

MONTGOMERY AREA SCHOOL DISTRICT

FINANCIAL STATEMENTS

June 30, 2016

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MONTGOMERY AREA SCHOOL DISTRICT

**List of Report Distribution
June 30, 2016**

Office of the Prothonotary
Lycoming County Court House
48 West Third Street
Williamsport, PA 17701

DANIEL ROGERS, CPA, PC
CERTIFIED PUBLIC ACCOUNTANTS
1100 BROAD STREET
MONTOURSVILLE, PA 17754

Board of Directors

MONTGOMERY AREA SCHOOL DISTRICT
Penn Street
Montgomery, PA

We have performed the Audit of **MONTGOMERY AREA SCHOOL DISTRICT** for the fiscal year ended June 30, 2016 and have enclosed the audit reporting package.

Our audit was conducted 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. The audit package includes the following :

- 1) Basic Financial Statements.
- 2) Our 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*.

Daniel Rogers, CPA, PC

November 18, 2016
Montoursville, PA

DANIEL ROGERS, CPA, PC
CERTIFIED PUBLIC ACCOUNTANTS
1100 BROAD STREET
MONTOURSVILLE, PA 17754

INDEPENDENT AUDITOR'S REPORT

Board of Directors

MONTGOMERY AREA SCHOOL DISTRICT
Montgomery, PA

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of MONTGOMERY AREA SCHOOL DISTRICT, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5a through 5e, budgetary comparison information, schedule of postemployment funding progress, schedule of the District's proportionate share of the net pension liability and schedule of District contributions on pages 34 through 37, respectively be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2016, on our consideration of MONTGOMERY AREA 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 MONTGOMERY AREA SCHOOL DISTRICT's internal control over financial reporting and compliance.

Daniel Rogers, CPA, PC

Montoursville, PA
November 18, 2016

Montgomery Area School District Management Discussion and Analysis For the Fiscal Year Ended June 30, 2016

The *Management, Discussion and Analysis* (MD&A) of the Montgomery Area School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2016. The MD&A is to provide reader friendly insight into management's analysis of the audit. This MD&A looks at the District's financial performance as a whole, although readers should review the independent Auditor's reports and notes to the financial statements to augment their understanding of the District's financial performance.

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. These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting.

Condensed comparative analysis of financial statements to the previous year are included in this analysis.

Various comparative statements required under government auditing standards are:

- Statement of Net Position
- Statement of Activities
- Balance Sheet of Governmental Funds
- Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position
- Statement of Revenues, Expenditures and Changes in Fund Balances
- Reconciliation of Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities
- Statement of Revenues, Expenditures and Changes in Fund Equity - Budget vs. Actual - General Fund

The Statement of Net Position provides a consolidation of all governmental funds into one statement of activities with assets, deferred outflows of resources, liabilities and deferred inflows of resources and displays the total net position of all governmental funds properly reconciled. It also provides the same for those Business Activities run by the district. In the Montgomery Area School District only the Cafeteria is structured as a business activity, subject to a business activity classification.

The Statement of Activities intends to display expenses net of program revenues and classifies revenues into the two general categories of program and general operating revenue. It identifies program revenue as charges, operating grants, capital grants, and then allocates them to particular expense categories where appropriate.

The Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position reconciles the Governmental Funds Balance Sheet to the Combined Balance Sheet for Governmental and Business Activities by outlining the accounting changes necessary to properly record consolidation of funds and present the entity-wide statements using the full accrual method of accounting.

The Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities reconciles the change in fund balances of the governmental funds to the change in net position of all governmental activities.

Funds analyzed in this audit include:

- Major governmental activities including:
 - General fund - Capital Reserve Fund
- Fiduciary funds:
 - Private Purpose Trust Funds
 - Carter Rake Scholarship Fund
 - F.M. Greene Scholarship Fund
 - Various small scholarship funds
- Agency fund - Student activity accounts

Financial Highlights

Key financial highlights for the year ending June 30, 2016 are as follows:

- Total net position of \$(10,530,909).
 - Positive change in Net Position of Governmental Activities of \$1,476,191.
- Total fund balance of all governmental funds equaled \$6,279,771.
- Assigned general fund balance equaled \$2,800,000.
- Unassigned general fund balance equaled \$3,289,847.
 - Total general fund revenues were \$14,216,370.
 - Total general fund expenditures and other financing uses were \$13,716,305.
- The District's Proprietary Fund/Business-Type Activity (Cafeteria) showed a net position increase of \$16,968.
- Capital Reserve Fund balance = \$211,207.
- Capital Projects Fund balance = \$(23,076)
- District Debt Service Fund balance = \$1,793

Analysis of Overall Financial Position and Results of Operations over the Past Fiscal Year

Net Position - On June 30, 2016, the District had total net position from governmental activities of \$(10,530,909) which is a net increase of \$1,476,191. The \$1,476,191 increase is comprised of current year increase in net position of \$648,354 and a prior period adjustment of \$827,837 resulting from the District's revaluation of capital assets prepared by Industrial Appraisal Company.

The District implemented GASB Statement 68 last year. With the new reporting change, the District is allocated its proportionate share of the Pennsylvania State Employees' Retirement System's (PSERS) net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. The Net pension liability for the year ended June 30, 2016 is \$16,849,000.

Business Type Activities (Food Service) has total net position of \$89,880.

- Net position increased by \$16,968 during 2015/16. The \$16,968 increase is comprised of current year decrease in net position of \$(5,740) and a prior period adjustment of \$22,708 resulting from the District's revaluation of capital assets prepared by Industrial Appraisal Company

Table 1 summarizes the assets, liabilities, and net position of the District at June 30, 2016.

Comparative Table 1
Net Assets as of June 30, 2016- (Government Wide)

	Governmental Activities 2015/16	Governmental Activities 2014/15	Business-Type Activities 2015/16	Business-Type Activities 2014/15	Total 2015/16	Total 2014/15
Assets						
Current Assets	\$ 8,337,094	\$ 7,688,634	\$ 72,572	\$ 65,473	\$ 8,409,666	\$ 7,754,107
Other Assets	\$ 11,084,282	\$ 10,771,479	\$ 36,463	\$ 19,402	\$ 11,120,745	\$ 10,790,881
Total Assets	\$ 19,421,376	\$ 18,460,113	\$ 109,035	\$ 84,875	\$ 19,530,411	\$ 18,544,988
Deferred Outflow of Resources	\$ 1,859,344	\$ 1,561,909	\$ -	\$ -	\$ 1,859,344	\$ 1,561,909
Liabilities						
Current Liabilities	\$ 2,235,197	\$ 1,833,136	\$ 19,155	\$ 11,963	\$ 2,254,352	\$ 1,845,099
Long-Term Liabilities	\$ 27,437,432	\$ 28,924,986	\$ -	\$ -	\$ 27,437,432	\$ 28,924,986
Total Liabilities	\$ 29,672,629	\$ 30,758,122	\$ 19,155	\$ 11,963	\$ 29,691,784	\$ 30,770,085
Net Position						
Invested in Capital Assets	\$ (42,082)	\$ (100,628)	\$ 36,463	\$ 19,402	\$ (5,619)	\$ (81,226)
Restricted for Capital Projects	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted for Capital Improvement	\$ 188,131	\$ 330,154	\$ -	\$ -	\$ 188,131	\$ 330,154
Restricted for Debt Service	\$ 1,793	\$ 3,342	\$ -	\$ -	\$ 1,793	\$ 3,342
Unrestricted	\$ (10,678,751)	\$ (12,239,968)	\$ 53,417	\$ 53,510	\$ (10,625,334)	\$ (12,186,458)
Total Net Position	\$ (10,530,909)	\$ (12,007,100)	\$ 89,880	\$ 72,912	\$ (10,441,029)	\$ (11,934,188)

Balance Sheet/Fund Balances - Total fund equity of Governmental funds equaled \$6,279,771. This balance consists of:

- General Fund - Total fund balance equaled \$6,089,847. Of this amount \$3,289,847 is unassigned and \$2,800,000 is assigned.
 - In 2015/16, the District's Fund Balance increased (revenues more than expenses by \$500,065).
- Capital Reserve Account - Total fund balance equaled \$211,207 reserved for building construction and improvements or deferred building maintenance.
- Capital Projects Account - Total fund balance equaled \$(23,076)
- Debt Service Fund - Total fund balance equaled \$1,793.

