

MONTGOMERY AREA SCHOOL DISTRICT

Single Audit Package

June 30, 2015

TABLE OF CONTENTS

	<u>Page</u>
List of Report Distribution	1
Transmittal Letter	2
Independent Auditor's Report	3-4
Management's Discussion and Analysis	5a-5e
Government-Wide Financial Statements –	
Statement of Net Position	6
Statement of Activities	7
Fund Financial Statements –	
Balance Sheet – Governmental Funds	8
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position	9
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	10
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to Statement of Activities	11
Statement of Net Position – Proprietary Fund	12
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund	13
Statement of Cash Flows – Proprietary Fund	14
Statement of Net Position – Fiduciary Funds	15
Statement of Changes in Net Position – Fiduciary Funds	16
Notes to Financial Statements	17-33
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	34
Schedule of Montgomery Area School District Postemployment Benefits Plan Funding Progress	35
Schedule of Montgomery Area School District Proportionate Share of the Net Pension Liability	36
Schedule of Montgomery Area School District Contributions	37
Notes to Required Supplementary Information	38
Schedule of Expenditures of Federal Awards	39
Notes to Schedule of Expenditures of Federal Awards	40

TABLE OF CONTENTS (Continued)

	<u>Page</u>
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	41-42
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by <i>OMB Circular A-133</i>	43-44
Summary Schedule of Prior Year Audit Findings	45
Schedule of Findings and Questioned Costs	46

MONTGOMERY AREA SCHOOL DISTRICT

**List of Report Distribution
June 30, 2015**

Office of the Budget
Bureau of Audits
Division of Subrecipient Review
Electronically to:
RA-BOA Single Audit@state.pa.us

Federal Audit Clearinghouse
Bureau of the Census
Electronically via
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Office of the Prothonotary
Lycoming County Court House
48 West Third Street
Williamsport, PA 17701

BASIC FINANCIAL STATEMENTS

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 Single Audit of **MONTGOMERY AREA SCHOOL DISTRICT** for the fiscal year ended June 30, 2015 and have enclosed the single audit reporting packages.

The single audit was done to fulfill the requirements of *OMB Circular A-133*. The single audit package includes the following –

- 1) Basic Financial Statements and Schedule of Expenditures of Federal Awards, and our report thereon.
- 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*.
- 3) Our report on compliance for each major program and on internal control over compliance required by *OMB Circular A-133*.
- 4) Summary Schedule of Prior Year Audit Findings.
- 5) Schedule of Findings and Questioned Costs.

Daniel Rogers, CPA, PC

November 3, 2015
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, 2015, 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, 2015, 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.

Change in Accounting Principle

As described in Note 12 to the financial statements, during the year ending June 30, 2015, the District adopted new accounting guidance, GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. Our opinion is not modified with respect to this matter.

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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise MONTGOMERY AREA SCHOOL DISTRICT's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2015, 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 3, 2015

Montgomery Area School District Management Discussion and Analysis For the Fiscal Year Ended June 30, 2015

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, 2015. 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, 2015 are as follows:

- Total net position of \$(12,007,100).
 - Negative change in Net Position of Governmental Activities of \$17,510,966.
- Total fund balance of all governmental funds equaled \$5,923,278.
- Assigned general fund balance equaled \$2,800,000.
- Unassigned general fund balance equaled \$2,789,782.
 - Total general fund revenues were \$13,847,963.
 - Total general fund expenditures and other financing uses were \$14,221,851.
- The District's Proprietary Fund/Business-Type Activity (Cafeteria) showed a net position increase of \$19,035.
- Capital Reserve Fund balance = \$330,154.
- District Debt Service Fund balance = \$3,342

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

Net Position - On June 30, 2015, the District had total net position from governmental activities of \$(12,007,100) which is a net decrease of \$17,510,966. The District implemented GASB Statement 68 this 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. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$17,323,000.

Business Type Activities (Food Service) has total net position of \$72,912.

- A net position increase of \$19,035 during 2014/15.

Table 1 summarizes the assets, liabilities, and net position of the District at June 30, 2015.

Comparative Table 1
Net Assets as of June 30, 2015- (Government Wide)

	Governmental Activities 2014/15	Governmental Activities 2013/14	Business-Type Activities 2014/15	Business-Type Activities 2013/14	Total 2014/15	Total 2013/14
Assets						
Current Assets	\$ 7,688,634	\$ 7,900,281	\$ 65,473	\$ 120,448	\$ 7,754,107	\$ 8,020,729
Other Assets	\$ 10,771,479	\$ 10,839,648	\$ 19,402	\$ 23,504	\$ 10,790,881	\$ 10,863,152
Total Assets	\$ 18,460,113	\$ 18,739,929	\$ 84,875	\$ 143,952	\$ 18,544,988	\$ 18,883,881
Deferred Outflow of Resources	\$ 1,561,909	\$ 226,581	\$ -	\$ -	\$ 1,561,909	\$ 226,581
Liabilities						
Current Liabilities	\$ 1,833,136	\$ 1,797,938	\$ 11,963	\$ 90,075	\$ 1,845,099	\$ 1,888,013
Long-Term Liabilities	\$ 28,924,986	\$ 11,664,706	\$ -	\$ -	\$ 28,924,986	\$ 11,664,706
Total Liabilities	\$ 30,758,122	\$ 13,462,644	\$ 11,963	\$ 90,075	\$ 30,770,085	\$ 13,552,719
Net Position						
Invested in Capital Assets	\$ (100,628)	\$ (1,107,296)	\$ 19,402	\$ 23,504	\$ (81,226)	\$ (1,083,792)
Restricted for Capital Projects	\$ -	\$ 159,130	\$ -	\$ -	\$ -	\$ 159,130
Restricted for Capital Improvement	\$ 330,154	\$ 400,000	\$ -	\$ -	\$ 330,154	\$ 400,000
Restricted for Debt Service	\$ 3,342	\$ 1,476	\$ -	\$ -	\$ 3,342	\$ 1,476
Unrestricted	\$ (12,239,968)	\$ 6,050,556	\$ 53,510	\$ 30,373	\$ (12,186,458)	\$ 6,080,929
Total Net Position	\$ (12,007,100)	\$ 5,503,866	\$ 72,912	\$ 53,877	\$ (11,934,188)	\$ 5,557,743

