated depreciation	<u>(25,108,118)</u>	<u>(2,263,101)</u>	<u>-</u>	<u>(27,371,219)</u>
Total capital assets being depreciated, net	<u>58,541,314</u>	<u>(1,880,508)</u>	<u>-</u>	<u>56,660,806</u>
Governmental activities, net	<u>\$ 58,912,594</u>	<u>\$(1,880,508)</u>	<u>\$ -</u>	<u>\$ 57,032,086</u>
Business-type activities				
Machinery and equipment	\$ 214,543	\$ -	\$ -	\$ 214,543
Less accumulated depreciation	(167,422)	(7,295)	-	(174,717)
Business-type activities, net	<u>\$ 47,121</u>	<u>\$(7,295)</u>	<u>\$ -</u>	<u>\$ 39,826</u>

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

Governmental activities	
Instruction	\$1,572,609
Instructional student support	149,136
Administrative and financial support services	240,615
Operation and maintenance of plant services	235,365
Student activities	65,376
Total depreciation expense – governmental activities	<u>\$2,263,101</u>
Business-type activities	
Food service	\$ 7,295

(5) INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2017 is as follows:

<u>Receivable To</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
General Fund	\$ 22,832	Food Service Fund	\$ 22,832

Interfund balances between funds represent temporary loans recorded at year-end as the result of a final allocation of revenues and expenses.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

A summary of interfund transfers for the year ended June 30, 2017 is as follows:

<u>Transfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
Capital Projects Fund	<u>\$250,000</u>	General Fund	<u>\$250,000</u>

Transfers represent monies to subsidize costs associated with capital projects.

(6) NONCURRENT LIABILITIES

The following summarizes the changes in noncurrent liabilities for the year ended June 30, 2017:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
Governmental activities					
General obligation debt					
Bonds payable	\$ 53,425,000	\$ -	\$ 1,300,000	\$ 52,125,000	\$ 1,350,000
Notes payable	3,820,357	-	1,113,687	2,706,670	1,134,184
Bond premiums	1,625,834	-	136,258	1,489,576	136,258
Bond discounts	(10,615)	-	(1,061)	(9,554)	(1,061)
Total general obligation debt	<u>58,860,576</u>	<u>-</u>	<u>2,548,884</u>	<u>56,311,692</u>	<u>2,619,381</u>
Other noncurrent liabilities					
Capital leases	106,021	233,040	117,113	221,948	82,207
Compensated absences	214,027	-	4,945	209,082	-
OPEB obligation	2,001,601	845,961	514,674	2,332,888	-
Net pension liability (See Note 7)	49,986,000	4,824,000	-	54,810,000	-
Total other noncurrent liabilities	<u>52,307,649</u>	<u>5,903,001</u>	<u>636,732</u>	<u>57,573,918</u>	<u>82,207</u>
Total noncurrent liabilities	<u>\$111,168,225</u>	<u>\$5,903,001</u>	<u>\$3,185,616</u>	<u>\$113,885,610</u>	<u>\$2,701,588</u>

Noncurrent liabilities are generally liquidated by the General Fund.

General Obligation Debt

General obligation debt is a direct obligation of the District for which full faith and credit are pledged and is payable from unrestricted resources. The District has not pledged any assets as collateral for general obligation debt. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior obligation debt.

General obligation debt outstanding as of June 30, 2017 consisted of the following:

<u>Description</u>	<u>Interest</u> <u>Rate(s)</u>	<u>Original</u> <u>Issue</u> <u>Amount</u>	<u>Final</u> <u>Maturity</u>	<u>Principal</u> <u>Outstanding</u>
General obligation bonds				
Series of 2010B	6.34% - 6.54%	\$18,190,000	09/01/2034	\$18,190,000
Series of 2012	1.00% - 3.125%	\$9,845,000	04/15/2031	9,565,000
Series of 2013	0.45% - 3.375%	\$7,580,000	10/15/2025	5,690,000
Series of 2015	0.45% - 2.75%	\$5,980,000	09/01/2026	5,260,000
Series of 2016	3.00% - 5.00%	\$13,425,000	04/01/2029	<u>13,420,000</u>
Total general obligation bonds				<u>52,125,000</u>

