MONTOURSVILLE AREA SCHOOL DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

Larson, Kellett & Associates, P.C.
Certified Public Accountants and Consultants

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Larson, Kellett & Associates, P.C.
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INDEPENDENT AUDITORS' REPORT

Board of School Directors
Montoursville Area School District
Montoursville, Pennsylvania:

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 Montoursville Area School District (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.

Auditors' 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 auditors' 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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the 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 2 to the financial statements, in 2015, the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB* Statement No. 27*,* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinions are not modified with respect to these matters.

Correction of Error

As described in Note 2 to the financial statements, the District corrected an error in previously reported accumulated compensated absences. Our opinions are not modified with respect to that 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 page 5, budgetary comparison schedule on page 41, schedule of funding progress - other postemployment benefits on page 42, schedule of the District's proportionate share of the net pension liability on page 43, and schedule of District contributions on page 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2015, on our consideration of the 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 the District's internal control over financial reporting and compliance.

Larson, Kellett & Associates, P.C.

Montoursville, Pennsylvania
November 5, 2015

The discussion and analysis of Montoursville Area School District's (District) financial performance provides an overall review of the District's financial activities for the fiscal years ended June 30, 2015 and 2014. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

At year end, the District's total net position decreased by approximately $35,751,000 from the previous year end due to the implementation of GASB Statements No. 68 and No. 71 for the current year while the prior year has not been restated to reflect these changes. The Program revenues (revenues derived directly from a program itself or from parties outside the District's taxpayers or citizenry, which as a whole reduce the net costs to be financed from the District's general revenues) accounted for approximately $5.7 million or 20.8% of total revenues, and general revenues (revenues that are not matched to specific program expenses) accounted for approximately $21.7 million or 79.2% of total revenues.

The general fund reported a fund balance of approximately $3.7 million or 12.9% of the 2014-2015 $28.6 million operating budget. This represents a decrease of approximately $700,000 from the prior year fund balance.

There are several parts to the District's financial statements. Below, Figure A-1 visually represents how the required parts of the Financial Section are arranged and relate to one another.

Figure A-1
Required components of
Montoursville Area School District's
Financial Report

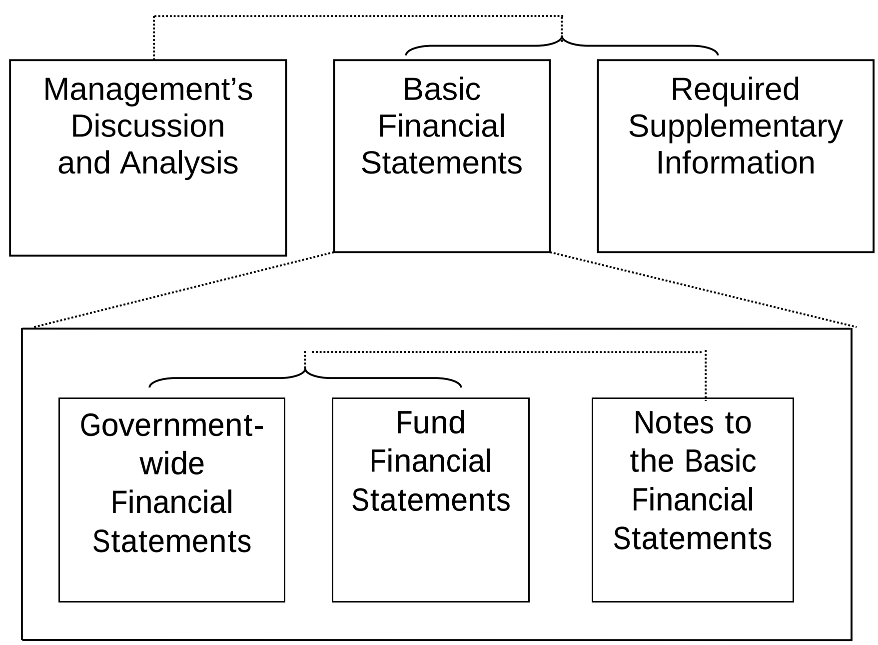

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the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

Figure A-2

Major Features of Montoursville Area School District's
Government-wide and Fund Financial Statements

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

OVERVIEW OF FINANCIAL STATEMENTS

Government-wide Statements

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

The two government-wide statements report the District's net position and how it has changed. Net position, the difference between the District's assets and liabilities, is one way to measure the District's financial health or position.

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

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

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

Governmental activities - All of the District's basic services are included here, such as instruction, administration and community services. Property taxes, state and federal subsidies, and grants finance most of these activities.

Business-type activities - The District operates a food service operation and charges fees to students, staff, and visitors to help cover the costs of the food service operation.

Fund Financial Statements

The District's fund financial statements, which begin on page 8, provide detailed information about the most significant funds - not the District as a whole. Some funds are required by state law and by bond requirements.

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

Proprietary funds - These funds are used to account for the District's activities that are similar to business operations in the private sector, or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the District charges customers for services it provides - whether to outside customers or to other units in the District - these services are generally reported in proprietary funds. The Food Service Fund is the District's sole proprietary fund and is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows.

Fiduciary funds - The District is the trustee, or fiduciary, for some scholarship funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position on page 15. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations.

GOVERNMENT-WIDE FINANCIAL STATEMENT ANALYSIS

The total net position of the governmental and business-type activities is summarized in Table A-1. Over time net position may serve as a useful indicator of a government's financial position.

The largest portion of the District's total assets (82%) reflects its investment in capital assets. The District uses capital assets to provide services; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A comparative analysis of fiscal year 2014 to 2015 follows:

Table A-1
Comparative Analysis June 30, 2014 - June 30, 2015
Government Wide Financial Analysis - Net Position

	Governmental Activities		Business-Type Activities		Totals	
(Amounts expressed in thousands)	2014 Not restated	2015	2014 Not restated	2015	2014 Not restated	2015
Current Assets	$ 10,927	$ 8,701	$ 195	$ 200	$ 11,122	$ 8,901
Capital Assets, Net	$ 38,011	$ 39,576	$ 412	$ 371	$ 38,423	$ 39,947
Prepaid Bond Insurance	$ 58	$ 51			$ 58	$ 51
Total Assets	$ 48,996	$ 48,328	$ 607	$ 571	$ 49,603	$ 48,899
Deferred Outflows of Resources	$ 222	$ 3,558		$ 68	$ 222	$ 3,626
Current Liabilities	$ 4,285	$ 5,393	$ 36	$ 35	$ 4,321	$ 5,428
Noncurrent Liabilities	$ 18,067	$ 52,509	$ -	$ 781	$ 18,067	$ 53,290
Total Liabilities	$ 22,352	$ 57,902	$ 36	$ 816	$ 22,388	$ 58,718
Deferred Inflows of Resources	$ 0	$ 2,079	$ 0	$ 42	$ 0	$ 2,121
Net Position:						
Invested in Capital						
Assets, Net of Debt	$ 19,811	$ 22,658	$ 412	$ 371	$ 20,223	$ 23,029
Restricted for Capital Projects	$ 3,465	$ 1,239	$ -	$ -	$ 3,465	$ 1,239
Restricted for Debt Service	$ 4	$ 0	$ -	$ -	$ 4	$ 0
Unrestricted	$ 3,586	($ 31,992)	$ 159	($ 590)	$ 3,745	($ 32,582)
Total Net Position	$ 26,866	($ 8,095)	$ 571	($ 219)	$ 27,437	($ 8,314)

The District reports a decrease in its restricted and unrestricted net position. The District's investment in capital assets, net of debt, increased by approximately $2,806,000 (net), as a result of equipment purchases, facility improvements, and debt reduction during the fiscal year.

The District's total net position related to governmental activities decreased by approximately $34,961,000. Additionally, the District's total unrestricted net assets related to governmental and business-type activities reflect a deficit balance of approximately $32.58 million.

Table A-2 displays the government-wide changes in net position for both the Governmental and Business-Type Activities.

Table A-2
Fiscal Year End Comparison June 30, 2014 – June 30, 2015
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
(Amounts expressed in thousands)	2014 Not Restated	2015	2014 Not Restated	2015	2014 Not Restated	2015
Revenues						
Program Revenues						
Charges for Services	$ 148	$ 185	$ 426	$ 407	$ 574	$ 592
Operating Grants	$ 4,392	$ 4,725	$ 364	$ 387	$ 4,756	$ 5,112
Total Program Revenues	$ 4,540	$ 4,910	$ 790	$ 794	$ 5,330	$ 5,704
General Revenues						
Property Taxes	$ 10,283	$10,664	$ -	$ -	$ 10,283	$10,664
Other Taxes	$ 3,967	$ 3,824	$ -	$ -	$ 3,967	$ 3,824
Grants and Entitlements	$ 7,235	$ 7,217	$ -	$ -	$ 7,235	$ 7,217
Other	$ 42	$ 55	$	$	$ 42	$ 55
Total General Revenues	$ 21,527	$21,760	$	$	$ 21,527	$21,760
Total Revenues	$ 26,067	$26,670	$ 790	$ 794	$ 26,857	$27,464
Expenses						
Program Expenses						
Instruction	$ 15,461	$17,272	$ -	$ -	$ 15,461	$17,272
Support Services:						
Instructional Student Support	$ 2,421	$ 2,464	$ -	$ -	$ 2,421	$ 2,464
Administration	$ 2,100	$ 2,192	$ -	$ -	$ 2,100	$ 2,192
Maintenance	$ 2,921	$ 3,153	$ -	$ -	$ 2,921	$ 3,153
Pupil Transportation	$ 1,049	$ 1,086	$ -	$ -	$ 1,049	$ 1,086
Community Services	$ 1	$ 0	$ -	$ -	$ 1	$ 0
Student Activities	$ 612	$ 613	$ -	$ -	$ 612	$ 613
Interest and Fiscal Charges	$ 612	$ 531	$ -	$ -	$ 612	$ 531
Other Support Services	$ -	$ -	$ -	$ -	$ -	$ -
Food Service	$ -	$ -	$ 820	$ 849	$ 820	$ 849
Depreciation, unallocated	$ -	$ -	$ -	$ -	$ -	$ -
Total Expenses	$ 25,177	$27,311	$ 820	$ 849	$ 25,997	$28,160
Excess before transfers	$ 890	($ 641)	($ 30)	($ 55)	$ 860	($ 696)
Interfund Transfers	$ -	$ -	$ -	$ -	$ -	$ -
Loss on Disposal of Capital Assets	$ -	$ -	$ -	$ -	$ -	$ -
Change in Net Position	$ 890	($ 641)	($ 30)	($ 55)	$ 860	($ 696)

The District implemented GASB Statements No. 68 and No. 71 during fiscal year 2015. The provisions of GASB Statements No. 68 and No. 71 required the District to identify the methods and assumptions that should be used to project pension benefit payments, discount pension benefit payments to their actuarial present value, and attribute that present value to the period of employee service. The District also corrected an error in previously reported accumulated compensated absences during fiscal year 2015. Therefore, the District's governmental and business-type net position as of July 1, 2014 has been restated. Fiscal year 2014 amounts for governmental and business-type activities reported in management's discussion and analysis have not been restated to reflect these changes.

FUND FINANCIAL STATEMENT ANALYSIS

At June 30, 2015, a combined fund balance of $4,919,858 is reported on the District's governmental funds statement; overall, this is a decrease of $2,930,069 from the prior fiscal year.