Balance Sheet/Fund Balances - Total fund equity of Governmental funds equaled \$5,923,278. This balance consists of:

- **General Fund** - Total fund balance equaled \$5,589,782. Of this amount \$2,789,782 is unassigned and \$2,800,000 is assigned.
 - In 2014/15, the District's Fund Balance decreased (expenses more than revenues) by \$373,888.
- **Capital Reserve Account** - Total fund balance equaled \$330,154 reserved for building construction and improvements or deferred building maintenance.
- **Debt Service Fund** - Total fund balance equaled \$3,342.

**Comparative Table 2
Changes in Net Position
For the Year Ended June 30, 2015
(Government-wide)**

	Governmental Activities 2014/15	Governmental Activities 2013/14	Business-Type Activities 2014/15	Business-Type Activities 2013/14	Total 2014/15	Total 2013/14
Program Revenues:						
Charges for Services	\$ 235,396.00	\$ 284,336.00	\$ 219,270.00	\$ 204,918.00	\$ 454,666.00	\$ 489,254.00
Operating Grants and Contributions	\$ 2,951,315.00	\$ 2,730,601.00	\$ 242,134.00	\$ 216,627.00	\$ 3,193,449.00	\$ 2,947,228.00
Capital Grants and Contributions	\$ 218,407.00	\$ 193,016.00	\$ -	\$ -	\$ 218,407.00	\$ 193,016.00
General Revenues:						
Property Taxes	\$ 3,242,532.00	\$ 3,108,566.00	\$ -	\$ -	\$ 3,242,532.00	\$ 3,108,566.00
Public Utility Realty, Earned Income Taxes, etc.	\$ 1,755,601.00	\$ 1,840,157.00	\$ -	\$ -	\$ 1,755,601.00	\$ 1,840,157.00
Grants and Entitlements	\$ 5,412,682.00	\$ 5,417,615.00	\$ -	\$ -	\$ 5,412,682.00	\$ 5,417,615.00
Investment Earnings	\$ 41,450.00	\$ 41,668.00	\$ 24.00	\$ 30.00	\$ 41,474.00	\$ 41,698.00
Loss on Disposal of Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Miscellaneous	\$ 18,747.00	\$ 26,122.00	\$ -	\$ -	\$ 18,747.00	\$ 26,122.00
Impairment Loss	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenues	\$ 13,876,130.00	\$ 13,642,081.00	\$ 461,428.00	\$ 421,575.00	\$ 14,337,558.00	\$ 14,063,656.00
Program Expenses:						
Instruction	\$ 8,401,817.00	\$ 7,616,131.00	\$ -	\$ -	\$ 8,401,817.00	\$ 7,616,131.00
Support Services						
Instructional Student Support	\$ 1,168,881.00	\$ 989,852.00	\$ -	\$ -	\$ 1,168,881.00	\$ 989,852.00
Administrative and Financial	\$ 1,270,140.00	\$ 1,192,011.00	\$ -	\$ -	\$ 1,270,140.00	\$ 1,192,011.00
Operation and Maintenance	\$ 1,305,079.00	\$ 1,301,862.00	\$ -	\$ -	\$ 1,305,079.00	\$ 1,301,862.00
Pupil Transportation	\$ 476,508.00	\$ 518,765.00	\$ -	\$ -	\$ 476,508.00	\$ 518,765.00
Community Services	\$ 14,848.00	\$ 14,069.00	\$ -	\$ -	\$ 14,848.00	\$ 14,069.00
Student Activities	\$ 391,508.00	\$ 348,239.00	\$ -	\$ -	\$ 391,508.00	\$ 348,239.00
Interest on Long Term Debt	\$ 357,570.00	\$ 398,812.00	\$ -	\$ -	\$ 357,570.00	\$ 398,812.00
Unallocated Depreciation Expense	\$ 677,745.00	\$ 633,402.00	\$ -	\$ -	\$ 677,745.00	\$ 633,402.00
Food Service	\$ -	\$ -	\$ 442,393.00	\$ 437,488.00	\$ 442,393.00	\$ 437,488.00
Total Expenses	\$ 14,064,096.00	\$ 13,013,143.00	\$ 442,393.00	\$ 437,488.00	\$ 13,450,631.00	\$ 13,450,631.00
Increase /(Decrease) in Net Position	\$ (187,966.00)	\$ 628,938.00	\$ 19,035.00	\$ (15,913.00)	\$ 886,927.00	\$ 613,025.00
Prior Period Adjustment	\$ (17,323,000.00)					
Increase /(Decrease) in Net Position	\$ (17,510,966.00)	\$ (628,938.00)	\$ (19,035.00)	\$ 15,913.00	\$ (886,927.00)	\$ (613,025.00)

As of June 30, 2015, the District held the following other balances:

- Ending cash and cash equivalents in its proprietary fund (cafeteria) of \$43,956.
- Private Purpose Trust fund balance totals of \$59,871.
- Agency fund (student activities fund) cash and cash equivalent of balance of \$40,836.