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

General obligation notes				
Series of 2014A	1.10%	\$4,367,818	04/15/2019	1,627,943
Series of 2014B	1.95%	\$1,500,000	04/15/2024	<u>1,078,727</u>
Total general obligation notes				<u>2,706,670</u>
Total general obligation debt				<u>\$54,831,670</u>

Annual debt service requirements to maturity on these obligations are as follows:

<u>Year ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2018	\$ 2,484,184	\$ 2,330,087	\$ 4,814,271
2019	2,417,048	2,288,021	4,705,069
2020	2,165,966	2,241,274	4,407,240
2021	2,223,993	2,187,905	4,411,898
2022	2,472,037	2,127,571	4,599,608
2023-2027	14,173,442	9,368,172	23,541,614
2028-2032	16,900,000	6,290,559	23,190,559
2033-2035	<u>11,995,000</u>	<u>1,198,946</u>	<u>13,193,946</u>
	<u>\$54,831,670</u>	<u>\$28,032,535</u>	<u>\$82,864,205</u>

Build America Bonds

On July 22, 2010 the District issued General Obligation Bonds, Series of 2010B, in the amount of \$18,190,000 under the Build America Bonds ("**BABs**") program proceeds from which were used for the construction of a new senior high school. The BABs program was created by the American Recovery and Reinvestment Act ("**ARRA**") and provides a federal subsidy of 35% of the interest paid on the bonds to fund capital expenditures.

Capital Leases

The District has entered into long-term lease agreements for computer and transportation equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception dates. The future minimum lease payments under the capital leases and the net present value of the future minimum lease payments as of June 30, 2017 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 82,207	\$ 6,659	\$ 88,866
2019	45,198	4,233	49,431
2020	46,566	2,864	49,430
2021	<u>47,977</u>	<u>1,453</u>	<u>49,430</u>
	<u>\$221,948</u>	<u>\$15,209</u>	<u>\$237,157</u>

Other Post-Employment Benefits

The District's other post-employment benefits include a single-employer defined benefit plan that provides for specific early retirement incentive payments and healthcare benefits until age 65 to all retirees. The School Board has the authority to establish and amend benefit provisions. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

Funding Policy

The District's contributions are funded on a pay-as-you-go basis. The contribution requirements of retirees are established and may be amended by the School Board.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Annual OPEB Cost and Net OPEB Obligation

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

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2017, 2016 and 2015 was as follows:

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$ 845,961	60.84%	\$2,332,888
2016	\$ 849,430	68.03%	\$2,001,601
2015	\$1,003,069	64.77%	\$1,730,029

The following table shows the components of the District's OPEB cost for the year, the amount actually contributed by the District and changes in the District's net OPEB obligation:

Annual OPEB cost (expense)	\$ 845,961
Contributions made	<u>(514,674)</u>
Increase in net OPEB obligation	331,287
Net OPEB obligation – beginning of year	<u>2,001,601</u>
Net OPEB obligation – end of year	<u>\$2,332,888</u>

Funded Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation, the actuarial accrued liability for benefits was \$6,700,723, all of which was unfunded. The covered payroll (annual payroll of active employees was \$12,482,489 and the ratio of the unfunded actuarial accrued liability ("**UAAL**") to the covered payroll was 53.68%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and benefit cost trends. Amounts determined regarding the funded status and the annual required contribution of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the most recent actuarial valuation, the entry age normal method was used. The actuarial assumptions include a 4.00% discount rate and an annual healthcare cost trend rate of 8.00%, decreasing 1.00% each year to an ultimate rate of 5.00% in 2018 and later. The UAAL is being amortized based on the level dollar, 15-year closed period.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(7) PENSION PLAN

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 the benefit terms.