**Comparative Table 2
Changes in Net Position
For the Year Ended June 30, 2016
(Government-wide)**

	Governmental Activities 2015/16	Governmental Activities 2014/15	Business-Type Activities 2015/16	Business-Type Activities 2014/15	Total 2015/16	Total 2014/15
Program Revenues:						
Charges for Services	\$ 304,344	\$ 235,396	\$ 185,866	\$ 219,270	\$ 490,210	\$ 454,666
Operating Grants and Contributions	\$ 3,130,218	\$ 2,951,315	\$ 247,207	\$ 242,134	\$ 3,377,425	\$ 3,193,449
Capital Grants and Contributions	\$ -	\$ 218,407	\$ -	\$ -	\$ -	\$ 218,407
General Revenues:						
Property Taxes	\$ 3,463,338	\$ 3,242,532	\$ -	\$ -	\$ 3,463,338	\$ 3,242,532
Public Utility Realty, Earned Income Taxes, etc.	\$ 1,790,731	\$ 1,755,601	\$ -	\$ -	\$ 1,790,731	\$ 1,755,601
Grants and Entitlements	\$ 5,507,375	\$ 5,412,682	\$ -	\$ -	\$ 5,507,375	\$ 5,412,682
Investment Earnings	\$ 50,460	\$ 41,450	\$ 98	\$ 24	\$ 50,558	\$ 41,474
Loss on Disposal of Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Miscellaneous	\$ 2,273	\$ 18,747	\$ -	\$ -	\$ 2,273	\$ 18,747
Impairment Loss	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenues	\$ 14,248,739	\$ 13,876,130	\$ 433,171	\$ 461,428	\$ 14,681,910	\$ 14,337,558
Program Expenses:						
Instruction	\$ 8,081,004	\$ 8,401,817	\$ -	\$ -	\$ 8,081,004	\$ 8,401,817
Support Services						
Instructional Student Support	\$ 1,016,004	\$ 1,168,881	\$ -	\$ -	\$ 1,016,004	\$ 1,168,881
Administrative and Financial	\$ 1,246,680	\$ 1,270,140	\$ -	\$ -	\$ 1,246,680	\$ 1,270,140
Operation and Maintenance	\$ 1,266,896	\$ 1,305,079	\$ -	\$ -	\$ 1,266,896	\$ 1,305,079
Pupil Transportation	\$ 522,759	\$ 476,508	\$ -	\$ -	\$ 522,759	\$ 476,508
Community Services	\$ 15,006	\$ 14,848	\$ -	\$ -	\$ 15,006	\$ 14,848
Student Activities	\$ 378,372	\$ 391,508	\$ -	\$ -	\$ 378,372	\$ 391,508
Interest on Long Term Debt	\$ 272,828	\$ 357,570	\$ -	\$ -	\$ 272,828	\$ 357,570
Unallocated Depreciation Expense	\$ 800,836	\$ 677,745	\$ -	\$ -	\$ 800,836	\$ 677,745
Food Service	\$ -	\$ -	\$ 438,911	\$ 442,393	\$ 438,911	\$ 442,393
Total Expenses	\$ 13,600,385	\$ 14,064,096	\$ 438,911	\$ 442,393	\$ 14,039,296	\$ 14,506,489
Increase /(Decrease) in Net Position	\$ 648,354	\$ (187,966)	\$ (5,740)	\$ 19,035	\$ 642,614	\$ (168,931)
Prior Period Adjustment	\$ 827,837	\$ (17,323,000)	\$ 22,708	\$ -	\$ 850,545	\$ (17,323,000)
Increase /(Decrease) in Net Position	\$ 1,476,191	\$ (17,510,966)	\$ 16,968	\$ 19,035	\$ 1,493,159	\$ (17,491,931)

As of June 30, 2016, the District held the following other balances:

- Ending cash and cash equivalents in its proprietary fund (cafeteria) of \$28,674.
- Private Purpose Trust fund cash and cash equivalents of \$59,972.
- Agency fund (student activities fund) cash and cash equivalents balance of \$32,217.

Budgetary Variances - 2015/16

Budgetary estimates differed in the following areas:

- Local Revenue
 - Real Estate Taxes - \$222,044 positive variance - Increase due to higher real estate tax rate.
- State Revenue
 - Overall State Revenue - \$76,007 positive variance - This is due to an increase in the Retirement Subsidy for 2015/16.
- Federal Revenue
 - Overall Federal Revenue - \$38,821 negative variance - This was due to Title I funds being decreased less than budgeted.

Currently Known Facts, Decisions or Conditions:

Other than those issues listed in the MD&A or in the notes to the audited financial statements, there are no facts currently known to management that would materially impact the financial statements either favorably or unfavorably at this time.

MONTGOMERY AREA SCHOOL DISTRICT

Statement of Net Position
June 30, 2016

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Current Assets --			
Cash and cash equivalents	6,625,592	28,674	6,654,266
Taxes receivable, net	626,739	-	626,739
Due from other governments	669,110	-	669,110
State revenue receivable	380,898	1,529	382,427
Federal revenue receivable	26,176	22,970	49,146
Inventories	-	5,294	5,294
Other current assets	8,579	14,105	22,684
Total Current Assets	<u>8,337,094</u>	<u>72,572</u>	<u>8,409,666</u>
Noncurrent Assets --			
Land	84,535	-	84,535
Site improvements, net of accumulated depreciation	574,909	-	574,909
Building and building improvements, net of accumulated depreciation	8,889,909	-	8,889,909
Furniture and equipment, net of accumulated depreciation	1,314,685	36,463	1,351,148
Construction in progress	220,244	-	220,244
Total Noncurrent Assets	<u>11,084,282</u>	<u>36,463</u>	<u>11,120,745</u>
TOTAL ASSETS	<u>19,421,376</u>	<u>109,035</u>	<u>19,530,411</u>
Deferred Outflow of Resources--			
Deferred amount of refunding of debt	181,391	-	181,391
Deferred amount of pensions	1,677,953	-	1,677,953
Total Deferred Outflow of Resources	<u>1,859,344</u>	<u>-</u>	<u>1,859,344</u>
TOTAL ASSETS and DEFERRED OUTFLOWS	<u>21,280,720</u>	<u>109,035</u>	<u>21,389,755</u>
LIABILITIES			
Current Liabilities --			
Accounts payable	263,044	-	263,044
Current portion of long-term liabilities	870,702	-	870,702
Current portion of capital lease	72,835	-	72,835
Accrued salaries and benefits	429,368	-	429,368
Payroll deductions and withholdings	505,361	-	505,361
Unearned revenues	-	5,294	5,294
Other current liabilities	93,887	13,861	107,748
Total Current Liabilities	<u>2,235,197</u>	<u>19,155</u>	<u>2,254,352</u>
Noncurrent Liabilities --			
Bonds and notes payable	10,290,000	-	10,290,000
Capital lease	74,218	-	74,218
Long-term portion of compensated absences	23,859	-	23,859
Net pension liability	16,849,000	-	16,849,000
Other postemployment benefits (OPEB)	200,355	-	200,355
Total Noncurrent Liabilities	<u>27,437,432</u>	<u>-</u>	<u>27,437,432</u>
TOTAL LIABILITIES	<u>29,672,629</u>	<u>19,155</u>	<u>29,691,784</u>
Deferred Inflow of Resources--			
Deferred amount of pensions	2,139,000	-	2,139,000
NET POSITION			
Invested in capital assets	(42,082)	36,463	(5,619)
Restricted for capital improvements	188,131	-	188,131
Restricted for debt service	1,793	-	1,793
Unrestricted	(10,678,751)	53,417	(10,625,334)
TOTAL NET POSITION	<u>(10,530,909)</u>	<u>89,880</u>	<u>(10,441,029)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>21,280,720</u>	<u>109,035</u>	<u>21,389,755</u>