Budgetary Variances - 2014/15

Budgetary estimates differed in the following areas:

- Local Revenue
 - Wage Taxes - \$145,601 positive variance - Increase due to higher than expected collections.
 - Alternative Education: \$122,643 negative variance - Lower than expected payments
- State Revenue
 - Overall State Revenue - \$55,110 positive variance - This is due to an increase in the Retirement Subsidy for 2014/15.
- Federal Revenue
 - Overall Federal Revenue - \$19,841 positive 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, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets --			
Cash and cash equivalents	6,101,967	43,956	6,145,923
Taxes receivable, net	612,672	-	612,672
Due from other governments	621,421	-	621,421
State revenue receivable	281,754	340	282,094
Federal revenue receivable	35,217	4,608	39,825
Inventories	-	3,881	3,881
Other Current Assets	35,603	12,688	48,291
Total Current Assets	<u>7,688,634</u>	<u>65,473</u>	<u>7,754,107</u>
Noncurrent Assets --			
Land	84,535	-	84,535
Site Improvements, net of accumulated depreciation	370,505	-	370,505
Building and building improvements, net of accumulated depreciation	9,359,584	-	9,359,584
Furniture and equipment, net of accumulated depreciation	956,855	19,402	976,257
Total Noncurrent Assets	<u>10,771,479</u>	<u>19,402</u>	<u>10,790,881</u>
TOTAL ASSETS	<u>18,460,113</u>	<u>84,875</u>	<u>18,544,988</u>
Deferred Outflow of Resources--			
Deferred amount of refunding of debt	203,986	-	203,986
Deferred amount of pensions	1,357,923	-	1,357,923
Total Deferred Outflow of Resources	<u>1,561,909</u>	<u>-</u>	<u>1,561,909</u>
TOTAL ASSETS and DEFERRED OUTFLOWS	<u>20,022,022</u>	<u>84,875</u>	<u>20,106,897</u>
LIABILITIES			
Current Liabilities --			
Accounts payable	115,372	5,221	120,593
Current portion of long-term liabilities	707,702	-	707,702
Current portion of capital lease	112,268	-	112,268
Accrued salaries and benefits	432,736	-	432,736
Payroll deductions and withholdings	354,212	-	354,212
Unearned revenues	-	3,881	3,881
Other current liabilities	110,846	2,861	113,707
Total Current Liabilities	<u>1,833,136</u>	<u>11,963</u>	<u>1,845,099</u>
Noncurrent Liabilities --			
Bonds and notes payable	10,746,000	-	10,746,000
Capital lease	147,053	-	147,053
Long-term portion of compensated absences	43,645	-	43,645
Net pension liability	17,772,000	-	17,772,000
Other postemployment benefits (OPEB)	216,288	-	216,288
Total Noncurrent Liabilities	<u>28,924,986</u>	<u>-</u>	<u>28,924,986</u>
TOTAL LIABILITIES	<u>30,758,122</u>	<u>11,963</u>	<u>30,770,085</u>
Deferred Inflow of Resources--			
Deferred amount of pensions	1,271,000	-	1,271,000
NET POSITION			
Invested in capital assets	(100,628)	19,402	(81,226)
Restricted for capital improvements	330,154	-	330,154
Restricted for debt service	3,342	-	3,342
Unrestricted	(12,239,968)	53,510	(12,186,458)
TOTAL NET POSITION	<u>(12,007,100)</u>	<u>72,912</u>	<u>(11,934,188)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>20,022,022</u>	<u>84,875</u>	<u>20,106,897</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, 2015

<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	8,401,817	-	202,482	2,411,448	-	(5,787,887)	-	(5,787,887)
Instructional Student Support	1,168,881	-	-	122,099	-	(1,046,782)	-	(1,046,782)
Administrative and Financial Support Services	1,270,140	-	-	95,866	-	(1,174,274)	-	(1,174,274)
Operation and Maintenance of Plant Services	1,305,079	-	-	56,147	-	(1,248,932)	-	(1,248,932)
Pupil Transportation	476,508	-	-	245,072	-	(231,436)	-	(231,436)
Student Activities	391,508	-	32,142	20,155	-	(339,211)	-	(339,211)
Community Services	14,848	-	772	528	-	(13,548)	-	(13,548)
Interest on Long-Term Debt	357,570	-	-	-	218,407	(139,163)	-	(139,163)
Unallocated Depreciation Expense	677,745	-	-	-	-	(677,745)	-	(677,745)
Total Governmental Activities	14,064,096	-	235,396	2,951,315	218,407	(10,658,978)	-	(10,658,978)
Business-Type Activities:								
Food Services	442,393	-	219,270	242,134	-	-	19,011	19,011
Total Primary Government	14,506,489	-	454,666	3,193,449	218,407	(10,658,978)	19,011	(10,639,967)
General Revenues:								
Property Taxes, Levied for General Purposes, Net						3,422,130	-	3,422,130
Earned income, occupation and amusement taxes						1,576,003	-	1,576,003
Grants, Subsidies, and Contributions Not Restricted						5,412,682	-	5,412,682
Investment Earnings						41,450	24	41,474
Miscellaneous Income						18,747	-	18,747
Total General Revenues						10,471,012	24	10,471,036
Change in Net Position						(187,966)	19,035	(168,931)
Net Position - July 1, 2014						5,503,866	53,877	5,557,743
Prior Period Adjustment						(17,323,000)	-	-
Net Position - June 30, 2015						(12,007,100)	72,912	5,388,812