Plan Description

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year 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 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 2.00% or 2.50%, depending upon membership class, of the member's final average salary (as defined in the code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2.00% or 2.50%, depending upon membership class, of the member's final average salary (as defined in the code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

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

Contributions

Member Contributions

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

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

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

Members who joined the system after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect T-F membership, contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

Employer Contributions

The school district's contractually required contribution rate for 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 \$4,088,359 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 \$54,810,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the system's total pension liability as of June 30, 2015 to June 30, 2016. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the District's proportion was 0.1106 percent, which was a decrease of 0.0048 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$1,133,311. 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>
Net difference between expected and actual experience	\$ -	\$ 457,000
Changes in assumptions	1,979,000	-
Net difference between projected and actual investment earnings	3,055,000	-
Changes in proportions	-	1,272,000
Contributions subsequent to the measurement date	<u>4,088,359</u>	<u>-</u>
	<u>\$9,122,359</u>	<u>\$1,729,000</u>

\$4,088,359 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the 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 expense as follows:

Year ended June 30:

2018	\$ 653,000
2019	653,000
2020	1,267,000
2021	<u>732,000</u>
	<u>\$3,305,000</u>

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Actuarial Assumptions

The total pension liability as of June 30, 2016 was determined by rolling forward the system's total pension liability as the June 30, 2015 actuarial valuation 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 mortality tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 mortality improvement scale. For disabled annuitants the RP-2000 combined disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 mortality tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the 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 five-year period ending June 30, 2015. The recommended assumptions changes based on this experience study were adopted by the Board at its June 10, 2016 Board meeting, and were effective 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

<u>Asset Class</u>	<u>Target 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 PSERS' 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.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

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

	<u>1% Decrease</u> <u>6.25%</u>	<u>Current</u> <u>Discount</u> <u>Rate</u> <u>7.25%</u>	<u>1% Increase</u> <u>8.25%</u>
District's proportionate share of the net pension liability	\$67,047,000	\$54,810,000	\$44,527,000

Pension Plan Fiduciary Net Position

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

(8) JOINT VENTURE AND JOINTLY GOVERNED ORGANIZATION

West Side Career and Technology Center

The District and four other Luzerne County school districts participate in the West Side Area Career and Technology Center (the "**WSCTC**"). The WSCTC provides vocational-technical training and education to students of the participating school districts. The WSCTC is controlled by a joint board comprised of representative school board members of participating school districts. District oversight of the WSCTC operations is the responsibility of the joint board. The District's share of operating costs for the WSCTC fluctuates based on the District's percentage of enrollment. The District share of operating costs for 2016-2017 was \$455,897.

The WSCTC prepares financial statements that are available to the public from their administrative office located at 75 Evans Street, Kingston, Pennsylvania 18704.

Luzerne County Intermediate Unit

The District and eleven other school districts in Luzerne and Wyoming Counties are participating members of the Luzerne County Intermediate Unit (the "**LCIU**"). The LCIU is a regional educational service agency, established by the Commonwealth of Pennsylvania, which is governed by a joint committee consisting of School Board members from each participating district. The School Board of each participating district must approve the annual program budget for the LCIU but the participating districts have no ongoing fiduciary interest or responsibility to the LCIU. The LCIU is a self-sustaining organization that provides a broad array of services to participating districts which include: curriculum development and instructional improvement; educational planning services; instructional material; continuing professional development; pupil personnel services; management services and federal liaison services.

DALLAS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(9) CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

The District receives federal, state and local funding under a number of programs. Payments made by these sources under contractual agreements are provisional and subject to redetermination based on filing of reports and audits of those reports. Final settlements due from or to these sources are recorded in the year in which the related services are performed. Any adjustments resulting from subsequent examinations are recognized in the year in which the results of such examinations become known. District officials do not expect any significant adjustments as a result of these examinations.

Litigation

The District is a defendant in various matters of litigation and claims. These matters result from the normal course of business. It is not presently possible to determine the ultimate outcome or settlement cost, if any, of these matters.

(10) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs including workers compensation. For insured programs, there were no significant reductions in insurance coverages during the 2016-2017 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The District administers a self-insurance program to provide health insurance and related expenses for eligible employees, spouses and their dependents. Accordingly, benefit payments plus an administrative charge are made to a third party administrator, who approves and processes all claims. The District has recorded a liability in the Internal Service Fund for claims incurred through June 30, 2017 which has historically been satisfied within 60 days after June 30.