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

MONTGOMERY AREA SCHOOL DISTRICT

Statement of Activities
For the Year Ended June 30, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Indirect Expenses Allocation</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</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>Total</u>
Governmental Activities								
Instruction	8,081,004	-	273,321	2,552,422	-	(5,255,261)	-	(5,255,261)
Instructional Student Support	1,016,004	-	-	122,249	-	(893,755)	-	(893,755)
Administrative and Financial Support Services	1,246,680	-	-	110,733	-	(1,135,947)	-	(1,135,947)
Operation and Maintenance of Plant Services	1,266,896	-	-	65,094	-	(1,201,802)	-	(1,201,802)
Pupil Transportation	522,759	-	-	256,483	-	(266,276)	-	(266,276)
Student Activities	378,372	-	30,572	22,703	-	(325,097)	-	(325,097)
Community Services	15,006	-	451	534	-	(14,021)	-	(14,021)
Interest on Long-Term Debt	272,828	-	-	-	-	(272,828)	-	(272,828)
Unallocated Depreciation Expense	800,836	-	-	-	-	(800,836)	-	(800,836)
Total Governmental Activities	13,600,385	-	304,344	3,130,218	-	(10,165,823)	-	(10,165,823)
Business-Type Activities:								
Food Services	438,911	-	185,866	247,207	-	-	(5,838)	(5,838)
Total Primary Government	14,039,296	-	490,210	3,377,425	0	(10,165,823)	(5,838)	(10,171,661)
General Revenues:								
Property Taxes, Levied for General Purposes, Net						3,695,934	-	3,695,934
Earned income, occupation and amusement taxes						1,558,135	-	1,558,135
Grants, Subsidies, and Contributions Not Restricted						5,507,375	-	5,507,375
Investment Earnings						50,460	98	50,558
Miscellaneous Income						2,273	-	2,273
Total General Revenues						10,814,177	98	10,814,275
Change in Net Position						648,354	(5,740)	642,614
Net Position - July 1, 2015						(12,007,100)	72,912	(11,934,188)
Prior Period Adjustment						827,837	22,708	850,545
Net Position - June 30, 2016						(10,530,909)	89,880	(10,441,029)

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

MONTGOMERY AREA SCHOOL DISTRICT

Balance Sheet - Governmental Funds
June 30, 2016

	Major Governmental Funds			Total Governmental Funds
	General Fund	Capital Reserve Fund	Non-Major Funds	
ASSETS				
Cash and cash equivalents	6,353,915	216,032	55,645	6,625,592
Taxes receivable, net	228,380	-	-	228,380
Due from other funds	8,579	-	-	8,579
Due from other governments	462,412	-	-	462,412
State revenue receivable	380,898	-	-	380,898
Federal revenue receivable	26,176	-	-	26,176
TOTAL ASSETS	7,460,360	216,032	55,645	7,732,037
Deferred Outflow of Resources--	-	-	-	-
TOTAL ASSETS and DEFERRED OUTFLOWS	7,460,360	216,032	55,645	7,732,037
LIABILITIES				
Accounts payable	181,291	4,825	76,928	263,044
Current portion of long-term debt	9,702	-	-	9,702
Accrued salaries and benefits	429,368	-	-	429,368
Payroll deductions and withholdings	505,361	-	-	505,361
Due to other funds	16,411	-	-	16,411
TOTAL LIABILITIES	1,142,133	4,825	76,928	1,223,886
Deferred Inflow of Resources--				
Unavailable revenue-property taxes	228,380	-	-	228,380
Fund Balances				
Nonspendable fund balance	-	-	-	-
Restricted fund balance	-	211,207	(21,283)	189,924
Committed	-	-	-	-
Assigned fund balance	2,800,000	-	-	2,800,000
Unassigned fund balance	3,289,847	-	-	3,289,847
TOTAL FUND BALANCES	6,089,847	211,207	(21,283)	6,279,771
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES	7,460,360	216,032	55,645	7,732,037

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

MONTGOMERY AREA SCHOOL DISTRICT

Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Position
June 30, 2016

Total Fund Balances - Governmental Funds		6,279,771
Amounts reported for governmental activities in statement of net position are different because --		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$21,787,328 and the accumulated depreciation is \$10,703,046.		11,084,282
Property and earned income taxes receivable will be collected this year, but are not available soon enough to pay for current period expenditures and therefore are deferred in the funds.		626,739
Long-term liabilities, including bonds payable and other long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of the following --		
General obligation bonds and notes	11,151,000	
Accrued interest on bonds and notes	77,476	
Capital leases	147,053	
Compensated absences	23,859	
Net pension liability	16,849,000	
OPEB liability	<u>200,355</u>	(28,448,743)
Deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus will not be recognized as an outflow of resources (expense/expenditure) until then.		
Deferred outflows of resources at year-end consist of the following --		
Deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.	181,391	
Deferred outflows related to pensions	<u>1,677,953</u>	1,859,344
Deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and thus will not be recognized as an inflow of resources (revenue) until then.		
Deferred inflows of resources at year-end consist of the following --		
Deferred inflows related to pensions		(2,139,000)
Other receivables will be collected but are not available soon enough to pay for current period expenditures and therefore not recorded in the funds.		<u>206,698</u>
Total Net Position - Governmental Activities		<u><u>(10,530,909)</u></u>

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

MONTGOMERY AREA SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds
For the Year Ended June 30, 2016

	Major Governmental Funds			Total Governmental Funds
	General Fund	Capital Reserve Fund	Non-Major Funds	
<u>REVENUES</u>				
Local sources	5,797,207	2,363	1	5,799,571
State sources	8,052,645	-	-	8,052,645
Federal sources	366,518	-	-	366,518
TOTAL REVENUES	14,216,370	2,363	1	14,218,734
<u>EXPENDITURES</u>				
Current --				
Instruction	8,393,639	-	-	8,393,639
Support services	3,966,842	32,042	113,392	4,112,276
Noninstructional services	399,593	-	-	399,593
Facilities acquisition, construction and improvement	-	89,268	192,893	282,161
Debt service	117,195	-	842,377	959,572
TOTAL EXPENDITURES	12,877,269	121,310	1,148,662	14,147,241
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,339,101	(118,947)	(1,148,661)	71,493
<u>OTHER FINANCING SOURCES (USES)</u>				
Proceeds from extended term financing	7,283,000	-	227,000	7,510,000
Debt service- refunded bond issues	-	-	(7,225,000)	(7,225,000)
Interfund transfers from other funds	-	-	8,122,036	8,122,036
Interfund transfers - out	(8,122,036)	-	-	(8,122,036)
TOTAL OTHER FINANCING SOURCES (USES)	(839,036)	-	1,124,036	285,000
NET CHANGE IN FUND BALANCE	500,065	(118,947)	(24,625)	356,493
FUND BALANCE - JULY 1, 2015	5,589,782	330,154	3,342	5,923,278
FUND BALANCE - JUNE 30, 2016	6,089,847	211,207	(21,283)	6,279,771

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

MONTGOMERY AREA SCHOOL DISTRICT

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balance to Statement of Activities
For the Year Ended June 30, 2016

Total net change in fund balance - governmental funds 356,493

**Amounts reported for governmental activities in statement of activities
are different because --**

Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount by which capital outlay exceeds depreciation in the current period is --

Capital outlay	285,802	
Depreciation	<u>(800,836)</u>	(515,034)

Because some revenues will not be collected for several months after the District's year end they are not considered available revenues in the fund statements. The difference between the additional receivables at fiscal year 14-15 and 15-16 is shown. 30,005

Issuance of long-term debt (bonds) provides current financial resources to governmental funds while repayment of the principal debt consumes current financial resources. However neither transaction has any effect on the net position. Repayment of note principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net position. The effect on these transactions in the statement of activities is shown below --

Principal payment on capital lease	112,268	
Repayment of long-term debt	7,803,000	
Proceeds from extended term financing	<u>(7,510,000)</u>	405,268

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues regardless of when it is due. The additional interest accrued in the statement of activities over the amount due is shown here. 19,071

Government funds report district pension contributions as expenditures. However, in the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense --

District pension contributions	1,400,415	
Cost of benefits earned net of employee contributions	<u>(1,025,385)</u>	375,030

Deferred outflows of resources represents a consumption of net position or fund balance that applies to a future period(s) and thus will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred outflows of resources at year-end consist of the following --

Deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

The effect on these transactions in the statement of activities is shown below --

Amortization of deferred refunding		(22,595)
------------------------------------	--	----------

Bond insurance issuance costs reported as expenditures in the fund statements are recorded as prepaid in the government-wide financial statements. The effect on these transactions in the statement of activities is shown below --

Reduction of prepaid insurance from issuance of bonds		(35,603)
---	--	----------

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds however, expenditures for these items are measured by the amount of financial resources used. 19,786

Other post employment benefits reflect an actuarially determined liability for the implicit rate subsidy of retiree health insurance. This amount represents the difference between retiree premiums paid and the amount of estimated subsidy.