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

MONTGOMERY AREA SCHOOL DISTRICT

Balance Sheet - Governmental Funds
June 30, 2015

	Major Governmental Funds			Total Governmental Funds
	General Fund	Capital Reserve Fund	Debt Service Fund	
ASSETS				
Cash and cash equivalents	5,768,471	330,154	3,342	6,101,967
Taxes receivable, net	209,095	-	-	209,095
Due from other funds	-	-	-	-
Due from other governments	430,661	-	-	430,661
State revenue receivable	281,754	-	-	281,754
Federal revenue receivable	35,217	-	-	35,217
Other current assets	-	-	-	-
TOTAL ASSETS	6,725,198	330,154	3,342	7,058,694
Deferred Outflow of Resources--	-	-	-	-
TOTAL ASSETS and DEFERRED OUTFLOWS	6,725,198	330,154	3,342	7,058,694
LIABILITIES				
Accounts payable	115,372	-	-	115,372
Current portion of long-term debt	9,702	-	-	9,702
Accrued salaries and benefits	432,736	-	-	432,736
Payroll deductions and withholdings	354,212	-	-	354,212
Due to other funds	14,183	-	-	14,183
Other current liabilities	116	-	-	116
TOTAL LIABILITIES	926,321	-	-	926,321
Deferred Inflow of Resources--	-	-	-	-
Unavailable revenue-property taxes	209,095	-	-	209,095
Fund Balances				
Nonspendable fund balance	-	-	-	-
Restricted fund balance	-	330,154	3,342	333,496
Committed	-	-	-	-
Assigned fund balance	2,800,000	-	-	2,800,000
Unassigned fund balance	2,789,782	-	-	2,789,782
TOTAL FUND BALANCES	5,589,782	330,154	3,342	5,923,278
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES	6,725,198	330,154	3,342	7,058,694

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, 2015

Total Fund Balances - Governmental Funds		5,923,278
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 \$21,201,827 and the accumulated depreciation is \$10,430,348.		10,771,479
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.		612,672
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	11,444,000	
Accrued interest on bonds and notes	96,547	
Capital leases	259,321	
Compensated absences	43,645	
Net pension liability	17,772,000	
OPEB liability	<u>216,288</u>	(29,831,801)
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.	203,986	
Deferred outflows related to pensions	132,000	
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position	<u>1,225,923</u>	1,561,909
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		(1,271,000)
Other receivables will be collected but are not available soon enough to pay for current period expenditures and therefore not recorded in the funds.		190,760
Bond insurance issuance costs reported as expenditures in the fund statements are recorded as prepaid in the government-wide financial statements.		<u>35,603</u>
Total Net Position - Governmental Activities		<u><u>(12,007,100)</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, 2015

	Major Governmental Funds			Total Governmental Funds
	General Fund	Capital Reserve Fund	Debt Service Funds	
<u>REVENUES</u>				
Local sources	5,465,986	547	-	5,466,533
State sources	7,976,638	-	-	7,976,638
Federal sources	405,339	-	-	405,339
TOTAL REVENUES	13,847,963	547	-	13,848,510
<u>EXPENDITURES</u>				
Current --				
Instruction	8,467,653	-	-	8,467,653
Support services	4,053,816	13,833	47,927	4,115,576
Noninstructional services	400,359	-	-	400,359
Facilities acquisition, construction and improvement	-	215,690	-	215,690
Debt service	117,196	-	1,040,687	1,157,883
Refund of prior year receipts	37,444	-	-	37,444
TOTAL EXPENDITURES	13,076,468	229,523	1,088,614	14,394,605
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	771,495	(228,976)	(1,088,614)	(546,095)
<u>OTHER FINANCING SOURCES (USES)</u>				
Proceeds from extended term financing	2,471,000	-	-	2,471,000
Other financing source - capital lease	294,158	-	-	294,158
Debt service- refunded bond issues	-	-	(2,419,730)	(2,419,730)
Interfund transfers from other funds	-	400,000	3,510,210	3,910,210
Interfund transfers - out	(3,910,541)	-	-	(3,910,541)
TOTAL OTHER FINANCING SOURCES (USES)	(1,145,383)	400,000	1,090,480	345,097
NET CHANGE IN FUND BALANCE	(373,888)	171,024	1,866	(200,998)
FUND BALANCE - JULY 1, 2014	5,963,670	159,130	1,476	6,124,276
FUND BALANCE - June 30, 2015	5,589,782	330,154	3,342	5,923,278

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, 2015

Total net change in fund balance - governmental funds (200,998)

**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	609,576	
Depreciation	<u>(677,745)</u>	(68,169)

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 13-14 and 14-15 is shown. 27,620

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	115,660	
Repayment of long-term debt	3,110,000	
Proceeds from extended term financing	(2,471,000)	
Other financing source - capital lease	<u>(294,158)</u>	460,502

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. 16,978

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	1,225,923	
Cost of benefits earned net of employee contributions	<u>(1,588,000)</u>	(362,077)

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		(15,208)
---	--	----------

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. (12,809)

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. (11,210)

Change in Net Position - Governmental Activities (187,966)

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

MONTGOMERY AREA SCHOOL DISTRICT

Statement of Net Position - Proprietary Fund
June 30, 2015

	<u>Food Service</u>
ASSETS	
Current Assets --	
Cash and cash equivalents	43,956
Due from other funds	12,688
Due from other governments	4,948
Inventories	3,881
Total Current Assets	<u>65,473</u>
Noncurrent Assets --	
Furniture and equipment, net of accumulated depreciation	19,402
TOTAL ASSETS	<u>84,875</u>
Deferred Outflow of Resources --	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u><u>84,875</u></u>
LIABILITIES	
Current Liabilities --	
Accounts payable	5,221
Unearned revenue	3,881
Due to other funds	49
Other current liabilities	2,812
Total Current Liabilities	<u>11,963</u>
Noncurrent Liabilities	<u>-</u>
TOTAL LIABILITIES	<u>11,963</u>
Deferred Inflow of Resources --	<u>-</u>
NET POSITION	
Investment in capital assets	19,402
Unrestricted	53,510
TOTAL NET POSITION	<u>72,912</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u><u>84,875</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, 2015