Table A-3
Fiscal Year End Comparison June 30, 2014 – June 30, 2015
Changes in Governmental Funds Balances

	Fund Balance 2014	Fund Balance 2015	Increase (Decrease)
General Fund	$ 4,380,563	$ 3,680,450	($ 700,113)
Capital Projects Fund			
Bond Proceeds for Capital Improvements	$ 131,492	($ 2,149,360)	($ 2,280,852)
Reserved for Future Capital Improvements	$ 3,333,670	$ 3,388,768	$ 55,098
Debt Service Fund	$ 4,202	$ 0	($ 4,202)
Total Fund Balance	$ 7,849,927	$ 4,919,858	($ 2,930,069)

General Fund –

Compared to the prior fiscal year, the District's revenue and expenditures increased. However, expenditure growth exceeded revenue growth resulting in a decrease to the year-end general fund balance.

The increase of total revenue primarily resulted from increases in (local revenue) Earned Income Tax and real estate taxes; as well as (state revenue) reimbursement for contributions to the Public School Employees' Retirement System and the general instructional subsidy.

Table A-4
Fiscal Year End Comparison June 30, 2014 - June 30, 2015
General Fund Revenues and Expenditures

	2014 Amount	2015 Amount	Dollar Change	Percent Change
Revenues				
Local	$ 14,857,535	$ 15,039,338	$ 181,803	1.22 %
State	$ 10,976,759	$ 11,337,128	$ 360,369	3.28 %
Federal	$ 326,196	$ 308,173	($ 18,023)	(5.53)%
Total	$ 26,160,490	$ 26,684,639	$ 524,149	2.00 %

Table A-4 Fiscal Year End Comparison June 30, 2014 - June 30, 2015 General Fund Revenues and Expenditures				
	2014 Amount	2015 Amount	Dollar Change	Percent Change
Expenditures				
Instruction	$ 14,897,049	$ 16,082,131	$ 1,185,082	7.96 %
Support Services	$ 8,178,084	$ 8,198,765	$ 20,681	0.25 %
Noninstructional Services	$ 621,415	$ 660,027	$ 38,612	6.21 %
Debt Service	$ 45,314	$ 0	($ 45,314)	(100.00) %
Refund of Prior Year Exp.	$ 6,865	$ 1,529	($ 5,336)	(77.73)%
Fund Transfers Out	$ 2,550,165	$ 2,442,300	($ 107,865)	(4.23)%
Total	$ 26,298,892	$ 27,384,752	$ 1,085,860	4.13 %
Excess Revenues (Expenditures)	($ 138,402)	($ 700,113)	($ 561,711)	(405.85)%

Capital Projects Fund -

Capital projects funds account for resources that are limited to expenditures for capital outlays, such as the acquisition of capital facilities and capital assets.

Under the Capital Project Fund type, the District maintains two (2) sub-categories as noted below:

1) In June 2009, the District created a capital project fund to deposit the proceeds from the General Obligation Bonds, Series of 2009 and General Obligation Bonds, Series of 2010, which were for the renovations and alterations to the C. E. McCall Middle School. The fund will also will be used for debt proceeds related to the additions and renovations to Montoursville Area High School. The fund balance for this sub-category is represented on Table A-3, noted as “Bond Proceeds for Capital Improvements.”

The ($2,149,360) fund balance at June 30, 2015, represents capital outlays for the additions and renovations to Montoursville Area High School that will be reimbursed from the proceeds of future debt financing (General Obligation Bonds, Series A of 2015).

2) The District is actively preparing for unexpected as well as proposed capital projects each year. In order to finance these projects without the need for additional borrowing issues or significant burden to the taxpayers, the District makes regular budgeted transfers from the General Fund to a Capital Reserve Fund. The Capital Reserve Fund was created pursuant to Section 1432 of the Commonwealth of Pennsylvania Municipal Code. The fund balance for this sub-category is represented on Table A-3, noted as “Reserved for Future Capital Improvements.”

At the end of the fiscal year, $422,000 was transferred to this sub-category from unexpended general fund appropriations.

The total Capital Project Fund decrease of approximately $2,226,000 was primarily result of capital outlays for the additions and renovations to Montoursville Area High School, which will be reimbursed from the proceeds of future debt financing (General Obligation Bonds, Series A of 2015).

Debt Service Fund -

The Debt Service Fund accounts for resources accumulated to provide for the payment of general long-term debt principal and interest. Budgeted transfers from the General Fund are used to pay the Series of 2010 and Series of 2014 General Obligation Bonds through the Debt Service Fund.

Proprietary Fund -

At June 30, 2015, the District's sole business-type activity, the proprietary fund, reported total net position of ($219,358). The proprietary fund records the activities of the food service program, which operates on a break-even basis and receives limited support from tax revenues. Food service receives both federal and state subsidies for milk and meals. Food service also receives some government commodities on a routine basis. The majority of revenues come from the students and other users of services as displayed in Table A-5.

Table A-5
Fiscal Year End Comparison June 30, 2014 – June 30, 2015
Proprietary Fund Revenues and Expenditures

	2014 Amount Not Restated	2015 Amount	Dollar Change	Percent Change
Revenues				
Food Service Revenue	$ 419,331	$ 400,119	($ 19,212)	(4.58)%
Other Operating Revenues	$ 7,017	$ 6,892	($ 125)	(1.78)%
State Subsidies	$ 53,754	$ 59,910	$ 6,156	11.45 %
Federal Subsidies	$ 309,734	$ 326,686	$ 16,952	5.47 %
Total	$ 789,836	$ 793,607	$ 3,771	0.48 %
Expenditures				
Salaries	$ 252,821	$ 261,037	$ 8,216	3.25 %
Employee Benefits	$ 134,926	$ 175,472	$ 40,546	30.05 %
Technical Services	$ 2,750	$ 1,000	($ 1,750)	(63.64)%
Purchased Property Services	$ 6,679	$ 6,385	($ 294)	(4.40)%
Other Purchased Service	$ -	$ 433	$ 433	- %
Supplies	$ 373,818	$ 363,049	($ 10,769)	(2.88)%
Depreciation	$ 48,233	$ 40,968	($ 7,265)	(15.06)%
Other Operating Expenses	$ 529	$ 124	($ 405)	(76.56)%
Total	$ 819,756	$ 848,468	$ 28,712	3.50 %
Interfund transfers In	$ -	$ -	$ -	- %
Capital Contributions	$ -	$ -	$ -	- %
Change in Net Position	($ 29,920)	($ 54,861)	($ 24,941)	83.36 %

General Fund Budget

A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided on page 41.

The District applies for federal, state, and local grants which cannot always be anticipated in the budgeting process. In addition, the District budgets revenues conservatively to prevent a shortfall of funds during the fiscal year. Other unanticipated revenues also account for increases in budgeted revenues; examples include revenues from the rental of district facilities and student tuition.

Budgeted expenditures and other financing uses generally increase to offset or compensate for any additional federal, state, or local grants. Transfers between specific categories of expenditures/financing uses occur near the end of the year.

Budgetary Reserve is set aside to transfer for unpredictable changes in the costs of goods and services as well as occurrences of events that are vaguely predictable during budget preparations, which nevertheless may be required by the District during the fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015 District had $39,946,772 net of depreciation invested in a broad range of capital assets, including land, buildings, furniture, and equipment. Accumulated depreciation for both Governmental and Business-Type activities totaled $24,811,230 at year end. As displayed in Table A-6, the majority of asset acquisitions were for construction in progress and furniture and equipment placed in service during the 2014-2015 fiscal year.

Table A-6
Fiscal Year End Comparison June 30, 2014 - June 30, 2015
Capital Assets - Net of Depreciation

	Governmental Activities		Business-Type Activities		Increase (Decrease) By Activity Type	
(Amounts expressed in Thousands)	2014	2015	2014	2015	Govern.	Business
Land and Improvements	$ 1,953	$ 1,841	$ -	$ -	($ 112)	$ -
Buildings and Building Improvements	$ 34,610	$ 33,850	$ -	$ -	($ 760)	$ -
Furniture and Equipment	$ 1,292	$ 1,336	$ 412	$ 371	$ 44	($ 41)
Construction in Progress	$ 156	$ 2,548	$ -	$ -	$ 2,392	$ -
Total	$ 38,011	$ 39,575	$ 412	$ 371	$ 1,564	($ 41)

Debt Administration

During the year, the District made payments against principal of $1,500,000, resulting in outstanding debt as of June 30, 2015 of $16,700,000; this is displayed in Table A-7.

Table A-7
Outstanding Debt Comparison June 30, 2014 – June 30, 2015

	2014	2015	Increase (Decrease)
Bonds, Series of 2010	$ 9,575,000	$ 8,675,000	($ 900,000)
Bonds, Series of 2014	$ 8,625,000	$ 8,025,000	($ 600,000
Total Debt Outstanding	$ 18,200,000	$ 16,700,000	($ 1,500,000)

Other obligations include lease purchase obligations and compensated absences for specific employees of the District. More detailed information about long-term liabilities is included in the Notes to the Basic Financial Statements.

SCHOOL DISTRICT PENSION PROGRAM
Source: PSERS

About the Pennsylvania Public School Employees' Retirement System

PSERS is the 19th largest state-sponsored defined benefit pension fund in the nation and has a membership of more than 263,000 active members and nearly 214,000 annuitants and beneficiaries receiving benefits. For more information visit PSERS' website at www.psers.state.pa.us.

Funding Sources for the System

The Public School Employees' Retirement System (PSERS) is a defined benefit plan. PSERS is funded through three sources: contributions from employees (members), the employer contribution rate which is contributions from employers (generally school districts) and the Commonwealth, and investment returns from the System.

Employee (Member) Contributions

- Employee (Member) contributions range from 5.25% to 10.30% of payroll depending on the class of membership of the employee and when they joined PSERS. Employees are expected to contribute an average of 7.49% of their salary to help fund their retirement benefit in fiscal year 2015/2016. Employee (member) contributions of approximately $1 billion are expected in fiscal year 2015/2016.

- As of July 1, 2011 new members bear some of the investment risk via the shared risk provisions of Act 120 of 2010. With a "shared risk" program new members since July 1, 2011 share some of the risk when investments underperform. Since PSERS investment performance exceeded the Act 120 benchmarks, the Board certified and retained the current T-E member contribution rate of 7.50% and T-F member contribution rate of 10.30% for the three year period from July 1, 2015 to June 30, 2018. Employee (Member) contributions range from 5.25% to 10.30% of payroll depending on the class of membership of the employee and when they joined PSERS. Employees are expected to contribute an average of 7.46% of their salary to help fund their retirement benefit in fiscal year 2014/2015.

Employer (School District and Commonwealth) Contributions

- Both the employer and the Commonwealth are responsible for paying a portion of the employer contribution rate. Employers are divided into two groups: school entities and non-school entities. School entities are responsible for paying 100 percent of the employer share of contributions to PSERS. The Commonwealth reimburses school entities for one-half the payment for employees hired on or before June 30, 1994. School entities are reimbursed by the Commonwealth based on a statutory formula for employees hired after June 30, 1994, but not less than one-half of the payment. Non-school entities and the Commonwealth each contribute one-half of the total employer rate. Total employer contributions for FY 2015/2016 are estimated at $3.45 billion.

- The employer contribution rate-setting methodology is set forth in statute. The chart below shows the employer contribution rate history over the past 15 years and the certified rate for next fiscal year 2015/2016.