15,933

Change in Net Position - Governmental Activities

648,354

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

MONTGOMERY AREA SCHOOL DISTRICT

Statement of Net Position - Proprietary Fund
June 30, 2016

	<u>Food Service</u>
ASSETS	
Current Assets --	
Cash and cash equivalents	28,674
Due from other funds	14,105
Due from other governments	24,499
Inventories	<u>5,294</u>
Total Current Assets	<u>72,572</u>
Noncurrent Assets --	
Furniture and equipment, net of accumulated depreciation	<u>36,463</u>
TOTAL ASSETS	<u>109,035</u>
Deferred Outflow of Resources --	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u><u>109,035</u></u>
LIABILITIES	
Current Liabilities --	
Accounts payable	-
Unearned revenue	5,294
Due to other funds	8,579
Other current liabilities	<u>5,282</u>
Total Current Liabilities	<u>19,155</u>
Noncurrent Liabilities	-
TOTAL LIABILITIES	<u>19,155</u>
Deferred Inflow of Resources --	<u>-</u>
NET POSITION	
Investment in capital assets	36,463
Unrestricted	<u>53,417</u>
TOTAL NET POSITION	<u>89,880</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u><u>109,035</u></u>

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

MONTGOMERY AREA SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Position -
Proprietary Fund
For the Year Ended June 30, 2016

	<u>Food Service</u>
OPERATING REVENUES --	
Food service revenue	185,866
Total operating revenues	<u>185,866</u>
OPERATING EXPENSES --	
Salaries	87,887
Employee benefits	73,293
Purchased property service	7,820
Other purchased service	236,062
Supplies	27,950
Dues and fees	252
Depreciation	5,646
Total operating expenses	<u>438,910</u>
OPERATING INCOME/(LOSS)	<u>(253,044)</u>
NON-OPERATING REVENUES (EXPENSES) --	
Earnings on investments	98
State sources	27,398
Federal sources	219,808
Total non-operating revenues (expenses)	<u>247,304</u>
INCOME/(LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(5,740)
CHANGE IN NET POSITION	(5,740)
TOTAL NET POSITION - JULY 1, 2015	<u>72,912</u>
PRIOR PERIOD ADJUSTMENT	<u>22,708</u>
TOTAL NET POSITION - JUNE 30, 2016	<u><u>89,880</u></u>

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

MONTGOMERY AREA SCHOOL DISTRICT

Statement of Cash Flows - Proprietary Fund
For the Year Ended June 30, 2016

	<u>Food Service</u>
Cash Flows from Operating Activities --	
Cash received from users	188,321
Cash payments to employees for services	(152,650)
Cash payments to suppliers for goods and services	(278,718)
Net cash provided by (used for) operating activities	<u>(243,047)</u>
Cash Flows from Non-Capital Financing Activities --	
Local sources	11
State sources	26,210
Federal sources	201,446
Net cash provided by (used for) non-capital financing activities	<u>227,667</u>
Cash Flows from Capital and Related Financing Activities --	
None	-
Net cash provided by (used for) capital and related financing activities	<u>-</u>
Cash Flows from Investing Activities --	
Earnings on investments	98
Net cash provided by (used for) investing activities	<u>98</u>
Net increase (decrease) in cash and cash equivalents	(15,282)
Cash and cash equivalents - beginning of year	<u>43,956</u>
Cash and cash equivalents - end of year	<u><u>28,674</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities --	
Operating income (loss)	<u>(253,044)</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities --	
Depreciation	5,646
(Increase) decrease in accounts receivable	(1,428)
(Increase) decrease in inventories	(1,413)
Increase (decrease) in accounts payable	(5,221)
Increase (decrease) in other current liabilities	8,530
Increase (decrease) in unearned revenue	3,883
Total adjustments	<u>9,997</u>
Net cash provided by (used for) operating activities	<u><u>(243,047)</u></u>

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

MONTGOMERY AREA SCHOOL DISTRICT

Statement of Net Position - Fiduciary Funds
June 30, 2016

	Private Purpose Trust Fund	Activity Fund	Total Fiduciary Funds
ASSETS			
Cash and cash equivalents	59,972	32,717	92,689
Other receivables	2,293	-	2,293
Total Assets	<u>62,265</u>	<u>32,717</u>	<u>94,982</u>
Deferred Outflow of Resources --	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>62,265</u>	<u>32,717</u>	<u>94,982</u>
LIABILITIES			
Due to other funds	-	-	-
Accounts payable	-	32,717	32,717
Total Liabilities	<u>-</u>	<u>32,717</u>	<u>32,717</u>
Deferred Inflow of Resources --	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Restricted for legal purposes	4,423	-	4,423
Unrestricted	57,842	-	57,842
TOTAL NET POSITION	<u>62,265</u>	<u>-</u>	<u>62,265</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>62,265</u>	<u>32,717</u>	<u>94,982</u>

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

MONTGOMERY AREA SCHOOL DISTRICT

Statement of Changes in Net Position - Fiduciary Funds
For the Year Ended June 30, 2016

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Gifts and contributions	22,500
Other additions	101
Total Additions	<u>22,601</u>
DEDUCTIONS	
Scholarships awarded	<u>21,750</u>
CHANGE IN NET POSITION	851
NET POSITION - JULY 1, 2015	<u>61,414</u>
NET POSITION - JUNE 30, 2016	<u><u>62,265</u></u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Montgomery Area School District** (the District) is a third class school district located in Montgomery, Lycoming County, Pennsylvania. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania.

The financial statements of **Montgomery Area School District** have been prepared in accordance with U.S. 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 GASB has issued codification of governmental accounting and financial reporting standards. This codification and subsequent GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local governments.

A. Reporting Entity

The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth by the GASB. In evaluating the District as a reporting entity, management had addressed all potential component units which may or may not fall within the District's financial accountability and the nature and significance of the relationship. No component units were identified for inclusion in these financial statements.

This report includes all of the funds of **Montgomery Area School District**.

B. Basis of Presentation

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

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

The statement of net position presents the financial condition of the governmental and business-type activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities and for one business-type activity of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements During the 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 are designed to present financial information of the District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

C. Fund Accounting

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the District's major funds –

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

Capital Reserve Fund The capital reserve fund is a special revenue fund which accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Additionally, the District reports the following non-major funds –

Capital Project Fund The Capital Project Fund accounts for the proceeds and expenditures relating to the general obligation note issue and construction project.

Debt Service Fund The debt service fund is used to account for the accumulation of resources to provide payment of general obligation bonds.

Proprietary Funds Proprietary funds focus on the determination of changes in net position, financial position and cash flows and are classified as either enterprise or internal service.

Enterprise Funds Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The District's major enterprise fund is –

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

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's fiduciary funds are the agency fund and the private-purpose trust funds.

D. Measurement Focus and Basis of Accounting

Economic Resources Measurement Focus and Accrual Basis of Accounting - The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting as are the proprietary fund and the fiduciary fund financial statements.

In the accrual basis of accounting, revenues resulting from exchange transactions are recognized when the exchange takes place. Revenues from non-exchange transactions are recognized as follows:

- Derived tax revenues, such as earned income tax, are recognized when the exchange transaction on which the tax is imposed occurs.
- Property taxes are recognized as revenues in the year for which they are levied.
- Grants which are expenditure-driven are recognized as revenue when the specified reimbursable expense is incurred, provided any other eligibility criteria have also been met.
- Grants which are not expenditure-driven, but instead are restricted to a defined purpose, are recognized as revenue when the applicable eligibility criteria are met. Any amounts that remain unused at year end are recorded as restricted fund balance.

Expenditures are recognized when liabilities are incurred.