	<u>Service</u>
OPERATING REVENUES --	
Food service revenue	219,270
Total operating revenues	<u>219,270</u>
OPERATING EXPENSES --	
Salaries	90,679
Employee benefits	69,895
Purchased property service	112
Other purchased service	253,409
Supplies	24,116
Dues and fees	80
Depreciation	4,102
Total operating expenses	<u>442,393</u>
OPERATING INCOME/(LOSS)	<u>(223,123)</u>
NON-OPERATING REVENUES (EXPENSES) --	
Earnings on investments	24
State sources	27,013
Federal sources	214,790
Total Non-operating Revenues (Expenses)	<u>241,827</u>
INCOME/(LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	18,704
CONTRIBUTIONS AND TRANSFERS --	
Interfund transfer in from general fund	<u>331</u>
CHANGE IN NET POSITION	19,035
TOTAL NET POSITION - JULY 1, 2014	<u>53,877</u>
TOTAL NET POSITION - JUNE 30, 2015	<u><u>72,912</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, 2015

	<u>Food Service</u>
Cash Flows from Operating Activities --	
Cash received from users	218,833
Cash payments to employees for services	(239,374)
Cash payments to suppliers for goods and services	(281,533)
Net cash provided by (used for) operating activities	<u>(302,074)</u>
Cash Flows from Non-Capital Financing Activities --	
State sources	26,956
Federal sources	214,053
Operating transfers in (out)	331
Net cash provided by (used for) non-capital financing activities	<u>241,340</u>
Cash Flows from Capital and Related Financing Activities --	
Facilities acquisition, construction and improvement	-
Net cash provided by (used for) capital and related financing activities	<u>-</u>
Cash Flows from Investing Activities --	
Earnings on investments	24
Net cash provided by (used for) investing activities	<u>24</u>
Net increase (decrease) in cash and cash equivalents	(60,710)
Cash and cash equivalents - beginning of year	<u>104,666</u>
Cash and cash equivalents - end of year	<u><u>43,956</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities --	
Operating income (loss)	<u>(223,123)</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities --	
Depreciation	4,102
(Increase) decrease in accounts receivable	(2,186)
(Increase) decrease in inventories	(2,755)
Increase (decrease) in accounts payable	(1,063)
Increase (decrease) in other current liabilities	(78,798)
Increase (decrease) in unearned revenue	1,749
Total adjustments	<u>(78,951)</u>
Net cash provided by (used for) operating activities	<u><u>(302,074)</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, 2015

	Private Purpose Trust Fund	Activity Fund	Total Fiduciary
ASSETS			
Cash and cash equivalents	59,871	40,836	100,707
Other receivables	1,543	-	1,543
Total Assets	<u>61,414</u>	<u>40,836</u>	<u>102,250</u>
Deferred Outflow of Resources --	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>61,414</u>	<u>40,836</u>	<u>102,250</u>
LIABILITIES			
Due to other funds	-	-	-
Accounts payable	-	40,836	40,836
Total Liabilities	<u>-</u>	<u>40,836</u>	<u>40,836</u>
Deferred Inflow of Resources --	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Restricted for legal purposes	4,423	-	4,423
Unrestricted	56,991	-	56,991
TOTAL NET POSITION	<u>61,414</u>	<u>-</u>	<u>61,414</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>61,414</u>	<u>40,836</u>	<u>102,250</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, 2015

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Gifts and contributions	31,030
Other additions	11
Total Additions	<u>31,041</u>
DEDUCTIONS	
Scholarships awarded	<u>32,612</u>
CHANGE IN NET POSITION	(1,571)
NET POSITION - JULY 1, 2014	<u>62,985</u>
NET POSITION - June 30, 2015	<u><u>61,414</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 –

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 School'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, 2015 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

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position.

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

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, 2015 the carrying amount of the District's deposits was \$5,544,028 and the bank balances were \$5,606,464. Of the bank balances, \$328,793 was covered by federal depository insurance. The remaining bank balances of \$5,277,671 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	5,277,671
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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 –

Bank value of deposits with financial institutions	5,606,464
Plus, deposits in transit	6,850
Less, outstanding checks	<u>(69,286)</u>
Book balance of deposits	5,544,028
Investments in PLGIT	702,562
Petty cash	<u>40</u>
Total Cash and Cash Equivalents	<u><u>6,246,630</u></u>
Governmental Funds	6,101,967
Business-Type Funds	43,956
Fiduciary Funds	<u>100,707</u>
	<u><u>6,246,630</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:

	Beginning Balance	Additions	Reductions	Ending Balance
<i>Governmental Activities -</i>				
Deferred amount of refunding	226,581	-	22,595	203,986
Deferred pensions	132,000	1,225,923		1,357,923
	<u>358,581</u>	<u>1,225,923</u>	<u>22,595</u>	<u>1,561,909</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	209,095	-	209,095

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, 2015 was 12.85 mills (\$12.85 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	-		1,271,000
	<u>1,271,000</u>	<u>-</u>	<u>-</u>	<u>1,271,000</u>

NOTE 4 DUE FROM OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the District. At June 30, 2015, the following amounts are due from other governmental units –

	<u>General Fund</u>
Federal (through the state)	35,217
State	281,754
Local	<u>621,421</u>
Total	<u>938,392</u>