HISTORY OF EMPLOYER CONTRIBUTION RATES				
Fiscal Year	**Employer Normal Cost %**	**Preliminary Employer Pension Rate %**	**Health Care Contributions %**	**Total Employer Contribution %**
00/01	6.29	1.64	0.30	1.94
01/02	5.63	0.00	1.09	1.09
02/03	7.20	0.18	0.97	1.15
03/04	7.25	2.98	0.79	3.77
04/05	7.48	4.00	0.23	4.23
05/06	7.61	4.00	0.69	4.69
06/07	6.62	5.72	0.74	6.46
07/08	6.68	6.44	0.69	7.13
08/09	6.68	4.00	0.76	4.76
09/10	7.35	4.00	0.78	4.78
10/11	8.08	5.00	0.64	5.64
11/12	8.12	8.00	0.65	8.65
12/13	8.66	11.50	0.86	12.36
13/14	8.57	16.00	0.93	16.93
14/15	8.46	20.50	0.90	21.40
15/16	8.38	25.00	0.84	25.84

- The chart below shows the 10-year projected employer contribution rates using the June 30, 2014 valuation.

- Longer term employer contributions thru FY 2047 are expected to be nearly $13.7 billion less than previously projected.

- The employer normal cost continues to decrease as the impact of the benefit reductions in Act 120 is realized.

- The pension debt or the unfunded accrued liability (UAL) is $500 million less than projected for this year due to PSERS strong FY 2014 investment performance and lower employer payroll. It was projected at $35.6 billion but decreased to $35.1 billion.

10-YEAR PROJECTED EMPLOYER CONTRIBUTION RATES (Presumes an 7.5% rate of return)		
Fiscal Year Ending June	**Total Employer Contribution Rate**	**Projected Total Employer Contribution (thousands)**
15/16	25.84%	$ 3,456,100
16/17	29.69%	$ 4,079,195
17/18	30.62%	$ 4,316,593
18/19	31.56%	$ 4,569,239
19/20	32.23%	$ 4,794,454
20/21	32.02%	$ 4,892,886
21/22	31.90%	$ 5,005,091
22/23	31.96%	$ 5.149,606
23/24	31.90%	$ 5,276,635
24/25	31.83%	$ 5,404,815

Investment Returns

- PSERS' rate of return for fiscal year ended June 30, 2014 was 14.91%, which added approximately $7.1 billion (net of fees) in investment income to the Fund. The Fund had plan net assets of $53.3 billion at June 30, 2014. PSERS investment outperformance well above its annual return assumption of 7.5% also helped decrease the unfunded accrued liability.

- From a historical total fund perspective, using active managers for a portion of PSERS' assets has been very beneficial for the Fund. From FY 2011 through FY 2014, PSERS has generated gross excess returns (returns above the index) of approximately $6.1 billion from active management and paid approximately $2.0 billion in total management fees and all other investment expenses netting a gain of $4.1 billion. Without active management, PSERS' net investment income would have been $4.1 billion lower.

School District Pension Payments

The School District is current in all payments. Recent School District payments have been as follows:

Fiscal Year	**School District Payments**
08/09	$ 601,721
09/10	$ 573,911
10/11	$ 683,345
11/12	$ 1,020,933
12/13	$ 1,453,018
13/14	$ 2,040,350
14/15	$ 2,630,299
15/16	(Budgeted) $ 3,175,234

OTHER POST-EMPLOYMENT BENEFITS

The District provides certain health care benefits for its retirees (commonly referred to as "other post-employment benefits" or "OPEB"). The District annually appropriates funds to meet its obligation to pay such benefits on a "pay-as-you-go" basis, and has not established any fund or irrevocable trust for the accumulation of assets with which to pay such benefits in future years.

In preparation for such reporting, the District has retained a consulting firm, Conrad Siegel Actuaries, to provide valuation services to measure its OPEB liabilities for future years. Pursuant to GASB Statement No. 45, released on June 1, 2004, the District's audited financial statements reflect the Annual Required Contribution (ARC) net of contributions. As of June 30, 2015, the District reflected $937,821 on the financial statements. No assurances can be given that the District's future OPEB obligations will not have a material impact on the District's ability to pay its debts, including Bonds.

SCHOOL DISTRICT EMPLOYEE RELATIONS

There are presently approximately 248 employees of the District, including 150 teachers and administrators, 98 support personnel including secretaries, maintenance staff and teacher assistants.

The District's teachers are represented by the Montoursville Area Education Association, an affiliate of the Pennsylvania State Education Association (PSEA), under a contract with the School District which expires June 30, 2017.

The District's secretaries and aides, including teacher's aides, personal care aides and health care aides are represented by the Montoursville Area Education Support Professionals Association, an affiliate of the PSEA, under a contract which expires June 30, 2017.

DEBT STATEMENT AND BORROWING CAPACITY

The borrowing capacity of the District is calculated in accordance with provisions of the Local Government Unit Debt Act (Act), which describes the applicable debt limits for local government units, including school districts and municipalities. Under the Act, the School District may incur electoral debt, which is debt that is approved by a majority of the District's voters at either a general or special election, in an unlimited amount. Net nonelectoral debt, or debt not approved by the School District's electorate, net of state aid, may not exceed 225% of the District's "Borrowing Base." Bonds constitute nonelectoral debt under the Act. The Borrowing Base is calculated as the annual arithmetic average of Total Revenues (as defined in the Act), for the three full fiscal years next preceding the date of incurring debt. Combined net nonelectoral debt and net lease rental debt (debt represented by capital leases and other forms of agreement), net of state aid, incurred on behalf of the District may not exceed 225% of the District's Borrowing Base. The Borrowing Base and borrowing capacity of the District are as follows:

Calculation of Borrowing Base			
	2012-13	**2013-14**	**2014-15**
Total Revenues (All Governmental Funds)	$ 25,493,072	$ 26,160,490	$ 26,684,639
Less: Required Deductions			
(a) Rental and Sinking Fund Reimbursement	$ 440,159	$ 427,024	$ 366,296
(b) Revenues for Self Liquidating Debt	-	-	-
(c) Interest Earned on Sinking Funds	-	-	-
(d) Grant and Gifts for Capital Projects	-	-	-
(e) Sale of Equipment and Non-Recurring Items	-	-	-
Total Deductions	$ 440,159	$ 427,024	$ 366,296
Total Revenues	$ 25,052,913	$ 25,733,466	$ 26,318,343
Total Revenues for three years			$ 77,104,722
Borrowing Base - Average Net Revenues for Three-Year Period			$ 25,701,574

Calculation of Borrowing Base			
	2012-13	2013-14	2014-15
Calculation of Borrowing Capacity			
A. Non-Electoral Debt			
(a) Outstanding Principal			$16,700,000
(b) Less: Subsidized Debt			-
(c) Net Non-Electoral Debt			$16,700,000
B. Lease Rental Debt			-
Computation of Borrowing Capacity			
(a) Debt Limitation – 225% of Borrowing Base			$57,828,542
(b) Less: Net Non-Electoral and Lease Rental Debt			$16,700,000
(c) Current Non Electoral and Lease Rental Borrowing Capacity			$41,128,542

TEN LARGEST TAXPAYERS

The ten largest real estate taxpayers in the District are as follows:

Name	2015-16 Assessed Valuation
Individual	$ 7,243,700
Walmart, Inc	$ 5,400,000
Weis Markets Inc	$ 4,961,930
L.C. Realty Inc.	$ 4,731,400
Individual	$ 3,190,360
PP&L	$ 2,798,640
Moosekids LP	$ 2,656,480
Lycoming Silica Sand Co	$ 2,654,780
J Savoy Realty Co	$ 2,462,140
Individual	$ 2,141,450
Total	**$38,240,880**

TRENDS IN ASSESSED VALUATION

The trend in assessed valuation of real estate in the District for the fiscal years is shown below:

Fiscal Year	Assessed Valuation	Market Value(1)	Common Level Ratio
2006	$ 744,989,960	$ 864,257,494	86.2%
2007	$ 754,589,410	$ 943,236,763	80.0%
2008	$ 764,791,260	$ 912,638,735	83.8%
2009	$ 771,204,270	$ 932,532,370	82.7%
2010	$ 777,789,060	$ 938,225,645	82.9%
2011	$ 787,003,800	$ 983,754,750	80.0%
2012	$ 787,216,960	$ 992,707,390	79.3%
2013	$ 793,217,090	$ 1,057,622,787	75.0%
2014	Unavailable	Unavailable	Unavailable

(1) Market Values are based upon the Common Level Ratio for Lycoming County.

REAL ESTATE TAX COLLECTION RECORD

The District's real estate tax collection record for the current and previous six fiscal years is shown below:

Fiscal Year	Adjusted Total Levy	Current Collections	Current Percent Collected	Total Collections(1)	Total Percent Collected
2008-09	$ 9,256,787	$ 8,674,382	93.7%	$ 9,177,265	99.1%
2009-10	$ 9,281,256	$ 8,670,884	93.4%	$ 9,250,155	99.7%
2010-11	$ 9,780,652	$ 9,233,101	94.4%	$ 9,795,488	100.2%
2011-12	$ 9,979,335	$ 9,406,922	94.3%	$ 9,950,314	99.7%
2012-13	$ 9,981,832	$ 9,448,067	94.7%	$ 9,948,551	99.7%
2013-14	$ 10,264,376	$ 9,698,786	94.5%	$ 10,267,308	100.0%
2014-15	$ 10,585,175	$ 10,041,572	94.9%	$ 10,545,889	99.6%

(1) Total collections include current real estate tax collections and delinquent real estate taxes received for the fiscal period.

OVERLAPPING INDEBTEDNESS

Residents of the District are responsible for the following debt indicated below, within the District, the municipalities within the District and Lycoming County.

Overlapping Debt	School District Share
Lycoming County (1)	$ 8,224,839
Municipalities - Cascade Township (2)	$ 20,440
Municipalities - Plunketts Creek Township (2)	$ 37,133
Total Overlapping Debt	$ 8,282,412

(1) The outstanding general obligation debt of Lycoming County totaled approximately $58,085,020 as of December 31, 2013 per the Department of Community and Economic Development (DCED) website. The District's proportionate share, 14.16%, is determined by dividing the District's reported 2013 assessed value by the total 2013 assessed values of all the municipalities within Lycoming County.

(2) The only municipalities with outstanding debt as of December 31, 2013 were Cascade Township and Plunketts Creek Township.

OUTSTANDING DISTRICT FINANCINGS

The outstanding long-term debt of the District as of June 30, 2015, is shown below:

General Obligation	Date of Issue	Original Amount	Final Maturity	Amount Outstanding	Project Reimbursable Percentage	Effective(1) Reimbursement	State Share	Local Share
Series of 2010 Bonds	6/29/10	$ 13,210,000	5/1/2023	$ 8,675,000	33.06%	18.19%	$ 1,578,236	$ 7,096,764
Series of 2014 Bonds	5/15/14	$ 8,625,000	4/1/2023	$ 8,025,000	33.06%	18.19%	$ 1,459,982	$ 6,565,018
TOTAL		$ 21,835,000		$ 16,700,000			$ 3,038,218	$ 13,661,782

(1) The project's estimated reimbursable percentage multiplied by the District's 2014-15 Aid Ratio (0.5503)

SCHOOL DISTRICT FACILITIES

Building	Grades Served	Reimbursable Capacity	2015-2016 Enrollment
Elementary			
Loyalsock Valley Elementary	K-4	425	253
Lyter Elementary	K-4	625	513
C.E. McCall Middle School	5-6	563	309
Total Elementary		1,613	1,075
Secondary			
C.E. McCall Middle School	7-8	446	328
Montoursville Area High School	9-12	1,166	618
Total Secondary		1,612	946
Total School District	K-12	3,225	2,021

ENROLLMENT TRENDS

The past, present, and projected enrollments within the School District are shown below:

School Year	Elementary (K-6)	Secondary (7-12)	Total
2009-10	985	950	1,935
2010-11	1,025	931	1,956
2011-12	1,028	912	1,940
2012-13	1,014	917	1,931
2013-14	1,058	930	1,988
2014-15	1,096	924	2,020
2015-16	1,075	946	2,021
2016-17(1)	1,020	920	1,940
2017-18(1)	1,000	950	1,950
2018-19(1)	995	921	1,916

(1) Pennsylvania Department of Education Enrollment Projections prepared in July 2012.