The following table presents the components of the self-insurance claims liability and the related changes in the claims liability for the year ended June 30, 2017:

Insurance claims liability – beginning of year	\$ 244,813
Current year insurance claims and changes in estimates	3,999,473
Insurance claims paid	<u>(4,146,785)</u>
Insurance claims liability – end of year	<u>\$ 97,501</u>

(11) SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 21, 2018, the date on which the financial statements were available to be issued. Except as noted below, no material subsequent events have occurred since June 30, 2017 that required recognition or disclosure in the financial statements.

On September 27, 2017, the District issued \$18,350,000 of general obligation bonds, Series of 2017, the proceeds from which are to be used towards various capital project improvement projects of the District including the construction of a new intermediate school and the payment of the cost of issuance.

REQUIRED SUPPLEMENTARY INFORMATION

DALLAS SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year ended June 30, 2017

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Local sources	\$24,001,945	\$25,093,884	\$ 1,091,939
State sources	11,491,897	11,509,709	17,812
Federal sources	992,000	1,032,863	40,863
Total revenues	<u>36,485,842</u>	<u>37,636,456</u>	<u>1,150,614</u>
EXPENDITURES			
Instruction			
Regular programs	15,224,729	15,599,527	(374,798)
Special programs	4,806,512	4,403,847	402,665
Vocational programs	748,966	891,680	(142,714)
Other instructional programs	39,215	27,790	11,425
Total instruction	<u>20,819,422</u>	<u>20,922,844</u>	<u>(103,422)</u>
Support services			
Pupil support services	1,299,571	1,280,994	18,577
Instructional staff services	485,006	407,371	77,635
Administrative services	1,827,745	2,084,003	(256,258)
Pupil health	309,045	286,957	22,088
Business services	853,775	881,234	(27,459)
Operation and maintenance of plant services	3,111,885	3,131,428	(19,543)
Student transportation services	1,357,277	1,374,908	(17,631)
Support services - central	192,639	236,032	(43,393)
Other support services	68,500	8,863	59,637
Total support services	<u>9,505,443</u>	<u>9,691,790</u>	<u>(186,347)</u>
Operation of non-instructional services			
Student activities	759,855	869,803	(109,948)
Community services	12,000	10,269	1,731
Total operation of non-instructional services	<u>771,855</u>	<u>880,072</u>	<u>(108,217)</u>
Facilities acquisition, construction and improvement services			
	-	7,082	(7,082)
Debt service			
	4,794,161	4,794,124	37
Total expenditures	<u>35,890,881</u>	<u>36,295,912</u>	<u>(405,031)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>594,961</u>	<u>1,340,544</u>	<u>745,583</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	(250,000)	(250,000)	-
Budgetary reserve	(875,000)	-	875,000
Total other financing sources (uses)	<u>(1,125,000)</u>	<u>(250,000)</u>	<u>875,000</u>
NET CHANGE IN FUND BALANCE	<u>\$ (530,039)</u>	<u>1,090,544</u>	<u>\$ 1,620,583</u>
FUND BALANCE			
Beginning of year		2,635,423	
End of year		<u>\$ 3,725,967</u>	

DALLAS SCHOOL DISTRICT

OTHER POST-EMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS

Year ended June 30, 2017

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
07/01/2015	\$ -	\$6,700,723	\$6,700,723	0.00%	\$12,482,489	53.68%
07/01/2013	\$ -	\$7,435,400	\$7,435,400	0.00%	\$12,383,983	60.04%
07/01/2011	\$ -	\$7,308,500	\$7,308,500	0.00%	\$12,480,000	58.56%

DALLAS SCHOOL DISTRICT

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

Year ended June 30

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset)	0.1106%	0.1154%	0.1155%
District's proportionate share of the net pension liability (asset)	\$54,810,000	\$49,986,000	\$45,716,000
District's covered-employee payroll	\$14,329,958	\$14,848,381	\$14,735,882
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	383%	337%	310%
Plan fiduciary net position as a percentage of the total pension liability	50%	54%	57%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