Current Financial Resources Measurement Focus and Modified Accrual Basis of Accounting - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. In the modified accrual basis of accounting, revenues are recognized as outlined above, but with the added criteria that revenues should only be recognized when both measurable and available to finance expenditures of the fiscal period. The District has established the following criteria to define "available":

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

- Tax revenues are considered available if received within 60 days of year end.
- The District has noted that revenues from expenditure-driven grants are generally available for collection soon after the related expenditures are incurred. As a matter of practicality and consistency, the District has decided to consider all such expenditure-driven grant revenue as available when the related expenditure has been incurred, provided any other eligibility criteria have also been met.
- Grants which are not expenditure-driven are recognized as revenue if received within 60 days of year end, provided any other eligibility criteria are met.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

E. Use of Restricted and Unrestricted Resources

The District's policy is to first apply restricted resources, rather than unrestricted resources, when an expense is incurred for purposes for which both restricted and unrestricted net position (or fund balances) are available.

F. Interfund Activity

Transfers are made between the general fund and the debt service fund, as required by bond instruments. Also, in the governmental fund statements, activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". In the government-wide financial statements, transfers between one governmental fund and another, as well as any year-end amounts due to a governmental fund from another governmental fund are eliminated. Balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Amounts due to or from fiduciary funds are reported as other assets or liabilities in the government-wide financial statements.

G. Inventories

Inventories are stated at cost, except for commodities by the United States Department of Agriculture (USDA) which are stated at the specific item's donated value (the USDA's cost). Reported inventories of supplies and materials consist of supplies recorded as an asset when the individual inventory items are purchased and as an expenditure or expense when consumed. Any unused commodities donated by the federal government are reported as unearned revenues at June 30, 2016 in the food service fund.

H. Prepaid Expenses

In the government-wide statements, prepaid expenses are recorded as assets in the specific governmental fund in which future benefits will be derived.

I. 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. Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$1,500 as composite groups for financial reporting purposes. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market 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 asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

All capital assets reported as used in both the governmental activities and business-type activities are depreciated using the straight-line method over the following estimated useful lives –

<u>Assets</u>	<u>Years</u>
Building and Building Improvements	20-40
Furniture and Equipment	5-20

J. Long-term Obligations

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide financial statements. The long-term obligations consist primarily of notes and bonds payable, other postemployment benefits and accrued compensated absences. Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. The face value of debts (plus any premiums) are reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting in proprietary funds is the same as it is in the government-wide financial statements.

For the government-wide financial statements and proprietary fund statements, bond premiums and discounts are amortized over the life of the issue using the straight-line method. Gains or losses on prior refundings are amortized over the shorter of the remaining life of the old debt or the life of the new debt. The balance at year end for both premiums/discounts is shown as an increase or decrease in the liability section of the statement of net position. The balance at year end for gains/losses is shown as a deferred outflow/inflow in the statement of net position.

K. Governmental Fund Balance Classifications

On July 1, 2010 the School implemented GASB Statement 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. This Statement defines five possible classifications of fund balance. These classifications are:

- Unspendable – This classification includes amounts that cannot be spent because they are either not in spendable form (inventories, prepayments, etc.) or are legally required to be maintained intact.
- Restricted – This classification includes amounts when constraints on the uses of resources are imposed by external entities (grantors, contributors, creditors) or by law.
- Committed – This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by motions of the Board, which holds the highest level of decision making authority. Committed fund balances are created by action of the Board. Commitments can also be removed by action of the Board.
- Assigned – This classification includes amounts that are constrained by the school’s intent to be used for specific purposes, but are neither restricted nor committed. Intent can be expressed by a committee or individual who has been granted authority to assign funds by the Board. The Board has granted such authority to the Superintendent or designee. The District has assigned funds for post-employment health benefit obligations and pension obligations.
- Unassigned – Unassigned fund balance is the residual classification for the general fund.

In regard to use of unrestricted fund balance amounts, the District considers that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications could be used.

L. Estimates

The preparation of financial statements in conformity with United States 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.

M. Proprietary Fund FASB Usage and Definition of Operating Income

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed for proprietary activity financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private sector guidance.

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The District's only proprietary fund is its food service fund. The District defines amounts received from individuals for meals as operating revenue. Subsidies received from federal and state sources in support of the District's food services are defined as non-operating revenue.

N. Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid investments with an original maturity from the time of purchase by the District of three months or less to be cash equivalents.

NOTE 2 **CASH AND CASH EQUIVALENTS AND INVESTMENTS**

Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to invest its monies as follows –

Obligations of (1) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (2) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (3) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository.

The deposit and investment policy of the District adheres to state statutes and prudent business practice.

Deposits with Financial Institutions

GASB Statement No. 40 requires that the District disclose information about risks associated with its deposit and investment activities.

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits might not be recovered. The District does not have a policy regarding management of custodial credit risk. As of June 30, 2016 the carrying amount of the District's deposits was \$5,661,935 and the bank balances were \$5,751,588. Of the bank balances, \$390,416 was covered by federal depository insurance. The remaining bank balances of \$5,361,172 are exposed to custodial credit risk as follows:

Uninsured and collateralized with securities held by the pledging institution, or by its trust department, but not in the District's name	5,361,172
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Investments

The District maintains deposits with the PA Local Government Investment Trust (PLGIT), which is an external investment pool. Deposits with PLGIT are subject to the following risks defined by GASB Statement No. 40.

Credit Risk – Credit risk is the risk that issuers of financial instruments may not fulfill their obligations. Credit risk is generally evaluated based on credit ratings provided by companies such as Standard & Poor's. The District's investments with PLGIT are rated AAA.

Concentration of Credit Risk – GASB Statement No. 40 defines that concentration of credit risk occurs when investments in one entity exceeds 5% of total investments. Substantially all of the District's investments are with PLGIT.

The District does not have policies addressing these risks.

NOTE 2 CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Cash and cash equivalents reported on the financial statements represent –

Balance of deposits with financial institutions	5,751,588
Plus, deposits in transit	-
Less, outstanding checks	<u>(89,653)</u>
Book balance of deposits	5,661,935
Investments in PLGIT	1,084,980
Petty cash	<u>40</u>
Total Cash and Cash Equivalents	<u><u>6,746,955</u></u>
Governmental Funds	6,625,592
Business-Type Funds	28,674
Fiduciary Funds	<u>92,689</u>
	<u><u>6,746,955</u></u>

NOTE 3 DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. The first is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second is deferred outflows of resources related to pensions.

Deferred outflows of resources reported in the government-wide statement of net position are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<i>Governmental Activities -</i>				
Deferred amount of refunding	203,986	-	22,595	181,391
Deferred pensions	1,357,923	1,577,953	1,257,923	1,677,953
	<u>1,561,909</u>	<u>1,577,953</u>	<u>1,280,518</u>	<u>1,859,344</u>

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. The first, which arises only under a modified accrual basis of accounting and accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The second is the deferral of pension expense that results from the implementation of GASB Statement 68. Deferred inflows of resources reported in the governmental funds for unavailable revenues are as follows:

	<u>General Fund</u>	<u>Non-major Governmental Funds</u>	<u>Total</u>
Property taxes	228,380	-	228,380

NOTE 3 DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES (Continued)

Based upon assessments provided by the County, the elected tax collectors bill and collect property taxes for the District. The District tax rate for the year ended June 30, 2016 was 13.64 mills (\$13.64 per \$1,000 of assessed valuation) as levied by the Board of School Directors. The Board of School Directors also levies real estate transfer tax and earned income and net profits tax. The tax rates under Act 511 are .5% of each real estate transaction in the District and 1.75% of all income earned by residents that reside in the District, respectively. The schedule for real estate taxes levied for each fiscal year is as follows –

July 1	- Levy Date
July 1 – August 31	- 2% Discount Period
September 1 – October 31	- Face Payment Period
November 1 – December 31	- 10% Penalty Period
January 1	- Lien Date

The District recognizes the delinquent and unpaid taxes receivable. No allowance for uncollectible real estate taxes is considered necessary. Net real estate taxes receivable which are not available within 60 days after year-end are reported as deferred inflows of resources.