NOTE 5 CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows –

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated -				
Land	84,535	-	-	84,535
Construction in Progress	-	-	-	-
Total Assets, Not Being Depreciated	<u>84,535</u>	<u>-</u>	<u>-</u>	<u>84,535</u>
Capital Assets, Being Depreciated -				
Site Improvements	1,199,969	-	-	1,199,969
Building and Building Improvements	15,194,856	192,931	-	15,387,787
Furniture and Equipment	4,112,981	416,645	-	4,529,626
Total Assets Being Depreciated	<u>20,507,806</u>	<u>609,576</u>	<u>-</u>	<u>21,117,382</u>
Less Accumulated Depreciation for -				
Site Improvements	767,691	61,773	-	829,464
Building and Building Improvements	5,637,462	390,741	-	6,028,203
Furniture and Equipment	3,347,540	225,231	-	3,572,771
Total Accumulated Depreciation	<u>9,752,693</u>	<u>677,745</u>	<u>-</u>	<u>10,430,438</u>
 Total Capital Assets, Being Depreciated, Net	<u>10,755,113</u>	<u>(68,169)</u>	<u>-</u>	<u>10,686,944</u>
 Governmental Activities, Capital Assets, Net	<u>10,839,648</u>	<u>(68,169)</u>	<u>-</u>	<u>10,771,479</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital Assets Being Depreciated -				
Equipment	205,653	-	-	205,653
Less Accumulated Depreciation for -				
Equipment	182,149	4,102	-	186,251
 Total Capital Assets Being Depreciated, Net	<u>23,504</u>	<u>(4,102)</u>	<u>-</u>	<u>19,402</u>

Depreciation Expense was reported as follows -

Governmental Activities				
Unallocated activities				<u>677,745</u>
 Total Depreciation Expense - Government Activities				<u>677,745</u>
Business-Type Activities				
Food Service Fund				<u>4,102</u>
 Total Depreciation Expense - Business-Type Activities				<u>4,102</u>

NOTE 6 GENERAL LONG-TERM DEBT

The following summarizes activity in the general long-term debt for the year ended June 30, 2015 –

	<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	12,083,000	2,471,000	3,110,000	11,444,000	698,000
Deferred Amount of Refunding	(226,581)	-	22,595	(203,986)	-
	<u>11,856,419</u>	<u>2,471,000</u>	<u>3,087,405</u>	<u>11,240,014</u>	<u>698,000</u>
Other Liabilities -					
Compensated Absences	40,538	13,788	979	53,347	9,702
Capital Lease	80,823	294,158	115,660	259,321	112,268
	<u>11,977,780</u>	<u>2,778,946</u>	<u>3,204,044</u>	<u>11,552,682</u>	<u>819,970</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 –

Year Ended June 30	<u>General Obligation Notes</u>		Total Requirements
	<u>Principal</u>	<u>Interest</u>	
2016	576,000	17,082	593,082
2017	583,000	10,302	593,302
2018	589,000	3,446	592,446
	<u>1,748,000</u>	<u>30,830</u>	<u>1,778,830</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%. This refunding of debt resulted in a \$109,152 decrease of total debt service payments over the next six years and also resulted in an economic gain of \$107,142. 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 of 2015 are as follows –

Year Ended June 30	<u>General Obligation Notes</u>		Total Requirements
	<u>Principal</u>	<u>Interest</u>	
2016	2,000	35,607	37,607
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>2,471,000</u>	<u>170,195</u>	<u>2,641,195</u>

NOTE 6 GENERAL LONG-TERM DEBT (Continued)

Series A of 2010 General Obligation Bonds

On September 15, 2010, the District issued \$7,340,000 of General Obligation Bonds, Series A of 2010, with an average interest rate of 3.44% to currently refund \$7,170,000 of outstanding 2006 Series bonds with an average interest rate of 3.95%.

Debt service requirements of the General Obligation Bonds, Series A of 2010, are as follows –

Year Ended June 30	General Obligation Bonds		Total Requirements
	Principal	Interest	
2016	120,000	244,944	364,944
2017	125,000	241,344	366,344
2018	130,000	237,594	367,594
2019	140,000	233,694	373,694
2020	145,000	229,494	374,494
2021-2027	6,565,000	1,055,220	7,620,220
	<u>7,225,000</u>	<u>2,242,290</u>	<u>9,467,290</u>

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>53,410</u>
Net value	<u><u>363,138</u></u>

As of June 30, 2015, capital lease annual amortization are as follows –

Year Ended June 30:	
2016	117,196
2017	75,629
2018	<u>75,629</u>
Total requirements	268,454
Less interest	<u>9,133</u>
Present value of remaining payment	<u><u>259,321</u></u>

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

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation, sick leave 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.

NOTE 6 GENERAL LONG-TERM DEBT (Continued)

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, 2015, the liability for compensated absences, which consists entirely of vacation payable, was \$53,347. The amount of \$43,645 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, 2015 was \$106,080 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.

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.

NOTE 8 PENSIONS (Continued)

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, 2015 was 20.5% 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 \$1,225,923 for the year ended June 30, 2015.

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

At June 30, 2015, the District reported a liability of \$17,772,000 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2014, 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, 2013 to June 30, 2014. 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 2014, the District's proportion was .0449 percent, which was an increase of .0004 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$1,279,312. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE 8 PENSIONS (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ -	\$ 1,271,000
Changes in proportions	132,000	-
Contributions subsequent to the measurement date	1,225,923	-
	\$ 1,357,923	\$ 1,271,000

\$1,225,923 reported as deferred outflows of resources related to pensions resulting from District contribution subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2016	(286,000)
2017	(286,000)
2018	(286,000)
2019	(286,000)
2020	5,000
Thereafter	-
	(1,139,000)

Actuarial assumptions

The total pension liability as of June 30, 2014 was determined by rolling forward the System’s total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2014 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, 2013 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	19%	5.0%
Private markets (equity)	21%	6.5%
Private real estate	13%	4.7%
Global fixed income	8%	2.0%
U.S. long treasuries	3%	1.4%
TIPS	12%	1.2%
High yield bonds	6%	1.7%
Cash	3%	0.9%
Absolute return	10%	4.8%
Risk parity	5%	3.9%
MLPs/Infrastructure	3%	5.3%
Commodities	6%	3.3%
Financing (LIBOR)	<u>-9%</u>	1.1%
	<u>100%</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, 2014.