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

Public School Employees Retirement System

The Public School Employees Retirement System (PSERS) incurred substantial losses during the fiscal year ending June 30, 2009. PSERS reported the actual rate of return for that period was a negative 26.54%. This was exemplified by the fact that on June 30, 2008 net PSERS plan assets were $67.5 billion and on June 30, 2009 the plan assets had dropped to $43.2 billion. The decrease of PSERS assets was a major contributing factor causing significant increases to the employer contribution rates for future years starting in the 2012-2013 school year. On November 23, 2010, Act 120 of 2010 was enacted, which included a series of actuarial and funding changes to PSERS as well as benefit reductions for individuals who became new members of PSERS on or after July 1, 2011. According to PSERS, "the legislation was designed to suppress the employer contribution rate by using rate collars in future years to keep the rate from rising too high, too fast." The employer contribution rate is projected to increase approximately 4% per year until 2016-2017, then reduce to an annual increase of approximately 1.0% per year until 2019-2020, when the rates are projected to stabilize for several years.

According to PSERS: "Pension reform enacted under Act 120 of 2010 is well underway. As of December 31, 2013 approximately 13% or 35,000 of PSERS active membership is under the new reduced benefit structure of Act 120. The annual benefit cost for new members joining the System is less than 3%. As the Act 120 membership grows, the annual savings from the lower Act 120 benefit cost structure will allow an increasing amount of employer contributions to pay down the existing unfunded liability.

In 2009, the District established a fund balance to mitigate the anticipated increases in the PSERS employer contribution rate. During the fiscal year the District used $229,600 to mitigate the increasing employer pension costs and at June 30, 2015 the fund balance totaled $1,502,550. The District plans to use $342,000 of the committed fund balance during the 2015-2016 fiscal year to mitigate the increase in the PSERS employer contribution rate. The District contributed at a rate of 21.40% of payroll to PSERS for the 2014-2015 school year and is contributing a rate of 25.84% of payroll for the 2015-2016 school year.

Additional information regarding this matter can be obtained from the PSERS web site (www.psers.state.pa.us) under "Pension Funding and Act 120 Resources."

In December 2013 the District engaged Crabtree, Rohrbaugh & Associates Architects of Camp Hill, PA to conduct a district-wide feasibility study (an evaluation of the condition of the District's physical plant and equipment). Based on the firm's findings, in May 2014 the School Board further directed Crabtree, Rohrbaugh & Associates to focus the results of the feasibility study on the development of proposals for the renovation of Montoursville Area High School. On September 9, 2014, the School Board approved additions and renovations to Montoursville Area High School and the adjacent Memorial Stadium at a total estimated project cost of $35,972,942. Execution of construction contracts for the project was approved in on August 11, 2015 and as of the issuance of this report construction commenced.

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Other than those issues listed in this Management's Discussion and Analysis (MD&A) or in the notes to the basic financial statements, there are no facts currently known to management that would materially impact the financial statements either favorably or unfavorably at this time.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

The Montoursville Area School District financial report is designed to provide citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If there are questions about this report or additional financial information is needed, please contact Mr. Robert E. Saul, Business Manager at Montoursville Area School District, 50 North Arch Street, Montoursville, PA 17754, 570-368-3500.

MONTOURSVILLE AREA SCHOOL DISTRICT
GOVERNMENT-WIDE
STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
CURRENT ASSETS:			
Cash and cash equivalents	$ 5,326,205	$ 167,068	$ 5,493,273
Investments	1,470,000		1,470,000
Taxes receivable, net	949,591		949,591
Prepaid expenses	35,793		35,793
Internal balances	(1,280)	1,280	
Due from other governments	914,481	3,415	917,896
Inventories		28,527	28,527
Other receivables	6,401	90	6,491
Total current assets	8,701,191	200,380	8,901,571
NONCURRENT ASSETS:			
Capital assets, net	39,575,748	371,024	39,946,772
Prepaid bond insurance	51,126		51,126
Total noncurrent assets	39,626,874	371,024	39,997,898
TOTAL ASSETS	$48,328,065	$ 571,404	$48,899,469
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred loss on refunding debt, net	$ 196,730		$ 196,730
Pension changes in proportions	981,470	20,030	1,001,500
Pension contributions subsequent to the measurement date	2,380,217	48,209	2,428,426
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 3,558,417	$ 68,239	$ 3,626,656
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable	$ 645,830	$ 437	$ 646,267
Accrued salaries and benefits	2,698,132		2,698,132
Accrued interest	99,910		99,910
Payroll deductions and withholdings	8,089		8,089
Current portion of noncurrent liabilities	1,930,000		1,930,000
Unearned revenue		35,033	35,033
Other current liabilities	11,074		11,074
Total current liabilities	5,393,035	35,470	5,428,505
NONCURRENT LIABILITIES:			
Bonds payable, net	15,085,016		15,085,016
Accumulated compensated absences, net	1,039,567	38,544	1,078,111
Net pension liability	36,384,460	742,540	37,127,000
Total noncurrent liabilities	52,509,043	781,084	53,290,127
TOTAL LIABILITIES	$57,902,078	$ 816,554	$58,718,632
DEFERRED INFLOWS OF RESOURCES:			
Pension net difference between projected and actual earnings	$ 1,950,690	$ 39,810	$ 1,990,500
Pension difference between employer contributions and proportionate share of total contributions	129,195	2,637	131,832
TOTAL DEFERRED INFLOWS OF RESOURCES	$ 2,079,885	$ 42,447	$ 2,122,332
NET POSITION:			
Invested in capital assets, net of related debt	$22,657,552	$ 371,024	$23,028,576
Restricted for capital projects	1,239,408		1,239,408
Unrestricted	(31,992,441)	(590,382)	(32,582,823)
TOTAL NET POSITION	$ (8,095,481)	$ (219,358)	$ (8,314,839)

MONTOURSVILLE AREA SCHOOL DISTRICT
GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES:							
Instruction	$17,272,126	$110,039	$3,331,825		$(13,830,262)		$(13,830,262)
Instructional student support	2,463,736		421,118		(2,042,618)		(2,042,618)
Administrative and financial support	2,191,863		81,780		(2,110,083)		(2,110,083)
Operation and maintenance of plant services	3,153,609		62,575		(3,091,034)		(3,091,034)
Pupil transportation	1,086,002		457,019		(628,983)		(628,983)
Student activities	612,617	71,829	4,034		(536,754)		(536,754)
Community services		2,952			2,952		2,952
Interest on long-term debt	530,616		366,296		(164,320)		(164,320)
Total governmental activities	27,310,569	184,820	4,724,647		(22,401,102)		(22,401,102)
BUSINESS-TYPE ACTIVITIES,							
Food service	848,468	407,011	386,596			$ (54,861)	(54,861)
TOTAL	$28,159,037	$591,831	$5,111,243	$	(22,401,102)	(54,861)	(22,455,963)
	GENERAL REVENUES:						
	Property taxes, levied for general purposes				10,663,878		10,663,878
	Other taxes levied, net				3,823,853		3,823,853
	Grants and entitlements not restricted to specific programs				7,217,101		7,217,101
	Investment earnings				10,679		10,679
	Miscellaneous income				44,208		44,208
	Total general revenues				21,759,719		21,759,719
	CHANGE IN NET POSITION				(641,383)	(54,861)	(696,244)
	NET POSITION, BEGINNING (As restated, See Note 2)				(7,454,098)	(164,497)	(7,618,595)
	NET POSITION, ENDING				$ (8,095,481)	$(219,358)	$ (8,314,839)

See Notes to the Basic Financial Statements

MONTOURSVILLE AREA SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	$ 3,806,485	$ 1,519,720		$ 5,326,205
Investments	1,470,000			1,470,000
Taxes receivable, net	948,340			948,340
Due from other funds	265,444			265,444
Due from other governments	914,481			914,481
Other receivables	6,401			6,401
Prepaid expenses	35,793			35,793
TOTAL ASSETS	$ 7,446,944	$ 1,519,720	$	$ 8,966,664
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:				
LIABILITIES:				
Due to other funds	$ 1,280	$ 265,444		$ 266,724
Accounts payable	630,962	14,868		645,830
Accrued salaries and benefits	2,698,132			2,698,132
Payroll deductions and withholdings	8,089			8,089
Other liabilities	11,074			11,074
Total liabilities	3,349,537	280,312		3,629,849
DEFERRED INFLOWS OF RESOURCES,				
Unavailable revenue - property taxes	416,957			416,957
FUND BALANCES:				
Nonspendable	35,793			35,793
Restricted		1,239,408		1,239,408
Committed	1,502,550			1,502,550
Unassigned	2,142,107			2,142,107
Total fund balances	3,680,450	1,239,408		4,919,858
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 7,446,944	$ 1,519,720	$	$ 8,966,664

See Notes to the Basic Financial Statements

MONTOURSVILLE AREA SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2015

TOTAL GOVERNMENTAL FUND BALANCES	$ 4,919,858
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. These assets consist of:	
Land and improvements	2,711,776
Buildings and building improvements	53,048,878
Furniture and equipment	5,351,126
Construction in progress	2,548,276
Accumulated depreciation	(24,084,308)
Bond insurance costs are reported as an expenditure in governmental funds when debt is first issued. Bond insurance costs are reported as prepaid expenses on the statement of net position and expensed in a rational systematic manner over the life of the related debt.	51,126
Deferred loss on refunding bonds are not current financial resources, and therefore are not reported in the governmental funds balance sheet.	196,730
Noncurrent liabilities are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet. These liabilities consist of:	
Accrued interest	(99,910)
Bonds payable in future years	(17,015,016)
Accumulated compensated absences	(1,039,567)
Net pension liability	(36,384,460)
Deferred inflows and outflows of resources related to pensions are not current financial resources, and therefore are not reported in the governmental funds balance sheet. These deferrals consist of:	
Pension changes in proportions	981,470
Pension contributions subsequent to the measurement date	2,380,217
Pension net difference between projected and actual investment earnings	(1,950,690)
Pension difference between employer contributions and proportionate share of total contributions	(129,195)
Some of the District's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditures, and therefore, are deferred in the governmental funds balance sheet.	418,208
NET POSITION OF GOVERNMENTAL ACTIVITIES	$ (8,095,481)

MONTOURSVILLE AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES:				
Local sources	$ 15,039,338	$ 4,018		$ 15,043,356
State sources	11,337,128			11,337,128
Federal sources	308,173			308,173
Total revenues	26,684,639	4,018		26,688,657
EXPENDITURES:				
Instruction	16,082,131			16,082,131
Support services	8,198,765			8,198,765
Noninstructional services	660,027			660,027
Debt service (principal and interest)			2,019,502	2,019,502
Capital outlay		2,651,772		2,651,772
Refund of prior year receipts	1,529			1,529
Total expenditures	24,942,452	2,651,772	2,019,502	29,613,726
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,742,187	(2,647,754)	(2,019,502)	(2,925,069)
OTHER FINANCING SOURCES (USES):				
Interfund transfers in		422,000	2,015,300	2,437,300
Interfund transfers out	(2,442,300)			(2,442,300)
Total other financing sources (uses)	(2,442,300)	422,000	2,015,300	(5,000)
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(700,113)	(2,225,754)	(4,202)	(2,930,069)
FUND BALANCES, BEGINNING	4,380,563	3,465,162	4,202	7,849,927
FUND BALANCES, ENDING	$ 3,680,450	$ 1,239,408	$	$ 4,919,858