Deferred inflows of resources reported in the government-wide statement of net position are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<i>Governmental Activities -</i>				
Deferred pensions	1,271,000	868,000		2,139,000
	<u>1,271,000</u>	<u>868,000</u>	-	<u>2,139,000</u>

NOTE 4 DUE FROM OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the District. At June 30, 2016, the following amounts are due from other governmental units –

	<u>General Fund</u>
Federal (through the state)	26,176
State	380,898
Local	<u>690,792</u>
Total	<u>1,097,866</u>

NOTE 5 CHANGES IN CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated -				
Land	84,535	-	-	84,535
Construction in Progress	-	220,244	-	220,244
Total Assets, Not Being Depreciated	<u>84,535</u>	<u>220,244</u>	<u>-</u>	<u>304,779</u>
Capital Assets, Being Depreciated -				
Site Improvements	1,199,969	236,746	-	1,436,715
Building and Building Improvements	15,387,787	324,479	-	15,712,266
Furniture and Equipment	4,529,626	65,558	261,616	4,333,568
Total Assets Being Depreciated	<u>21,117,382</u>	<u>626,783</u>	<u>261,616</u>	<u>21,482,549</u>
Less Accumulated Depreciation for -				
Site Improvements	829,464	66,253	33,911	861,806
Building and Building Improvements	6,028,203	794,154	-	6,822,357
Furniture and Equipment	3,572,771	335,139	889,027	3,018,883
Total Accumulated Depreciation	<u>10,430,438</u>	<u>1,195,546</u>	<u>922,938</u>	<u>10,703,046</u>
 Total Capital Assets, Being Depreciated, Net	 <u>10,686,944</u>	 <u>(568,763)</u>	 <u>(661,322)</u>	 <u>10,779,503</u>
 Governmental Activities, Capital Assets, Net	 <u>10,771,479</u>	 <u>(348,519)</u>	 <u>(661,322)</u>	 <u>11,084,282</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital Assets Being Depreciated -				
Equipment	205,653	-	98,048	107,605
Less Accumulated Depreciation for -				
Equipment	<u>186,251</u>	<u>5,646</u>	<u>120,755</u>	<u>71,142</u>
 Total Capital Assets Being Depreciated, Net	 <u>19,402</u>	 <u>(5,646)</u>	 <u>22,707</u>	 <u>36,463</u>

Depreciation Expense was reported as follows -

Governmental Activities				
Unallocated activities				<u>800,836</u>
 Total Depreciation Expense - Government Activities				 <u>800,836</u>
Business-Type Activities				
Food Service Fund				<u>5,646</u>
 Total Depreciation Expense - Business-Type Activities				 <u>5,646</u>

NOTE 6 GENERAL LONG-TERM DEBT

The following summarizes activity with respect to general long-term debt for the year ended June 30, 2016 –

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities -					
Bonds and Notes Payable -					
General Obligation Debt	11,444,000	7,510,000	7,803,000	11,151,000	861,000
Deferred Amount of Refunding	(203,986)	-	22,595	(181,391)	-
	<u>11,240,014</u>	<u>7,510,000</u>	<u>7,780,405</u>	<u>10,969,609</u>	<u>861,000</u>
Other Liabilities -					
Compensated Absences	53,347	1,908	21,694	33,561	9,702
Capital Lease	259,321	-	112,268	147,053	72,835
	<u>11,552,682</u>	<u>7,511,908</u>	<u>7,914,367</u>	<u>11,150,223</u>	<u>943,537</u>

The payments of general long-term debt are to be funded by the General Fund and Debt Service Fund.

General Obligation Note-Series of 2014

In March 2014, the District entered into a \$2,278,000 note agreement with the Branch Banking and Trust Company maturing in four years at 1.17% interest. The proceeds of the note were used to currently refund \$2,245,000 of outstanding 2009 Series bonds with an average interest rate of 3.95%.

Debt service requirements of the General Obligation Note of 2014 are as follows –

<u>Year Ended June 30</u>	<u>General Obligation Notes</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2017	583,000	10,302	593,302
2018	589,000	3,446	592,446
	<u>1,172,000</u>	<u>13,748</u>	<u>1,185,748</u>

General Obligation Note-Series of 2015

In March 2015, the District entered into a \$2,471,000 note agreement with Citizens & Northern Bank maturing in five years at 1.54% interest. The proceeds of the note were used to currently refund \$2,415,000 of outstanding 2010 Series bonds with an average interest rate of 3.05%.

Debt service requirements of the General Obligation Note of 2015 are as follows –

<u>Year Ended June 30</u>	<u>General Obligation Notes</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2017	108,000	37,191	145,191
2018	112,000	35,497	147,497
2019	633,000	29,760	662,760
2020	649,000	19,889	668,889
2021-2022	967,000	12,251	979,251
	<u>2,469,000</u>	<u>134,588</u>	<u>2,603,588</u>

NOTE 6 GENERAL LONG-TERM DEBT (Continued)

General Obligation Note-Series A of 2015

In September 2015, the District entered into a \$7,283,000 note agreement with Muncy Bank & Trust maturing in twelve years at 2.45% interest. The proceeds of the note were used to currently refund \$7,225,000 of outstanding 2010 Series A bonds with an average interest rate of 3.20%. This refunding of debt resulted in a \$590,934 decrease of total debt service payments over the next eleven years and an economic gain of \$488,040. Economic gain is the difference between the present value of the old and new debt service payments.

Debt service requirements of the General Obligation Note Series A of 2015 are as follows –

Year Ended June 30	General Obligation Notes		Total Requirements
	Principal	Interest	
2017	80,000	177,454	257,454
2018	99,000	175,261	274,261
2019	131,000	172,443	303,443
2020	123,000	169,332	292,332
2021	133,000	166,196	299,196
2022-2027	6,717,000	520,979	7,237,979
	<u>7,283,000</u>	<u>1,381,665</u>	<u>8,664,665</u>

General Obligation Note-Series 2016

In September 2015, the District entered into a \$3,350,000 draw-down note agreement with FNB Bank, National Association. The promissory note is to be used to finance capital improvement projects. Funds are to be drawn on the note as needed up to the principal balance of \$3,350,000. The draw period ends on November 15, 2017. The note calls for Interest and principal payments through November 15, 2027 on the outstanding balance bearing interest at the following rates:

- 2.44% from 2/23/2016 – 11/15/2019
- 2.67% from 11/16/2019 – 11/15/2023
- 2.76% from 11/16/2023 – 11/15/2027

As of June 30, 2016, the District has drawn down \$227,000.

Capital Leases

The District has entered into certain capital leases under which the related equipment will become the property of the District when all terms of the lease agreement are met.

Governmental fund activities: Computer hardware.

Equipment and related accumulated amortization under capital lease are as follows –

Equipment	416,548
Less: accumulated amortization	<u>134,579</u>
Net value	<u>281,969</u>

As of June 30, 2016, capital lease annual amortization is as follows –

Year Ended June 30:	
2017	75,629
2018	<u>75,629</u>
Total requirements	151,258
Less interest	<u>4,205</u>
Present value of remaining payment	<u>147,053</u>

Amortization of leased equipment under capital assets is included with depreciation expense.

NOTE 6 **GENERAL LONG-TERM DEBT** (Continued)

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation, sick and sabbatical leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place.

In the governmental and similar trust funds, compensated absences that are expected to be liquidated with expendable available financial resources are reported as expenditure and fund liability in the fund that will pay for them. The remainder of the compensated absences liability is reported in general long-term debt on the government-wide financial statements.

In the proprietary funds and similar trust funds, compensated absences are recorded as an expense and liability of the fund that will pay for them.

Vacation - District employees who are required to work on a twelve-month schedule are credited with vacation at rates which vary with length of service or job classification. Employees who do not take all their vacation during the year of entitlement may carry such leave over to subsequent years.

Sick Leave - Most District employees are credited annually with sick days. Unused sick leave is cumulative from year to year. However, accumulation of this leave is not compensated upon termination or retirement.

Sabbaticals - Most District employees are entitled to a sabbatical after ten years of service. Sabbaticals may only be taken for educational purposes or for health reasons. Sabbaticals taken for educational purposes are considered restricted and for the benefit of the employer. Sabbaticals taken for health reasons are considered unrestricted. No liability is recorded because both sabbaticals are conditional on future events.

At June 30, 2016, the liability for compensated absences, which consists entirely of vacation payable, was \$33,561. The amount of \$23,859 is included in general long-term debt on the government-wide financial statements while \$9,702 is recorded as current liabilities.