DALLAS SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PENSION PLAN CONTRIBUTIONS

Year ended June 30

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 3,519,000	\$ 2,980,000	\$ 2,301,000
Contributions in relation to the contractually required contribution	<u>3,519,000</u>	<u>2,902,782</u>	<u>2,274,056</u>
Contribution deficiency (excess)	-	77,218	26,944
District's covered-employee payroll	\$14,329,958	\$14,848,381	\$14,735,882
Contributions as a percentage of covered-employee payroll	25%	20%	16%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

SINGLE AUDIT

DALLAS SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

Year ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2016</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2017</u>	<u>Pass Through to Subrecipients</u>
U.S. Department of Education											
Passed-Through the Pennsylvania Department of Education											
Title I - Improving Basic Programs	I	84.010	013-160111	07/01/15 - 09/30/16	\$296,013	\$ 99,723	\$ 99,723	\$ -	\$ -	\$ -	\$ -
Title I - Improving Basic Programs	I	84.010	013-170111	07/01/16 - 09/30/17	293,150	<u>215,482</u>	<u>-</u>	<u>293,150</u>	<u>293,150</u>	<u>77,668</u>	<u>-</u>
Total CFDA #84.010						<u>315,205</u>	<u>99,723</u>	<u>293,150</u>	<u>293,150</u>	<u>77,668</u>	<u>-</u>
Title II - Improving Teacher Quality	I	84.367	020-160111	07/01/15 - 09/30/16	90,842	30,197	30,197	-	-	-	-
Title II - Improving Teacher Quality	I	84.367	020-170111	07/01/16 - 09/30/17	89,078	<u>71,411</u>	<u>-</u>	<u>89,078</u>	<u>89,078</u>	<u>17,667</u>	<u>-</u>
Total CFDA #84.367						<u>101,608</u>	<u>30,197</u>	<u>89,078</u>	<u>89,078</u>	<u>17,667</u>	<u>-</u>
Passed Through the Luzerne County Intermediate Unit											
I.D.E.A. - Part B, Section 611	I	84.027	N/A	07/01/16 - 06/30/17	252,402	<u>252,402</u>	<u>-</u>	<u>252,402</u>	<u>252,402</u>	<u>-</u>	<u>-</u>
Total U.S. Department of Education						<u>669,215</u>	<u>129,920</u>	<u>634,630</u>	<u>634,630</u>	<u>95,335</u>	<u>-</u>
U.S. Department of Health and Human Services											
Passed Through the Pennsylvania Department of Public Welfare											
Medical Assistance Program	I	93.778	N/A	07/01/16 - 06/30/17	N/A	<u>1,810</u>	<u>-</u>	<u>1,810</u>	<u>1,810</u>	<u>-</u>	<u>-</u>
U.S. Department of Agriculture											
Passed-Through the Pennsylvania Department of Education											
State Matching Share	S	N/A	N/A	07/01/15 - 06/30/16	N/A	2,611	2,611	-	-	-	-
State Matching Share	S	N/A	N/A	07/01/16 - 06/30/17	N/A	<u>14,534</u>	<u>-</u>	<u>22,029</u>	<u>22,029</u>	<u>7,495</u>	<u>-</u>
Total State Matching Share						<u>17,145</u>	<u>2,611</u>	<u>22,029</u>	<u>22,029</u>	<u>7,495</u>	<u>-</u>