See Notes to the Basic Financial Statements

MONTOURSVILLE AREA SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT
OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	$ (2,930,069)
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense, net of deletions, in the current period.	1,564,787
Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered as "available" revenues in the governmental funds.	45,441
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,500,000
In the statement of activities, certain operating expenses - compensated absences (vacation and sick leave) and special termination benefits (early retirement) - are measured by the amounts earned during the year. In the governmental funds; however, expenditures for these items are measured by the amount of the financial resources used (essentially, the amounts actually paid).	(62,257)
In the statement of activities, certain operating expenses - pension related costs - are measured by the amounts earned during the year. In the governmental funds; however, expenditures for these items are measured by the amount of the financial resources used (essentially, the amounts actually paid).	(748,171)
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; however, interest expense is recognized as the interest accrues, regardless of when it is due.	(11,114)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$ (641,383)

See Notes to the Basic Financial Statements

MONTOURSVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2015

	Food Service Fund
ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	$ 167,068
Due from other funds	1,280
Due from other governments	3,415
Other receivables	90
Inventories	28,527
Total current assets	200,380
NONCURRENT ASSETS,	
Capital assets, net	371,024
TOTAL ASSETS	$ 571,404
DEFERRED OUTFLOWS OF RESOURCES:	
Pension changes in proportions	$ 20,030
Pension contributions subsequent to the measurement date	48,209
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 68,239
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	$ 437
Unearned revenue	35,033
Total current liabilities	35,470
NONCURRENT LIABILITIES:	
Accumulated compensated absences, net	38,544
Net pension liability	742,540
Total noncurrent liabilities	781,084
TOTAL LIABILITIES	$ 816,554
DEFERRED INFLOWS OF RESOURCES:	
Pension net difference between projected and actual earnings	$ 39,810
Pension difference between employer contributions and proportionate share of total contributions	2,637
TOTAL DEFERRED INFLOWS OF RESOURCES	$ 42,447
NET POSITION:	
Invested in capital assets	$ 371,024
Unrestricted	(590,382)
TOTAL NET POSITION	$ (219,358)

See Notes to the Basic Financial Statements

MONTOURSVILLE AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Food Service Fund
OPERATING REVENUES:	
Food service revenue	$ 400,119
Other operating revenues	6,892
Total operating revenues	407,011
OPERATING EXPENSES:	
Salaries	261,037
Employee benefits	175,472
Technical services	1,000
Purchased property services	6,385
Supplies	363,049
Depreciation	40,968
Travel	433
Dues and fees	124
Total operating expenses	848,468
OPERATING LOSS	(441,457)
NONOPERATING REVENUES:	
State subsidies	59,910
Federal subsidies	326,686
Total nonoperating revenues	386,596
CHANGE IN NET POSITION	(54,861)
NET POSITION, BEGINNING (As restated, See Note 2)	(164,497)
NET POSITION, ENDING	$ (219,358)

MONTOURSVILLE AREA SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Food Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from users	$ 401,786
Cash received from other operating revenues	6,294
Payments to suppliers for goods and services	(323,225)
Payments to employees	(416,740)
Net cash used by operating activities	(331,885)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State sources	59,918
Federal sources	281,751
Net cash provided by noncapital financing activities	341,669
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,784
CASH AND CASH EQUIVALENTS, BEGINNING	157,284
CASH AND CASH EQUIVALENTS, ENDING	$ 167,068
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	$ (441,457)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	40,968
Amortization	(7,555)
Donated commodities	44,923
Change in:	
Inventories	5,025
Receivables	(598)
Pension deferred outflows of resources	(40,481)
Unearned revenue	(952)
Payables	437
Accumulated compensated absences	4,133
Net pension liability	7,320
Pension deferred inflows of resources	56,352
Total adjustments	109,572
NET CASH USED BY OPERATING ACTIVITIES	$ (331,885)

NONCASH NONCAPITAL FINANCING ACTIVITIES,
The District received $44,923 of food commodities.

MONTOURSVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

	Scholarship Trust Funds	Agency Funds
ASSETS:		
Cash and cash equivalents	$ 4,145	$ 121,643
Investments		23,000
Accounts receivable		2
TOTAL ASSETS	$ 4,145	$ 144,645
LIABILITIES AND NET POSITION:		
LIABILITIES:		
Accounts payable		$ 1,485
Due to student groups		143,160
TOTAL LIABILITIES		144,645
NET POSITION,		
Restricted for scholarships	$ 4,145	
TOTAL LIABILITIES AND NET POSITION	$ 4,145	$ 144,645

MONTOURSVILLE AREA SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Scholarship Trust Funds
ADDITIONS:	
Gifts and contributions	$ 57,528
Investment income	1
Total additions	57,529
DEDUCTIONS,	
Scholarships awarded	58,899
CHANGE IN NET POSITION	(1,370)
NET POSITION, BEGINNING	5,515
NET POSITION, ENDING	$ 4,145

See Notes to the Basic Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Montoursville Area School District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the District's accounting policies are described below.

Reporting Entity

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The criterion for including a potential component unit within the reporting entity is the significance of their operational or financial relationship with the District. Based upon the application of this criterion, the reporting entity will consist solely of the accounts and funds of the District.

Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

These are the funds through which most governmental functions typically are financed. The funds included in this category are as follows:

General Fund

This fund is used to account for and report all financial resources not accounted for and reported in another fund. The fund balance is available for any purpose provided it is expended or transferred according to the general laws of Pennsylvania.

Capital Projects Fund

This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets.

Debt Service Fund

This fund is used to account for resources that are restricted, committed, or assigned to expenditure for principal and interest.

PROPRIETARY FUND

Enterprise Fund

This fund (food service fund) is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis, be financed or recovered primarily through user charges.

FIDUCIARY FUNDS

Trust and Agency Funds

These funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Basis of Presentation and Accounting

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 District 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 government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the propriety fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for the business-type activity of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient for the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of 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 government function is self-financing or draws from the general revenues of the District.

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

Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds, if applicable, are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers delinquent real estate taxes and derived tax revenues to be available if they are collected within 60 days and 30 days of the end of the fiscal period, respectively. Unearned revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except expenditures for debt service, prepaid expenses, and other long-term obligations, which are recognized when paid. The financial statements for governmental funds are a balance sheet, which generally includes only current assets, current liabilities, and deferred inflows of resources, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

The proprietary fund is accounted for using the accrual basis of accounting and the flow of all economic resources (measurement focus). This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises, and revenues are recorded when earned and expenses are recorded when incurred. With this measurement focus, all assets and liabilities associated with the operation of this fund are included on the statement of net position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating revenues and expenses which generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principle ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contracted services, supplies, utilities and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary funds are reported using the economic resources measurement focus.

Budgetary Procedures and Budgetary Accounting

An operating budget is adopted in each year for the general fund on the modified accrual basis of accounting.

At the fund level, actual expenses cannot exceed budgeted appropriations; however, with proper approval of the Board, budgetary transfers can be made. The budgetary comparison schedule presented in this report reflects the final budget authorization, including all amendments and budgetary transfers.

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 fiscal 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.

- The Board may make transfers of funds appropriated to any particular item of expenditure by legislative action. An affirmative vote of two-thirds of all members of the Board is required.

- Fund balances in budgetary funds may be appropriated based on resolutions passed by the Board, which authorized the District to make expenditures. Appropriations lapse at the end of the fiscal period. In order to preserve a portion of an appropriation for which an expenditure has been committed by a purchase order, contract or other form of commitment, an encumbrance is recorded. Encumbrances outstanding at year-end are reported as reservations of fund balances.

- Included in the general fund budget are program budgets as prescribed by the state and federal agencies funding the program. These budgets are approved on a program by program basis by the state or federal funding agency.

- Capital budgets are not established for capital improvements and capital projects in the capital projects fund. Additionally, all transactions of the capital projects fund are approved by the Board prior to commitment, thereby constructively achieving budgetary control.

- The District does not adopt a formal budget for the proprietary fund and debt service fund.

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. As of June 30, 2015, the District had no outstanding encumbrances. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the fund financial statements. A reserve for encumbrances is not reported on the government-wide financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and liquid asset funds (Pennsylvania School District Liquid Asset Fund), carried at cost.

The District pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash account is available to meet current operating requirements.

Investments

Investments held in the general fund and the fiduciary funds consist of certificates of deposit stated at cost which approximates fair value. For purposes of determining realized gain or loss on sale, the cost of securities sold is determined by using the specific identification method. The fair value of investments is estimated based on bid quotations received from securities dealers.

Interfund Receivables and Payables

During the course of operations, transactions may occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the governmental funds balance sheet. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Prepaid Expenses

Prepaid expenses represent payments made by the District in the current year to provide services occurring in the subsequent fiscal year.

Inventories

Proprietary fund food inventories of $28,527 include $14,859 of food commodities donated by the federal government, which are valued at fair value. All other food or supply inventories are valued at the lower of cost (first-in, first-out method) or fair value and are expensed as consumed.

Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both governmental and proprietary funds.

Taxes Receivable

Taxes receivable are reported at their gross value and, where appropriate, are reduced by the estimated portion expected to be uncollectible. Taxes which become payable during fiscal year 2015 and are uncollected as of June 30, 2015 are recorded as taxes receivable in the government-wide financial statements, net of amounts estimated to be uncollectible. Management estimates the adequacy of the allowance for uncollectible taxes receivable based upon the historical experience in collecting these taxes. The allowance for uncollectible taxes receivable was $21,669 as of June 30, 2015.

Capital Assets

Capital assets, which include land and improvements, buildings and building improvements, furniture and equipment and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. The District defines capital assets as assets which have an original cost of $4,000 or more and an estimated useful life in excess of one year. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	20 years
Buildings and building improvements	20-50 years
Furniture and equipment	5-20 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities' and business-type activities' statement of net position. Bonds payable are reported net of applicable bond premium or discount. Prepaid bond insurance is expensed over the life of the related debt. Other bond issuance costs are expensed in the period incurred.

In the fund financial statements, governmental funds 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Prepaid Bond Insurance and Amortization

The cost of prepaid bond insurance of the Series of 2010 and 2014 bonds is being amortized, utilizing the straight-line method, over the life of the bonds. Amortization expense included in the statement of activities amounted to $6,538 for the year ended June 30, 2015.

Bond Premium and Amortization

The premium recognized upon the issuance of the Series of 2010 and 2014 bonds is being amortized utilizing the straight-line method, over the life of the bonds. The net premium has been capitalized and included in bonds payable in the accompanying statement of net position. The net premium included in amortization expense in the statement of activities amounted to $40,539 for the year ended June 30, 2015.

Loss on Refinancing and Amortization

The loss recognized on the refinancing of Series of 2014 bonds is being amortized utilizing the straight-line method over the life of the bonds. The loss has been capitalized as a deferred outflow of resources in the accompanying statement of net position. Amortization expense included in the statement of activities amounted to $25,384 for the year ended June 30, 2015.

Fund Equity

In the governmental fund financial statements, the fund balance amounts are classified as follows:

- *Nonspendable* - fund balance that cannot be spent because it is not in spendable form such as inventories, prepaids and long-term loans and notes receivable (unless the proceeds are restricted, committed, or assigned).

- *Restricted* - fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

- *Committed* - fund balance includes amounts that can be used only for the specific purposes determined by formal action of the Board of School Directors.

- *Assigned* - fund balance includes amounts intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. The Business Manager has the authority to assign a fund balance. There were no amounts classified as assigned at June 30, 2015.