NOTE 7 **OPERATING LEASE OBLIGATIONS**

The District leases copiers and other equipment under operating leases. All of these leases are cancelable if the legislative body does not appropriate funds for the continuation of the lease agreement and a creditworthy assignee cannot be located.

Lease expense for the year ended June 30, 2016 was \$100,173 and is reported in the general fund.

NOTE 8 **PENSIONS**

For the 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. Investments are reported at fair value.

General Information about the Pension Plan

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 school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

NOTE 8 PENSIONS (Continued)

Benefits provided

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

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

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

Contributions

Member Contributions:

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

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

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

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions:

The school district's contractually required contribution rate for fiscal year ended June 30, 2016 was 25% 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 \$1,400,415 for the year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$16,849,000 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2015 (the most recent measurement date), and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The 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 2015, the District's proportion was .0389 percent, which was a decrease of .0006 from its proportion measured as of June 30, 2014.

NOTE 8 PENSIONS (Continued)

For the year ended June 30, 2016, the District recognized pension expense of \$1,526,041. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 70,000
Net difference between projected and actual investment earnings	\$ -	\$ 33,000
Changes in proportions	100,000	2,036,000
Difference between employer contributions and proportionate share of total contributions	177,538	-
Contributions subsequent to the measurement date	1,400,415	-
	<u>\$ 1,677,953</u>	<u>\$ 2,139,000</u>

\$1,400,415 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:	
2017	(527,615)
2018	(527,615)
2019	(527,615)
2020	(279,617)
2021	1,000
Thereafter	-
	<u>(1,861,462)</u>

Actuarial assumptions

The total pension liability as of June 30, 2015 (the most recent measurement date) was determined by rolling forward the System's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – Level % of pay
- Investment return – 7.50%, includes inflation at 3.00%
- Salary increases – Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1% and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disable Tables (male and female) with age set back 7 years for males and 3 years for females.

The actuarial assumptions used in June 30, 2014 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

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

NOTE 8 PENSIONS (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public markets global equity	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	<u>-14.0%</u>	1.1%
	<u>100.0%</u>	

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

Discount rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
District's proportionate share of the net pension liability	<u>\$20,769,000</u>	<u>\$16,849,000</u>	<u>\$13,556,000</u>

Pension plan fiduciary net position

Detailed information about 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.

NOTE 9 POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The Montgomery Area School District implemented GASB Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension for the fiscal year ended June 30, 2011. This implementation allows the District to report its liability for other postemployment benefits (OPEB) consistent with newly established generally accepted accounting principles and to reflect an actuarially determined liability for the present value of projected future benefits for retired and active employees on the financial statements. The District has implemented the Statement on a prospective basis.

Plan Description. The Montgomery Area School District Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the District. The Plan is established in accordance with Act 110 of October 20, 1988, and Act 43 of July 8, 1989, by which the Pennsylvania Public Education Code was amended, obligating the District to make the school group health insurance coverage available to its retirees who have met certain criteria. Extension of coverage may continue until the retiree reaches Medicare eligibility or is covered by other insurance.

The Code allows the District to charge retirees an amount not to exceed the premium determined for COBRA purposes. Through collective bargaining, the District has agreed to offer coverage to certain eligible teachers and administrators as follows:

Summary of Plan Provisions		
GROUP	ELIGIBILITY	COVERAGE AND PREMIUM SHARING
<u>I. ADMINISTRATORS</u>		
A) Network Administrator, Psychologist, and Supervisor of Building and Grounds	Age 55 with 15 years of service with the district	<u>Coverage:</u> Medical and Prescription Drug . <u>Premium Sharing:</u> The member and spouse may continue medical and prescription drug coverage upon retirement. The district will contribute a maximum of \$250 per month towards coverage. If the member does not qualify for the district subsidy but qualifies for the Act 110-43 benefit, the member and spouse may continue coverage by paying the full premiums. <u>Dependents:</u> Spouse included
B) Secondary and Elementary Principal	Same as I.A	<u>Coverage:</u> Medical and Prescription Drug <u>Premium Sharing:</u> The district will pay the full premium for the CDHP plan for the member only. The member must pay any additional premium to buy up to any other plan, as well as any premium to cover their spouse. If the member does not qualify for the district subsidy but qualifies for the Act 110-43 benefit, the member and spouse may continue coverage by paying the full premiums. <u>Dependents:</u> Spouse included
C) All other administrators	Age 55 with 10 years of service with the district	Same as I.B
<u>II. TEACHERS</u>		
A) Retire prior to July 1, 2015	N/A - Already retired	Same as I.A, except the maximum district contribution is \$350 per month. <u>Grandfathered retirees:</u> Three grandfathered retirees pay \$100 PSERS supplement and 50% of the premium share instead
B) Retire after July 1, 2015	Age 57 with 10 years of service with the district	Same as I.A
<u>III. SUPPORT STAFF</u>		
	Act 110/43	<u>Coverage:</u> Medical and Prescription Drug <u>Premium Sharing:</u> The member and spouse may elect medical and prescription drug coverage upon retirement by paying the full premiums determined for the purpose of COBRA (tiered rates). <u>Dependents:</u> Spouse included
Notes: Act 110/43 Eligibility: All employees for this benefit upon retirement with 30 years of PSERS service or upon superannuation retirement.		
PSERS Supplement: A retiree may receive a \$100 monthly medical reimbursement from PSERS if he (or she) meets one of the following qualifications at retirement:		
1) 24.5 years of PSERS service		
2) Upon superannuation retirement with at least 15 years of service.		
PSERS Superannuation Retirement:		
1) For individuals who were members of PSERS prior to July 1, 2011, an employee is eligible for PSERS superannuation retirement upon reaching age 60 with 30 years of PSERS service, age 62 with 1 year of PSERS service or 35 years of PSERS service regardless of age.		
2) For individuals who became members of PSERS on or after July 1, 2011, an employee is eligible for PSERS superannuation retirement upon reaching age 65 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 92 with a minimum of 35 years of PSERS service.		

NOTE 9 POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

The Plan may be amended through amendment of the Code or through collective bargaining.

The Plan does not issue a stand-alone financial statement.

Funding Policy The District finances the cost of OPEB on a pay-as-you-go basis. As such, the District pays only the amounts required for current retirees' coverage, and does not fund the estimated costs to cover future retirees. In the year ended June 30, 2016 the District paid \$195,241 for retiree's health benefits. The retiree's paid \$93,512. The retiree contribution represents an average annual contribution of \$4,676 per retiree.

Annual OPEB Cost and Net OPEB Obligation The District's annual OPEB expense is calculated based on the *annual required contribution of the District (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year as well as amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually funded by contributions to the Plan and changes in the District's OPEB obligation to the Plan:

Annual Required Contribution	155,996
Interest on OPEB Obligation	9,733
Adjustment to ARC	<u>(13,278)</u>
Annual OPEB Expense	152,451
Contributions Made (Estimated)	<u>(168,384)</u>
Decrease in net OPEB Obligation	(15,933)
Net OPEB Obligation - beginning of year	<u>216,288</u>
Net OPEB Obligation - end of year	<u><u>200,355</u></u>

The District's annual OPEB expense, the percent of OPEB expense contributed to the Plan, and the net OPEB obligation for 2016 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/16	\$ 152,451	61.3%	\$ 200,355

Funding Status and Funding Progress The funded status of the plan as of July 1, 2015 (the most recent actuarial valuation date) was as follows:

Actuarial accrued liability (AAL)	\$ 1,499,584
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$ 1,499,584
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$ 5,791,832
UAAL as a percentage of covered payroll	25.89%

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

Actuarial Methods and Assumptions Calculations are based on the types of benefits provided under the terms of the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing the benefit costs between the employer and the plan members at that point. The actuarial assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculations.

In the July 1, 2015 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return and annual healthcare cost trend rate of 6.0% in 2015, and 5.5% in 2016 through 2020. Rates gradually decrease from 5.4% in 2021 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The UAAL is being amortized as a level dollar amount of projected payroll on an open basis. The remaining amortization period as of July 1, 2015 is 30 years.

NOTE 10 **CONTINGENT LIABILITIES**

Grant Programs

The District participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2016 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

NOTE 11 **RISK MANAGEMENT**

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has purchased various insurance policies to safeguard its assets from risk of loss. Insurance coverage appears to be consistent with previous years. During the year ended June 30, 2016, and the two previous years, no settlements exceeded insurance coverage.