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>\$22,168,000</u>	<u>\$17,772,000</u>	<u>\$14,019,000</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 at rates lower than the COBRA rates as follows:

<u>Retired before July 1, 2005</u>	Annually
The member must contribute the amount of the PSERS Premium Assitance.	1,200
<u>Retired after June 30, 2005, and prior to July 1, 2008</u>	
The member must contribute the amount of the PSERS Premium Assitance.	1,200
The spouse may elect coverage by paying additional premium	
Traditional	10,568
PPO	10,200
The member must also contribute 50% of the active premium share of \$75	900
<u>Retired after June 30, 2008</u>	
The member must contribute the applicable premium less district contribution of \$350	
Traditional	3,746
PPO	3,469
The spouse may elect coverage by paying additional premium	
Traditional	10,568
PPO	10,200
The district will contribute a maximum of \$350 per month towards coverage	

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, 2015 the District paid \$ 133,386 for retiree's health benefits. The retiree's paid \$92,374. The retiree contribution represents an average annual contribution of \$ 4,199 per retiree.

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

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	171,795
Interest on OPEB Obligation	9,229
Adjustment to ARC	<u>(13,540)</u>
Annual OPEB Expense	167,484
Contributions Made (Estimated)	<u>(156,274)</u>
Increase in net OPEB Obligation	11,210
Net OPEB Obligation - beginning of year	<u>205,078</u>
Net OPEB Obligation - end of year	<u><u>216,288</u></u>

The District's annual OPEB expense, the percent of OPEB expense contributed to the Plan, and the net OPEB obligation for 2015 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/15	\$ 167,484	58.5%	\$ 216,288

Funding Status and Funding Progress The funded status of the plan as of July 1, 2012, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 1,650,399
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$ 1,650,399
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$ 5,401,093
UAAL as a percentage of covered payroll	30.56%

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, 2012 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 7.5% in 2012, decreasing by .5% per year to 5.5% in 2016. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later. 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, 2012 is 26 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, 2015 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, 2015, 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, 2015, 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, 2015, 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 43% of the District's assessment.

NOTE 12 CHANGE IN ACCOUNTING PRINCIPLE/RESTATEMENT

The District implemented Governmental Accounting Standards Board (GASB) statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No.27)*, in the fiscal year ending June 30, 2015. The implementation of the statement required the District to record beginning net pension liability and the effects on net position of contributions made by the District during the measurement period (fiscal year ending June 30, 2014). As a result, net position for the governmental activities decreased by \$17,323,000.

MONTGOMERY AREA SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - General Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local revenues	5,324,668	5,324,668	5,465,986	141,318
State program revenues	7,921,528	7,921,528	7,976,638	55,110
Federal program revenues	385,498	385,498	405,339	19,841
TOTAL REVENUES	<u>13,631,694</u>	<u>13,631,694</u>	<u>13,847,963</u>	<u>216,269</u>
EXPENDITURES				
Current --				
Regular programs	5,647,867	5,647,867	5,637,773	(10,094)
Special programs	1,579,987	1,579,987	1,440,288	(139,699)
Vocational programs	564,289	564,289	546,351	(17,938)
Other instructional programs	303,575	303,575	378,095	74,520
Pre-Kindergarten	460,108	460,108	465,144	5,036
Pupil personnel services	493,993	493,993	469,902	(24,091)
Instructional staff services	489,586	489,586	576,985	87,399
Administrative services	793,628	793,628	843,703	50,075
Pupil health	91,564	91,564	98,666	7,102
Business services	278,941	278,941	283,080	4,139
Operation and maintenance of plant services	1,286,349	1,286,349	1,281,735	(4,614)
Student transportation services	465,038	465,038	475,704	10,666
Central and other support services	-	-	24,042	24,042
Other support services	-	-	-	-
Student activities	414,217	414,217	385,512	(28,705)
Community services	17,366	17,366	14,849	(2,517)
Debt service	1,044,186	1,044,186	154,639	(889,547)
Refund of prior year receipts	-	-	-	-
TOTAL EXPENDITURES	<u>13,930,694</u>	<u>13,930,694</u>	<u>13,076,468</u>	<u>(854,226)</u>
EXCESS/(DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(299,000)</u>	<u>(299,000)</u>	<u>771,495</u>	<u>1,070,495</u>
OTHER FINANCING SOURCES/(USES)				
Proceeds extended term financing	-	-	2,471,000	2,471,000
Other financing sources-capital lease	-	-	294,158	294,158
Interfund transfers	-	-	-	-
Transfers out	-	-	(3,910,541)	(3,910,541)
Budgetary reserve	-	-	-	-
Total other financing sources/(uses)	<u>-</u>	<u>-</u>	<u>(1,145,383)</u>	<u>(1,145,383)</u>
NET CHANGE IN FUND BALANCES	<u>(299,000)</u>	<u>(299,000)</u>	<u>(373,888)</u>	<u>(74,888)</u>
FUND BALANCE - JULY 1, 2014	<u>5,227,438</u>	<u>5,227,438</u>	<u>5,963,670</u>	<u>736,232</u>
FUND BALANCE - JUNE 30, 2015	<u><u>4,928,438</u></u>	<u><u>4,928,438</u></u>	<u><u>5,589,782</u></u>	<u><u>661,344</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, 2015

<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>
7/1/2012	-	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>2014*</u>	<u>2013</u>
District's proportion of the net pension liability	0.0449%	0.0445%
District's proportionate share of the net pension liability	\$17,772,000	\$18,217,000
District's covered employee payroll	\$5,725,154	\$5,707,759
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	310.42%	319.16%
Plan fiduciary net position as a percentage of the total pension liability	57.2%	54.5%

* The most recent actuarial valuation available for inclusion in the June 30, 2015 financial statements is as of June 30, 2014.