- Unassigned - fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

Unrestricted net position for proprietary funds represent the net assets available for future distribution.

The District has not adopted a minimum fund balance policy.

Fund Balance Flow Assumptions

The District's policy is to first apply restricted fund balance, then committed, assigned, and unassigned, respectively when an expenditure is incurred for purposes for which amounts in any of these classifications could be used.

Net Position

In the government-wide financial statements, net position represents assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings or deferred inflow of resources used for the acquisition, construction or improvement of those assets and increased by any related deferred outflows of resources.

Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. When the District incurs an expense for which it may use either restricted or unrestricted net position, it uses restricted position first unless unrestricted net position will have to be returned because it was not used.

Pensions

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

Deferred Inflows/Outflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources, as appropriate. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will *not* be recognized as an outflow of resources (i.e. expense) until then.

In addition to liabilities, the governmental funds balance sheet reports a separate section for deferred inflows of resources, as appropriate. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of resources that applies to future periods and so will *not* be recognized as an inflow of resources (i.e. revenue) until that time.

Net Position Flow Assumptions

Sometimes the District will fund outlays for a particular purpose with both restricted and unrestricted resources. It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The District's financial instruments consist of cash, investments, taxes and other receivables, accounts payable and noncurrent liabilities. The carrying value of these financial instruments approximates their fair values at June 30, 2015.

Cash Flows

For purposes of the statement of cash flows, the proprietary fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

2. RESTATEMENTS - ADOPTION OF GASB STATEMENTS NO. 68 AND 71 AND CORRECTION OF AN ERROR:

Effective July 1, 2014, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The objective of GASB Statement No. 68 and 71 is to identify the methods and assumptions that should be used to project pension benefit payments, discount projected pension benefit payments to their actuarial present value, and attribute that present value to period of employee service.

The implementation of GASB Statement No. 68 and 71 resulted in the restatement of the beginning net position of the governmental activities and business-type activities in the government-wide financial statements, and beginning net position of the proprietary fund. Net pension liability and retirement contributions made subsequent to the measurement date were recorded as a liability and deferred outflow of resources, respectively.

Effective July 1, 2014, the District corrected an error in previously reported accumulated compensated absences, which resulted in the restatement of beginning net position of the governmental activities and business-type activities in the government-wide financial statements, and beginning net position of the proprietary fund.

The cumulative effect of the restatements on beginning net position are summarized below:

Governmental Activities:	
Net position, as previously reported	$26,865,978
GASB Statement No. 68 and 71:	
Pension contributions made subsequent to the measurement date	1,671,293
Net pension liability	(36,025,780)
Correction of an error:	
Accumulated compensated absences	34,411
Net position, as restated	$(7,454,098)

Business-Type Activities:	
Net position, as previously reported	$ 571,026
GASB Statement No. 68 and 71:	
Pension contributions made subsequent to the measurement date	34,108
Net pension liability	(735,220)
Correction of an error:	
Accumulated compensated absences	(34,411)
Net position, as restated	$(164,497)

Proprietary Fund - Food Service Fund:	
Net position, as previously reported	$ 571,026
GASB Statement No. 68 and 71:	
Pension contributions made subsequent to the measurement date	34,108
Net pension liability	(735,220)
Correction of an error:	
Accumulated compensated absences	(34,411)
Net position, as restated	$(164,497)

Effective July 1, 2014, the District restated certain accumulated compensated absences liabilities from the governmental activities non-current liabilities to the business-type noncurrent liabilities. The District also restated net pension liability as a non-current liability for the governmental activities and business-type activities as follows:

Governmental Activities:	
Noncurrent liabilities, as previously reported	$19,567,276
Accumulated compensated absences	(34,411)
Net pension liability	36,025,780
Noncurrent liabilities, as restated	$55,558,645

Business-Type Activities:	
Noncurrent liabilities, as previously reported	$
Accumulated compensated absences	34,411
Net pension liability	735,220
Noncurrent liabilities, as restated	$769,631

3. CASH AND CASH EQUIVALENTS:

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2015, $502,862 of the District's bank balance of $7,380,952 was exposed to custodial credit risk as follows:

Collateralized with securities held by the pledging financial institution	$ 502,862

Reconciliation to Financial Statements

Collateralized with securities held by financial institution amount above	$ 502,862
Plus insured amount	4,750,150
Less outstanding checks	(269,492)
Carrying amount	4,983,520
Plus petty cash	600
Plus pooled cash equivalents in:	
General fund	1,608,221
Capital Projects fund	519,720
Less certificates of deposit considered investments by school code	(1,493,000)
Total cash and cash equivalents per financial statements	$ 5,619,061

4. INVESTMENTS:

State statutes authorize the District to invest in obligations of the U. S. treasury, agencies and instrumentalities of the U. S. government, deposits in savings accounts, certificates of deposit, and the Pennsylvania School District Liquid Asset Fund.

As of June 30, 2015, investments consisted of the following:

Description	Maturities	Fair Value
Certificates of deposit	1-12 months	$1,493,000
Pennsylvania School District Liquid Asset - Max Series		2,126,046
Total investments		$3,619,046

Interest Rate Risk

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

Credit Risk

The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2015, the investments were rated as follows:

Description	Standard & Poor’s
Pennsylvania School District Liquid Asset Fund - Max Series	AAAm

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. The District has no investments subject to concentration of credit risk.

Custodial Credit Risk

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

Reconciliation to Financial Statements

Total investments per above	$ 3,619,046
Less deposits in investment pool considered cash equivalents	(2,126,046)
Total investments per financial statements	$ 1,493,000

5. REAL ESTATE TAXES:

The tax on real estate, as levied by the School Board, was 13.87 mills ($13.87 per $1,000 of assessed valuation) for fiscal year 2015. The original assessed value at July 1, 2014, upon which the 2015 levy was based, was $800,163,060. Assessed valuations of property are determined by Lycoming County and the elected tax collectors are responsible for collection. 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

Current tax collections for the year ended June 30, 2015 were 96.2% of the tax levy. Estimated collectible delinquent real estate taxes at June 30, 2015 amounted to $508,605.

6. DUE FROM OTHER GOVERNMENTS:

Amounts due from other governments represent receivables for revenues earned by the District or collections made by another governmental unit on behalf of the District. At June 30, 2015, the following amounts are due from other governments:

	General Fund	Proprietary Fund	Total
Federal	$ 25,321	$3,154	$ 28,475
State	611,473	261	611,734
Local	277,687		277,687
Total	$914,481	$3,415	$917,896

7. INTERFUND BALANCES AND ACTIVITY:

As of June 30, 2015, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Due from Other Funds	Due to Other Funds
General fund	$265,444	$ 1,280
Capital projects fund		265,444
Food service fund	1,280	
Total	$266,724	$266,724

8. CAPITAL ASSETS:

A summary of changes in capital assets is as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
GOVERNMENTAL ACTIVITIES:				
Capital Assets, not being depreciated:				
Land	$ 184,579			$ 184,579
Construction in progress	155,574	$ 2,567,700	$(174,998)	2,548,276
Total capital assets, not being depreciated	340,153	2,567,700	(174,998)	2,732,855
Capital Assets, being depreciated:				
Land improvements	2,527,197			2,527,197
Building and building improvements	52,683,506	365,372		53,048,878
Furniture and equipment	5,006,867	344,259		5,351,126
Total capital assets, being depreciated	60,217,570	709,631		60,927,201
Accumulated depreciation	(22,546,762)	(1,537,546)		(24,084,308)
Total capital assets, being depreciated, net	37,670,808	(827,915)		36,842,893
Governmental activities capital assets, net	$ 38,010,961	$ 1,739,785	$(174,998)	$ 39,575,748
BUSINESS-TYPE ACTIVITIES:				
Capital Assets, being depreciated:				
Furniture and equipment	$ 1,097,946			$ 1,097,946
Accumulated depreciation	(685,954)	$ (40,968)		(726,922)
Total capital assets, being depreciated, net	411,992	(40,968)		371,024
Business-type activities capital assets, net	$ 411,992	$ (40,968)	$	$ 371,024

Depreciation expense was charged to governmental activities as follows:

Instruction	$ 629,585
Instructional student support	91,345
Administrative and financial support	42,774
Operation and maintenance of plant services	734,453
Pupil transportation	4,136
Student activities	35,253
Total	$1,537,546

9. COMPENSATED ABSENCES:

Retirement Severance Benefit

An administrator, upon permanent retirement from the field of public education, is paid $60 for each unused sick day accumulated by the employee, subject to certain limitations. Non-professional employees upon retirement are paid $50 for each year of service, not to exceed a total of 25 years and those with ten years of service with the District, will be provided $30 for each unused sick day to offset the cost of the employee's healthcare benefits. At June 30, 2015, the estimated liability for accumulated retirement severance benefit due upon retirement or termination of certain administrators and non-professional employees was $140,290. This liability has been recorded in accumulated compensated absences in the government-wide statement of net position. For the year ended June 30, 2015, the District made payments amounting to approximately $12,660.

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB):

Plan Description

The District provides postretirement healthcare benefits up to age 65 for teachers and administrative employees who retire with at least 35 years of public school service in Pennsylvania. Teachers and administrative employees may also qualify by retiring with 30 years of public school service in Pennsylvania once they have attained the age of 60 for teachers or age 55 for administrators. The employee also shall have completed 15 years of service with the District. The cost of such medical and dental coverage for retirees and spouses is determined by the contract provisions at the time of retirement. The plan provides post-retirement medical, prescription drug, and dental benefits. The plan is unfunded and no financial report is prepared. These benefits are accounted for in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Retired professional employees who are ineligible under the above requirements and choose to participate in the medical plan must pay the appropriate insurance premium of a tiered rate structure.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the School Board. The plan is funded on a pay-as-you-go basis, i.e. premiums are paid annually to fund the healthcare benefits provided to current retirees. Retiree contribution rates and amounts vary depending on classification and years of service with the District. The District paid premiums of approximately $30,000 for the fiscal year ended June 30, 2015. Total retiree contributions made by plan members were approximately $265,000 for the fiscal year ended June 30, 2015.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contributions (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following show the components of the District's annual OPEB cost for the year, the amount contributed to the plan, and changes in the District's net OPEB obligation:

	Governmental Activities	Business-Type Activities	Total
ARC	$ 412,211	$ 5,067	$ 417,278
Interest on net OPEB obligation (estimated)	37,442	1,548	38,990
Adjustment to annual required contribution (estimated)	(51,081)	(2,113)	(53,194)
Annual OPEB cost (expense)	398,572	4,502	403,074
Contributions made (estimated)	(331,350)	(369)	(331,719)
Increase in net OPEB obligation	67,222	4,133	71,355
Net OPEB obligation at July 1, 2014	832,055	34,411	866,466
Net OPEB obligation at June 30, 2015	$ 899,277	$38,544	$ 937,821

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

Fiscal Year Ended	Annual OPEB Cost	Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	$403,074	$331,719	82.3%	$937,821
June 30, 2014	$405,489	$333,530	82.2%	$866,466
June 30, 2013	$407,280	$298,009	73.0%	$794,507

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2014, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability	$ 3,830,301
Actuarial value of plan assets	
Unfunded actuarial accrued liability (UAAL)	$ 3,830,301

Funded ratio (actuarial value of plan assets/UAAL)	0%
Covered payroll	$11,252,084
UAAL as a percentage of covered payroll	34.04%

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 the healthcare cost trend. Actuarial amounts determined regarding the funded status of the plan and the annual required contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

The calculations are based on the types of benefits provided under the terms of the District's retirement benefits plan at the time of the valuation. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the efforts of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2014 actuarial valuation, which was used to determine the ARC for the year ended June 30, 2015, the entry age normal method was used. Under the entry age normal cost method, the normal cost is the present value of benefits allocated to the year following the valuation date. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and the assumed retirement age. The accrued liability as of the valuation date is the excess of the present value of future benefits over the present value of future normal cost. The unfunded accrued liability is the excess of the accrued liability over the actuarial value of assets. Actuarial gains and losses serve to reduce or increase the unfunded accrued liability.