The District participates in the Lycoming County Insurance Consortium Pooled Trust (a public entity risk pool) which provides health care benefits for District employees. The Consortium collects assessments from its members and pays health claims, stop loss insurance premiums and administrative expenses. The District's assessment is based on consideration of the claims experience of all Consortium members, the Consortium's accumulated reserves, and the District's proportional number of covered employees. As such, the District is subject to additional assessment should the Consortium's estimated assessments prove to be insufficient to cover claims. At June 30, 2016, the District was not aware of any circumstance that would limit the Consortium's ability to meet its obligations to pay claims. At June 30, 2016, the unaudited financial statements of the Consortium reflected surplus funds of \$14,541,582. The District's portion of surplus was \$679,658 representing approximately 34% of the District's assessment.

NOTE 12 **PRIOR PERIOD ADJUSTMENT**

The beginning net position of the Governmental Activities and Business-Type Activities in the government-wide Statement of Net Position and the Food Service Fund in the Fund Statements has been restated to record a prior period adjustment to correct the District's capital assets. The increase has resulted from an updated property inventory and accounting cost record report of the District's assets undertaken by Industrial Appraisal Company. The latest valuation of assets was performed as of June, 30 2016.

The above referenced adjustment increased the Governmental Activities beginning net position by \$827,830 and the Business-Type Activities and Food Service Fund beginning net position by \$22,708.

MONTGOMERY AREA SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - General Fund
For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Budgetary Basis</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local revenues	5,711,427	5,711,427	5,797,207	85,780
State program revenues	8,193,953	8,193,953	8,052,645	(141,308)
Federal program revenues	355,361	355,361	366,518	11,157
TOTAL REVENUES	<u>14,260,741</u>	<u>14,260,741</u>	<u>14,216,370</u>	<u>(44,371)</u>
EXPENDITURES				
Current --				
Regular programs	5,573,989	5,573,989	5,519,921	(54,068)
Special programs	1,788,435	1,788,435	1,554,084	(234,351)
Vocational programs	580,276	580,276	550,610	(29,666)
Other instructional programs	353,725	353,725	343,827	(9,898)
Pre-Kindergarten	483,378	483,378	425,197	(58,181)
Pupil personnel services	506,366	506,366	480,263	(26,103)
Instructional staff services	515,466	515,466	482,291	(33,175)
Administrative services	815,071	815,071	868,409	53,338
Pupil health	99,634	99,634	99,184	(450)
Business services	294,642	294,642	280,729	(13,913)
Operation and maintenance of plant services	1,368,421	1,368,421	1,232,381	(136,040)
Student transportation services	482,862	482,862	523,585	40,723
Student activities	458,315	458,315	384,587	(73,728)
Community services	17,912	17,912	15,006	(2,906)
Debt service	1,116,328	1,116,328	117,195	(999,133)
Refund of prior year receipts	-	-	-	-
TOTAL EXPENDITURES	<u>14,454,820</u>	<u>14,454,820</u>	<u>12,877,269</u>	<u>(1,577,551)</u>
EXCESS/(DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(194,079)</u>	<u>(194,079)</u>	<u>1,339,101</u>	<u>1,533,180</u>
OTHER FINANCING SOURCES/(USES)				
Proceeds extended term financing	-	-	7,283,000	7,283,000
Other financing sources-capital lease	-	-	-	-
Interfund transfers	-	-	-	-
Transfers out	-	-	(8,122,036)	(8,122,036)
Budgetary reserve	(60,465)	(60,465)	-	60,465
TOTAL OTHER FINANCING SOURCES/(USES)	<u>(60,465)</u>	<u>(60,465)</u>	<u>(839,036)</u>	<u>(778,571)</u>
NET CHANGE IN FUND BALANCES	<u>(254,544)</u>	<u>(254,544)</u>	<u>500,065</u>	<u>754,609</u>
FUND BALANCE - JULY 1, 2015	<u>5,664,670</u>	<u>5,664,670</u>	<u>5,589,782</u>	<u>(74,888)</u>
FUND BALANCE - JUNE 30, 2016	<u><u>5,410,126</u></u>	<u><u>5,410,126</u></u>	<u><u>6,089,847</u></u>	<u><u>679,721</u></u>

See accompanying notes to the required supplementary information

MONTGOMERY AREA SCHOOL DISTRICT

Schedule of Montgomery Area School District Postemployment Benefits Plan Funding Progress

For the Year Ended June 30, 2016

<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 % of Covered Payroll ((b-a)/c)</u>
7/1/2015	-	1,499,584	1,499,584	0%	5,791,832	25.89%
7/1/2012	-	1,650,399	1,650,399	0%	5,401,093	30.56%
7/1/2009	-	1,420,844	1,420,844	0%	6,130,737	23.18%

See accompanying notes to the required supplementary information

MONTGOMERY AREA SCHOOL DISTRICT

Schedule of District's Proportionate Share of Net Pension Liability
Public School Employees' Retirement System of Pennsylvania
Most Recent Two Fiscal Years Ending June 30,

	<u>2015*</u>	<u>2014</u>
District's proportion of the net pension liability	0.0389%	0.0449%
District's proportionate share of the net pension liability	\$16,849,000	\$17,772,000
District's covered employee payroll	\$5,001,849	\$5,725,154
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	336.86%	310.42%
Plan fiduciary net position as a percentage of the total pension liability	54.4%	57.2%

* The most recent actuarial valuation available for inclusion in the June 30, 2016 financial statements is as of June 30, 2015.

See accompanying notes to the required supplementary information

MONTGOMERY AREA SCHOOL DISTRICT

Schedule of District Contributions
Public School Employees' Retirement System of Pennsylvania
Last Three Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Employer Contributions	\$1,400,415	\$1,225,923	\$894,000
District's covered employee payroll	\$5,803,987	\$5,001,849	\$5,725,154
Contributions as a percentage of covered-employee payroll	24%	25%	16%

See accompanying notes to the required supplementary information

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING

An operating 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.

The Pennsylvania School Code dictates specific procedures relative to adoption of the District's budget and reporting of its financial statements, specifically --

The District, before levying annual school taxes, is required to prepare an operating budget for the succeeding year.

The District is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which it is located and within fifteen days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative office 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 ten days prior to when final action on adoption is taken by the Board.

Legal budgetary control is maintained at the sub-function/major object level. The Board of School Directors may take transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval. 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.

Included in the General Fund budget are program budgets as prescribed by the federal and state agencies funding the program. These budgets are approved on a program by program basis by the federal and state funding agencies.

NOTE 2 SCHEDULE OF MONTGOMERY AREA SCHOOL DISTRICT POSTEMPLOYMENT BENEFITS PLAN FUNDING PROGRESS

GASB Statement No. 45 requires that the District present information regarding funding progress for the most recent actuarial valuation and the two preceding valuations and to identify factors that significantly affect the identification of trends in the amounts reported. Those factors might include changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used.

As of June 30, 2016, the District has had three actuarial valuations prepared. There were no significant factors identified which affected trends in the amounts reported.

NOTE 3 PENSION DATA

The amounts reported in the schedule of the district's proportionate share of the net pension liability are determined as of June 30, 2015 by The Commonwealth of Pennsylvania Public School Employees' Retirement System (the cost-sharing plan). There were no changes in benefit terms and no changes in assumptions.

DANIEL ROGERS, CPA, PC
CERTIFIED PUBLIC ACCOUNTANTS
1100 BROAD STREET
MONTOURSVILLE, PA 17754

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

Board of Directors

MONTGOMERY AREA SCHOOL DISTRICT
MONTGOMERY, PA

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 MONTGOMERY AREA SCHOOL DISTRICT, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise MONTGOMERY AREA SCHOOL DISTRICT's basic financial statements, and have issued our report thereon dated November 18, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MONTGOMERY AREA 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 MONTGOMERY AREA SCHOOL DISTRICT's internal control. Accordingly, we do not express an opinion on the effectiveness of MONTGOMERY AREA 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 MONTGOMERY AREA 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.

Daniel Rogers, CPA, PC

Montoursville, PA
November 18, 2016