See accompanying notes to the required supplementary information

MONTGOMERY AREA SCHOOL DISTRICT

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

	<u>2015</u>	<u>2014</u>
Employer Contributions	\$1,225,923	\$894,000
District's covered employee payroll	\$6,240,548	\$5,725,154
Contributions as a percentage of covered-employee payroll	20%	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, 2015, the District has had only two 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, 2014 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.

Montgomery Area School District

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Federal Grantor/ Pass-through Grantor/ Project Title	Federal CFDA Number	Pass- through Grantor Number	Grant Period Beginning/ Ending Dates	Program or Award Amount	Total Received for Year	Accrued or (Deferred) Revenue at July 1	Revenue Recognized	Expendi- tures	Adjust- ments	Accrued or (Deferred) Revenue at June 30
Pass-through PA Department of Education -										
Title I - Improving Basic Programs	84.010	013-140-262	7/1/13-9/30/14	325,608	107,931	30,157	77,774	77,774	-	-
Title I - Improving Basic Programs	84.010	013-150-262	7/1/14-9/30/15	309,664	249,532	-	268,973	268,973	-	19,441
Total Program Expenditures								346,747		
Title II - Improving Teacher Quality	84.367	020-140-262	7/1/13-9/30/14	58,650	3,897	3,897	-	-	-	-
Title II - Improving Teacher Quality	84.367	020-150-262	7/1/14-9/30/15	58,592	58,592	-	58,592	58,592	-	-
Total Program Expenditures								58,592		
Pass-through BLaST Intermediate Unit #17 -										
IDEA Component III	84.027	N/A	7/1/13-9/30/14	89,447	9,447	9,447	-	-	-	-
IDEA Component III	84.027	N/A	7/1/14-9/30/15	100,599	85,000	-	100,599	100,599	-	15,599
Total Program Expenditures								100,599		
IDEA 619	84.173	131-13-0017	7/1/14-6/30/15	1,538	1,538	-	1,538	1,538	-	-
Total Program Expenditures								1,538		
Total U.S. Department of Education					<u>515,937</u>	<u>43,501</u>	<u>507,476</u>	<u>507,476</u>	<u>-</u>	<u>35,040</u>
U.S. Department of Agriculture										
Pass-through PA Department of Education -										
National School Lunch Program	10.555	N/A	7/1/14-6/30/15	N/A	163,280	3,428	163,917	163,917	-	4,065
Total Program Expenditures								163,917		
National School Breakfast Program	10.553	N/A	7/1/14-6/30/15	N/A	28,007	443	28,107	28,107	-	543
Total Program Expenditures								28,107		
Pass-through PA Department of Agriculture										
Value of USDA Donated Commodities	10.555	N/A	7/1/14-6/30/15	N/A	25,521	(1,126)	22,766	22,766	-	(3,881)
Total Program Expenditures								22,766		
Total U.S. Department of Agriculture					<u>216,808</u>	<u>2,745</u>	<u>214,790</u>	<u>214,790</u>	<u>-</u>	<u>727</u>
TOTAL FEDERAL FUNDS					<u>732,745</u>	<u>46,246</u>	<u>722,266</u>	<u>722,266</u>	<u>-</u>	<u>35,767</u>

Programs selected for testing --
Title I - Part A

346,747

Total

346,747

Divided by federal expenditures

722,266

48%

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Basis of Accounting-Recognition of Expenditures

The schedule of expenditures of federal awards is prepared on the accrual basis of accounting. Federal expenditures are generally recognized when liabilities are incurred. Expenditures of donated commodities are recognized when the commodities are consumed.

B. Value of Federal Donated Commodities

The value of donated commodities was derived from reporting provided by the Pennsylvania Department of Agriculture.

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, 2015, 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 3, 2015.

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 3, 2015

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Directors

MONTGOMERY AREA SCHOOL DISTRICT
MONTGOMERY, PA

Report on Compliance for Each Major Federal Program

We have audited MONTGOMERY AREA SCHOOL DISTRICT's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of MONTGOMERY AREA SCHOOL DISTRICT's major federal programs for the year ended June 30, 2015. MONTGOMERY AREA SCHOOL DISTRICT's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of MONTGOMERY AREA SCHOOL DISTRICT's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MONTGOMERY AREA SCHOOL DISTRICT's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, MONTGOMERY AREA SCHOOL DISTRICT, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of MONTGOMERY AREA SCHOOL DISTRICT, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered MONTGOMERY AREA SCHOOL DISTRICT's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MONTGOMERY AREA SCHOOL DISTRICT's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Daniel Rogers, CPA, PC

Montoursville, PA
November 3, 2015

MONTGOMERY AREA SCHOOL DISTRICT

Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2015

FINDINGS – None

MONTGOMERY AREA SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

A. SUMMARY OF AUDIT RESULTS

- 1) The auditor's report expresses an unqualified opinion on the financial statements of the MONTGOMERY AREA SCHOOL DISTRICT.
- 2) No deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- 3) No instances of noncompliance material to the financial statements of MONTGOMERY AREA SCHOOL DISTRICT were disclosed during the audit.
- 4) No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133.
- 5) The auditor's report on compliance for the major federal award programs for MONTGOMERY AREA SCHOOL DISTRICT expresses an unqualified opinion.
- 6) No findings relative to the major federal award program for MONTGOMERY AREA SCHOOL DISTRICT are reported.
- 7) The programs tested as major programs are Title I (CFDA #84.010)
- 8) The threshold for distinguishing types A and B programs was \$300,000.
- 9) MONTGOMERY AREA SCHOOL DISTRICT was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None