The actuarial assumptions included a 4.5% investment rate of return, which is the expected rate to be earned on the District's deposits and investments, and an annual healthcare cost trend rate of 6.5% in 2014, reduced by .5% annually to an ultimate rate of 5.5% in 2016. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The UAAL is being amortized as a level percentage of payroll over a thirty year period on an open basis.

11. NONCURRENT LIABILITIES:

The following is a summary of changes in the governmental activities noncurrent liabilities for the year ended June 30, 2015:

	Balance June 30, 2014 (As Restated)	Additions	Retirements	Amortization	Balance June 30, 2015	Amounts Due in One Year
Governmental Activities:						
General obligation bonds payable	$18,200,000		$1,500,000		$16,700,000	$1,930,000
Plus deferred net bond premium	355,555			$(40,539)	315,016	
Total	18,555,555		1,500,000	(40,539)	17,015,016	1,930,000
Compensated Absences	977,310	$406,267	344,010		1,039,567	
Net pension liability	36,025,780	358,680			36,384,460	
Total	$55,558,645	$764,947	$1,844,010	$(40,539)	$54,439,043	$1,930,000
Business-Type Activities:						
Compensated Absences	$ 34,411	$ 4,502	$ 369		$ 38,544	
Net pension liability	735,220	7,320			742,540	
Total	$ 769,631	$ 11,822	$ 369	$	$ 781,084	$

General obligation bonds payable at June 30, 2015 are comprised of the following:

Series of 2010, due in varying installments through May 2023, with interest rates ranging from 2.75% to 4.0% per annum.	$ 8,675,000
Series of 2014, due in varying installments through April 2023, with interest rates ranging from .22% to 4.0% per annum.	8,025,000
Total	16,700,000
Less amounts due in one year	1,930,000
Plus deferred bond premium	315,016
Noncurrent portion of general obligation bonds payable	$15,085,016

The annual requirements to amortize general obligation bonds payable at June 30, 2015 are as follows:

	Principal	Interest	Total
2016	$ 1,930,000	$ 508,632	$ 2,438,632
2017	1,975,000	459,492	2,434,492
2018	2,040,000	402,680	2,442,680
2019	2,110,000	331,131	2,441,131
2020	2,190,000	255,010	2,445,010
2021 - 2023	6,455,000	392,062	6,847,062
Total	$16,700,000	$2,349,007	$19,049,007

The total interest expense related to the general obligation bonds for the year ended June 30, 2015 amounted to $519,616. No interest expense was capitalized during the year ended June 30, 2015.

12. PENSION BENEFITS:

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

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

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

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 effected by a "shared risk" provision in Act 120 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions

The school districts' contractually required contribution rate for fiscal year ended June 30, 2015 was 20.50% 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 $2,428,426 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 $37,127,000 for its proportionate share of the net pension liability in the government-wide statement of net position. 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 0.0938%, which was an increase of 0.004% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense in the government-wide statement of activities as follows:

Governmental activities	$3,128,388
Business-type activities	63,845
Total	$3,192,233

At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience		
Changes in assumptions		
Net difference between projected and actual investment earnings		$1,990,500
Changes in proportions	$1,001,500	
Difference between employer contributions and proportionate share of total contributions		131,832
Contributions subsequent to the measurement date	2,428,426	
Total	$3,429,926	$2,122,332

$2,428,426 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 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	$(377,767)
2017	(377,767)
2018	(377,767)
2019	17,233
2020	4,764

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 percentage 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 1.00%, 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 Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

The actuarial assumptions used in the June 30, 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 PSERS Board of Directors 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 unexpected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the largest asset allocation percentage and by adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS 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.

	Target Allocation	Long-Term Expected Real Rate of Return
Asset Class:		
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)	(9)%	1.1%
Total	100%	

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 a 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease 6.50%	Discount Rate 7.50%	1% Increase 8.50%
District's proportionate share of the net pension liability (in thousands)	$46,310	$37,127	$29,286

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.

13. SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK:

The District's operations are located in Montoursville, Pennsylvania. Its service area is located within the geographic boundaries of the District. The District assesses taxpayers, within its service area, based upon taxing powers at its disposal. The ability of each of the District's taxpayers to honor their assessed obligations to the District is dependent upon economic and other factors affecting the taxpayers.

14. CONTINGENCIES:

Grants

The District participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The District is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. It is the opinion of management that requests for reimbursements, if any, by either state or federal governments based on subsequent audits will not be material in relation to the District's financial statements as of June 30, 2015.

Litigation

The District is subject to claims arising out of its normal operations. In the opinion of management, after review and consultation with counsel, any proceedings that may be assessed will not have a material adverse effect on the financial position of the District or results of its operations.

Risk Management

The District is exposed to various risks of losses related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. It is the policy of the District to purchase commercial insurance for the risks of loss to which it is exposed, including workers' compensation and employee health and accident insurance.

15. COMMITMENTS:

The District has contractual obligations for the renovations to existing buildings in the amount of approximately $4,556,000 of which approximately $2,469,000 has been paid or accrued as of June 30, 2015.

16. JOINT VENTURES:

The District and other surrounding educational institutions created a joint venture, the Lycoming County Insurance Consortium Pooled Trust (Trust). The District self-insures through the Trust for certain healthcare benefits provided to current and former employees. The Trust has purchased an excess policy which covers employee health benefit claims in excess of $375,000. Claims are recognized as an expense when paid (cash basis) which is not materially different from the accrual basis. For the year ended June 30, 2015, the District made payments for healthcare benefit claims of approximately $3,153,000 to the Trust. Audited financial statements of the Trust are available.

The District and other surrounding educational institutions created a jointly governed organization, the Lycoming Career and Technology Center (Center), to provide vocational and technical education for students of the participating school districts. The governing board of the Center is comprised of a director from each participating school district. For the year ended June 30, 2015, the District paid approximately $196,000 to the Center. As of June 30, 2015, there were no amounts due to or due from the Center. Audited financial statements of the Center are available.

17. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through November 5, 2015 which is the date the financial statements were available to be issued.

On August 11, 2015, the District awarded eight contracts for the high school renovation project in the amount of approximately $31,700,000.

On August 6, 2015, the District issued General Obligation Note, Series of 2015 in the amount of $8,915,000. The Note is payable in varying installments through May 2023 with interest at 2.17% per annum. The Note proceeds were used for the current refunding of $8,675,000 of the District’s General Obligation Bonds, Series of 2010.

On September 17, 2015, the District issued General Obligation Bonds, Series A of 2015 in the maximum principal amount of $9,750,000, including an initial advance of $3,000,000 with the remaining amount to be drawn as construction progresses. The Bonds are payable in varying installments through June 2036 with interest rates ranging from 1.75% to 4.50% per annum. The Bond proceeds were used for construction costs related to the high school renovation project.

18. RECENT ACCOUNTING PRONOUNCEMENTS:

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application.* This statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and related disclosures. This statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. This statement is effective for reporting periods beginning after June 15, 2015. The District has not determined the effect, if any, on the financial statements due to adoption of this statement.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68.* This statement provides reporting requirements for pension plans that are not within the scope of GASB Statements No. 67 and 68. In addition, this statement clarifies the application of certain provisions of Statement No. 67 and 68, including items related to required supplementary information, liabilities, and recognition of revenue. This statement is effective for fiscal years beginning after June 15, 2015. The District has not determined the effect, if any, on the financial statements due to adoption of this statement.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* This statement replaces and/or amends the provisions of GASB Statement No. 25, 54, 50 and 57 related to defined contribution and benefit OPEB plans. This statement is effective for fiscal years beginning after June 15, 2016. The District has not determined the effect, if any, on the financial statements due to adoption of this statement.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This statement replaces the provisions of GASB Statements No. 45 and 57 for OPEB plans. This statement is effective for fiscal years beginning after June 15, 2017. The District has not determined the effect, if any, on the financial statements due to adoption of this statement.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement identifies the hierarchy of accounting principles generally accepted in the United States of America for financial statements of state and local governments. This statement is effective for reporting periods beginning after June 15, 2015. The District has not determined the effect, if any, on the financial statements due to adoption of this statement.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement requires governments to disclose information regarding tax abatement agreements. This statement is effective for reporting periods beginning after December 15, 2015. The District has not determined the effect, if any, on the financial statements due to adoption of this statement.

MONTOURSVILLE AREA SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE (UNAUDITED)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual
	Original	Final	Budgetary Basis
REVENUES:			
Local sources	$ 14,538,680	$ 14,538,680	$ 15,039,338
State sources	11,378,480	11,378,480	11,337,128
Federal sources	294,120	294,120	308,173
Total revenues	26,211,280	26,211,280	26,684,639
EXPENDITURES:			
Instruction	15,805,220	15,805,220	16,082,131
Support services	8,996,820	8,996,820	8,198,765
Noninstructional services	690,880	690,880	660,027
Refund of prior year receipts			1,529
Total expenditures	25,492,920	25,492,920	24,942,452
EXCESS OF REVENUES OVER EXPENDITURES	718,360	718,360	1,742,187
OTHER FINANCING SOURCES (USES):			
Interfund transfers out	(2,446,510)	(2,446,510)	(2,442,300)
Budgetary reserve	(617,860)	(617,860)	
Total other financing uses	(3,064,370)	(3,064,370)	(2,442,300)
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(2,346,010)	(2,346,010)	(700,113)
FUND BALANCE, BEGINNING	3,848,560	3,848,560	4,380,563
FUND BALANCE, ENDING	$ 1,502,550	$ 1,502,550	$ 3,680,450

MONTOURSVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS (UNAUDITED)
JUNE 30, 2015

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as of Percentage of Covered Payroll ((b-a) / c)
Governmental	1/1/2014	$	$ 3,786,074	$ 3,786,074	0.00%	$ 11,129,710	34.02%
Activities	1/1/2012		3,796,933	3,796,933	0.00%	10,881,204	34.89%
	1/1/2010		3,767,008	3,767,008	0.00%	11,256,626	33.46%
Business-Type	1/1/2014		44,227	44,227	0.00%	122,374	36.14%
Activities	1/1/2012		38,818	38,818	0.00%	119,425	32.50%
	1/1/2010		48,696	48,696	0.00%	131,080	37.15%
Total	1/1/2014		3,830,301	3,830,301	0.00%	11,252,084	34.04%
	1/1/2012		3,835,751	3,835,751	0.00%	11,000,629	34.87%
	1/1/2010		3,815,704	3,815,704	0.00%	11,387,706	33.51%

MONTOURSVILLE AREA SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (UNAUDITED)
PENSION PLAN
JUNE 30, 2015
(Dollar amounts in thousands)

	JUNE 30, 2014
District’s proportion of the net pension liability (asset)	0.0938%
District’s proportionate share of the net pension liability (asset)	$37,127
District’s covered-employee payroll	$11,974
District’s proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	310.06%
Plan fiduciary net position as a percentage of the total pension liability	57.24%

MONTOURSVILLE AREA SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS (UNAUDITED)
JUNE 30, 2015
(Dollar amounts in thousands)

	JUNE 30, 2014
Contractually required contribution	$ 2,428
Contributions in relation to the contractually required contribution	2,428
Contribution deficiency (excess)	$
District’s covered-employee payroll	$11,974
Contributions as a percentage of covered-employee payroll	20.28%