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2016</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2017</u>	<u>Pass Through to Subrecipients</u>
Passed-Through Department of Education (cont'd)											
Breakfast Program	I	10.553	N/A	07/01/15 - 06/30/16	N/A	4,763	4,763	-	-	-	-
Breakfast Program	I	10.553	N/A	07/01/16 - 06/30/17	N/A	25,945	-	41,326	41,326	15,381	-
Total CFDA #10.553						30,708	4,763	41,326	41,326	15,381	-
National School Lunch Program	I	10.555	N/A	07/01/15 - 06/30/16	N/A	24,848	24,848	-	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/16 - 06/30/17	N/A	153,666	-	230,744	230,744	77,078	-
Passed-Through the Pennsylvania Department of Agriculture											
National School Lunch Program	I	10.555	N/A	07/01/16 - 06/30/17	N/A	a) 53,597	b) (13,915)	c) 57,947	57,947	d) (9,565)	-
Total CFDA #10.555						232,111	10,933	288,691	288,691	67,513	-
Total U.S. Department of Agriculture						279,964	18,307	352,046	352,046	90,389	-
Total Federal Awards and Certain State Grants						\$ 950,989	\$ 148,227	\$ 988,486	\$ 988,486	\$ 185,724	\$ -
Total Federal Awards						\$ 933,844	\$ 145,616	\$ 966,457	\$ 966,457	\$ 178,229	\$ -
Total State Awards						17,145	2,611	22,029	22,029	7,495	-
Total Federal Awards and Certain State Grants						\$ 950,989	\$ 148,227	\$ 988,486	\$ 988,486	\$ 185,724	\$ -
Child Nutrition Cluster (CFDA's #10.553 and #10.555)						\$ 262,819	\$ 15,696	\$ 330,017	\$ 330,017	\$ 82,894	\$ -

Footnotes

- a) Total amount of commodities received
- b) Beginning inventory July 1
- c) Total of commodities used
- d) Ending inventory June 30

Source Codes

- D - Direct Funding
- I - Indirect Funding
- S - State Share

DALLAS SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

June 30, 2017

(1) FEDERAL EXPENDITURES

The Schedule of Expenditures of Federal Awards and Certain State Grants reflects federal expenditures for all individual grants which were active during the fiscal year. Additionally, the Schedule reflects expenditures for certain state grants.

(2) BASIS OF ACCOUNTING

The District uses the modified accrual method of recording transactions except as noted for the accounting of donated commodities in Note 3. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

(3) NONMONETARY FEDERAL AWARDS – DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards and Certain State Grants under CFDA #10.555 USDA Commodities represent federal surplus food consumed by the District during the 2016-2017 fiscal year.

(4) ACCESS PROGRAM

The District participates in the ACCESS Program which is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2017 was \$10,222.

(5) BUILD AMERICA BONDS PROGRAM

The District participates in the Build America Bonds ("**BABs**") program which was created by the American Recovery and Reinvestment Act ("**ARRA**"). In conjunction with the BABs program, the District receives subsidy reimbursements for a portion of the interest paid on the bonds. Reimbursements are federal source revenues but are not considered federal financial assistance. The amount of BABs subsidy payments recognized for the year ended June 30, 2017 was \$386,201.

(5) INDIRECT COSTS

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance. No indirect costs were charged to the District's Federal awards for the year ended June 30, 2017.

DALLAS SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2017

There were no audit findings for the year ended June 30, 2016.



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

**Board of School Directors
Dallas School District
Dallas, Pennsylvania**

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 Dallas School District, Dallas, Pennsylvania, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Dallas School District's basic financial statements, and have issued our report thereon dated February 21, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dallas 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*.

Purpose of this Report

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

BBD, LLP

**Philadelphia, Pennsylvania
February 21, 2018**



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

**Board of School Directors
Dallas School District
Dallas, Pennsylvania**

Report on Compliance for Each Major Federal Program

We have audited Dallas 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 Dallas School District's major federal programs for the year ended June 30, 2017. Dallas 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Dallas 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* (CFR) 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 Dallas 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 Dallas School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Dallas 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.

Report on Internal Control over Compliance

Management of Dallas 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 Dallas 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 Dallas School District's internal control over compliance.

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

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

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

BBD, LLP

**Philadelphia, Pennsylvania
February 21, 2018**

DALLAS SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2017

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Dallas School District were prepared in accordance with GAAP.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements of the Dallas School District are reported in the 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.
3. No instances of noncompliance material to the financial statements of the Dallas School District, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal control over the major federal award programs are reported in the independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for the Dallas School District expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a).
7. The program tested as a major program was:
 - Title I – Improving Basic Programs – CFDA Number 84.010
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. The Dallas School District did qualify as a low-risk auditee.

FINDINGS—FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

None