See Notes to Basic Financial Statements

MONTOURSVILLE AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

Grantor/Program Title	Source Code	Federal CFDA Number	Pass-through Grant Number	Grant Period Beginning/ Ending Date	Grant Amount	Total Received for the Year	Accrued (Deferred) Revenue July 1, 2014	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue June 30, 2015
U.S. DEPARTMENT OF EDUCATION										
Passed through the Pennsylvania										
Department of Education:										
Title I Improving Basic Programs	I	84.010	13-140264	07/01/13-09/30/14	$218,183	$ 15,975	$ 15,975			
Title I Improving Basic Programs	I	84.010	13-150264	07/01/14-09/30/15	193,688	169,083		$ 193,688	$ 193,688	$ 24,605
Total Title I, Part A Cluster						185,058	15,975	193,688	193,688	24,605
Title II Improving Teacher Quality	I	84.367	20-150264	07/01/14-09/30/15	68,978	68,978		68,978	68,978	
Passed through BLaST Intermediate Unit #17:										
IDEA	I	84.027	N/A	07/01/13-06/30/14	N/A	48,092	48,092			
IDEA Extended School Year	I	84.027	N/A	07/01/14-06/30/15	N/A	21,332		21,332	21,332	
IDEA	I	84.027	N/A	07/01/14-06/30/15	N/A	150,000		232,353	232,353	82,353
Total						219,424	48,092	253,685	253,685	82,353
Special Education - Preschool Grants - Early Intervention	I	84.173	N/A	07/01/14-06/30/15	N/A	3,845		3,845	3,845	
Total IDEA Cluster						223,269	48,092	257,530	257,530	82,353
TOTAL U.S. DEPARTMENT OF EDUCATION						477,305	64,067	520,196	520,196	106,958
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES										
Passed through Leader Services:										
Medical Assistance Program	I	93.778	N/A	07/01/13-06/30/14	N/A	1,339	1,339			
Medical Assistance Program	I	93.778	N/A	07/01/14-06/30/15	N/A	2,791		3,507	3,507	716
Total Medicaid Cluster						4,130	1,339	3,507	3,507	716
U.S. DEPARTMENT OF AGRICULTURE										
Passed through the Pennsylvania										
Department of Education:										
National School Lunch Program	I	10.555	N/A	07/01/14-06/30/15	N/A	246,943	2,542	246,935	246,935	2,534
Passed through the Pennsylvania										
Department of Agriculture:										
National School Lunch Program	I	10.555	N/A	07/01/14-06/30/15	N/A	(a) 44,923	(b) (17,478)	47,542	(c) 47,542	(d) (14,859)
Total						291,866	(14,936)	294,477	294,477	(12,325)
Passed through the Pennsylvania										
Department of Education:										
School Breakfast Program	I	10.553	N/A	07/01/14-06/30/15	N/A	32,188	600	32,208	32,208	620
Total Child Nutrition Cluster						324,054	(14,336)	326,685	326,685	(11,705)
TOTAL U.S. DEPARTMENT OF AGRICULTURE						324,054	(14,336)	326,685	326,685	(11,705)
TOTAL FEDERAL AWARDS						$ 805,489	$ 51,070	$ 850,388	$ 850,388	$ 95,969

SOURCE CODES:
N/A - Not applicable
I - Indirect Funding

FOOTNOTES:
(a) Total amount of commodities received.
(b) Beginning inventory at July 1, 2014.
(c) Total amount of commodities used.
(d) Ending inventory at June 30, 2015.

1. BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Montoursville Area School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations.*

2. PENNSYLVANIA DEPARTMENT OF EDUCATION:

The following schedule summarizes the National School Lunch Program activity:

Program Title	Total Received for the Year	Accrued (Deferred) Revenue July 1, 2014	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue June 30, 2015
Food Nutrition Service-Lunch	$21,111	$219	$21,104	$21,104	$212
Food Nutrition Service-Breakfast-Needy	2,680	50	2,679	2,679	49
Total	$23,791	$269	$23,783	$23,783	$261

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Certified Public Accountants and Consultants

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

Board of School Directors
Montoursville Area School District
Montoursville, Pennsylvania:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montoursville Area School District (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 and have issued our report thereon dated November 5, 2015.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs, as item 2015-001, to be a material weakness.

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A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs, as item 2015-002, to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

District's Response to Findings

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

Purpose of this Report

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

Larson, Kellett & Associates, P.C.

Montoursville, Pennsylvania
November 5, 2015

Larson, Kellett & Associates, P.C.
Certified Public Accountants and Consultants

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

Board of School Directors
Montoursville Area School District
Montoursville, Pennsylvania:

Report on Compliance for Each Major Federal Program

We have audited Montoursville Area School District's (District) 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 the District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the 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.

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Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the 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 the 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 and therefore, material weaknesses or significant deficiencies my exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-003, that we consider to be a significant deficiency.

District's Response to Finding

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

Purpose of this Report

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.

Larson, Kellett & Associates, P.C.

Montoursville, Pennsylvania
November 5, 2015

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified.

Internal control over financial reporting:

- Material weakness(es) identified? __x__ yes ______ no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? __x__ yes ______ none reported

Noncompliance material to financial statements noted? ______ yes __x__ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ______ yes __x__ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? __x__ yes ______ none reported

Type of auditors' report issued on compliance for major programs: Unmodified.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? __x__ yes ______ no

Identification of major programs:

CFDA Number	Name of Federal Program
10.553	School Breakfast Program
10.555	National School Lunch Program

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low-risk auditee? __x__ yes ______ no

SECTION II - FINANCIAL STATEMENTS FINDINGS (MATERIAL WEAKNESS AND SIGNIFICANT DEFICIENCY)

2015-001. FOOD SERVICE DONATED COMMODITIES

Criteria: GAAP requires that the total amount of food service donated commodities revenue and expense be included on the statement of revenues, expenses and changes in net position.

Condition: The District's year end closing procedures did not identify an overstatement of food service donated commodities revenue and expense in the amount of $17,478.

Context: Not applicable.

Effect: Food service donated commodities revenue and expense were overstated.

Cause: The District's procedures are not adequately designed to ensure that the total amount of food service donated commodities revenue and expense are included in the financial statements.

Recommendation: The District should compare food service donated commodities revenue and expense to year-end inventory counts and the Pennsylvania Department of Agriculture, Bureau of Food Distribution Agency Summary Report to evaluate whether donated commodities revenue and expense are recorded properly.

Management Response: The year-end food service donated commodities revenue and expense was inadvertently recorded incorrectly on the general ledger.

Corrective Action Plan: The Business Manager will review the general ledger entry to ensure the year-end food service donated commodities revenue and expense was recorded correctly.

Person Responsible: Business Manager.

Implementation Timeline: Immediately.

2015-002. FOOD SERVICE INVENTORY

Criteria: The inventory valuation report provides the detail of inventory items including USDA commodities and the year-end dollar value.

Condition: Differences between the inventory quantity on the inventory valuation report and the physical count were identified as of June 30, 2015.

Context: Two inventory test counts out of sixteen.

Effect: The inventory valuation report contained errors which affects the District's financial reporting process.

Cause: A supervisor did not review the accuracy of the inventory valuation report. This review should include performing test counts of the physical inventory.

Recommendation: The report should be submitted to a supervisor for review to ensure clerical accuracy. The report should be signed and dated by the supervisor to document review and approval.

Management Response: Handwritten inventory quantity reports were reviewed by the supervisor, then subsequently entered on the inventory valuation report by clerical staff. A typographic error on the inventory valuation report went undetected causing a difference between the inventory valuation report and the actual inventory quantity.

Corrective Action Plan: The supervisor will review the final inventory valuation report and verify the accuracy of the report by completing test counts of the actual inventory.

Person Responsible: Food Service Director.

Implementation Timeline: Immediately.

SECTION III - FEDERAL AWARDS PROGRAMS FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF AGRICULTURE

2015-003. National School Lunch Program - CFDA No. 10.555 (passed through the Pennsylvania Department of Education and the Pennsylvania Department of Agriculture), School Breakfast Program - CFDA No. 10.553 (passed through the Pennsylvania Department of Education); Grant Period - Year Ended June 30, 2015.

Criteria: The number of students receiving free and reduced meals is used to calculate the District's federal and state revenue.

Condition: Parents complete an application which provides financial information used to determine eligibility for free and reduced meals. The application information is input into the WinSNAP System which determines a student's eligibility. This information is not reviewed by a supervisor for clerical accuracy.

Questioned Costs: None.

Context: One application out of sixty.

Effect: Eligibility determinations for free and reduced meals could be incorrect.

Cause: The individual reviewing the applications is not recalculating total income used to determine if a student is eligible for free or reduced meals.

Recommendation: An individual, independent of data input process, should review the clerical accuracy of the application.

Management Response: Free and reduced meal application information is entered into the WinSNAP computer application to determine eligibility, but the eligibility determination is not being recalculated for accuracy.

Corrective Action Plan: Free and reduced meal applications will be recalculated manually to verify student eligibility for free and reduced meals.

Person Responsible: Food Service Director.

Implementation Timeline: Immediately.

SECTION IV - PRIOR YEAR FEDERAL AWARDS PROGRAMS FINDINGS AND QUESTIONED COSTS

2014-002. National School Lunch Program - CFDA No. 10.555 (passed through the Pennsylvania Department of Education and the Pennsylvania Department of Agriculture), School Breakfast Program - CFDA No. 10.553 (passed through the Pennsylvania Department of Education); Grant Period - Year Ended June 30, 2014.

Criteria: The number of students receiving free and reduced meals is used to calculate the District's federal and state revenue.

Condition: Parents complete an application which provides financial information used to determine eligibility for free and reduced meals. The application information is input into the WinSNAP System which determines a student's eligibility. This information is not reviewed by a supervisor for accuracy.

Questioned Costs: None.

Context: Not Applicable.

Effect: Eligibility determinations for free and reduced meals could be incorrect.

Cause: The Food Service Director reviews applications and enters this information into the WinSNAP System.

Recommendation: An individual, independent of data input process, should review the accuracy of the information.

Management Response: Fee and reduced meal application information is entered into the WinSNAP computer application to determine eligibility. While this information is reviewed by an individual independent of the data input process for accuracy, in some cases evidence of a review was not provided.

Corrective Action Plan: The reviewer will provide evidence by signing and dating the report.

Person Responsible: Food Service Director.

Status: See current year finding 2015-003.

2013-1. National School Lunch Program - CFDA No. 10.555 (passed through the Pennsylvania Department of Education and the Pennsylvania Department of Agriculture), School Breakfast Program - CFDA No. 10.553 (passed through the Pennsylvania Department of Education); Grant Period - Year Ended June 30, 2013.

Criteria: The number of students receiving free and reduced meals is used to calculate the District's federal and state revenue.

Condition: Parents complete an application which provides financial information used to determine eligibility for free and reduced meals. The application information is input into the WinSNAP System which determines a student's eligibility. This information is not reviewed by a supervisor for accuracy.

Questioned Costs: None.

Context: Not Applicable.

Effect: Eligibility determinations for free and reduced meals could be incorrect.

Cause: The Food Service Director reviews applications and enters this information into the WinSNAP System.

Recommendation: An individual, independent of data input process, should review the accuracy of the information.

Management Response: The corrective action plan was implemented in November 2012.

Corrective Action Plan: Free and reduced meal application information is reviewed by an individual independent of the data input process. The reviewer provides evidence by signing and dating the report.

Person Responsible: Food Service Director.

Status: See current year finding 2015-003.