

MONTOURSVILLE AREA SCHOOL DISTRICT
FINANCIAL STATEMENTS AND SINGLE AUDIT REPORTS
FOR THE YEAR ENDED JUNE 30, 2016

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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 and each major fund of Montoursville Area School District (District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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.

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 and each major fund of the District as of June 30, 2016, and the respective changes in financial position and where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the District has adopted the requirements of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. Our opinions are not modified with respect to this matter.

Correction of Error

As described in Note 2 to the financial statements, the District corrected an error in previously reported pension deferred outflows and inflows of resources. 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 - General Fund 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 the 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2017, 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
February 17, 2017

**MONTOURSVILLE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

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, 2016 and 2015. 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 \$599,000 from the previous year end as restated. 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 \$6.1 million or 20.8% of total revenues, and general revenues (revenues that are not matched to specific program expenses) accounted for approximately \$22.8 million or 79.2% of total revenues.

The general fund reported a fund balance of approximately \$2.7 million or 9.0% of the 2015-2016 \$30 million operating budget. This represents a decrease of approximately \$1 million 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

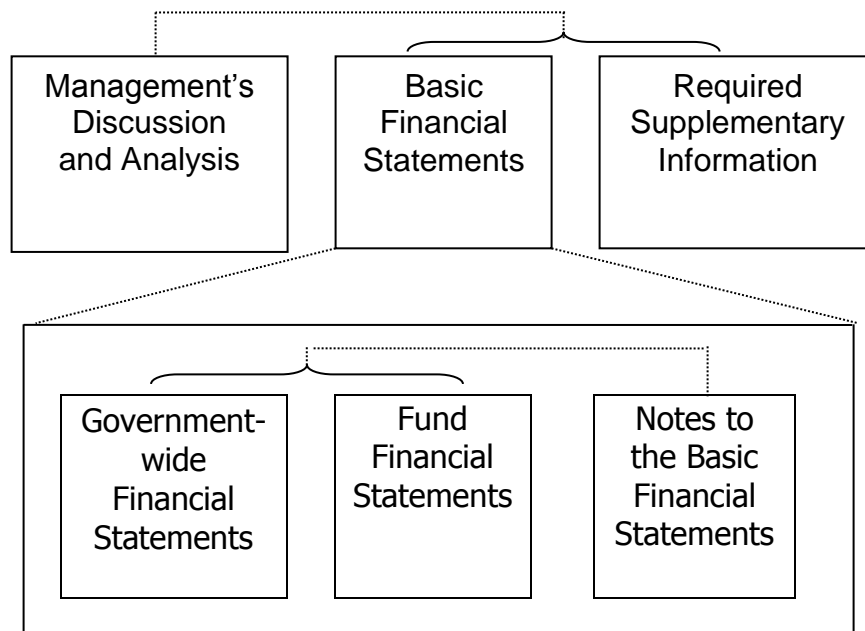


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the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

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

	Government-wide Statements	Fund 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 (70%) 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 2015 to 2016 follows:

Table A-1 Comparative Analysis June 30, 2015 – June 30, 2016 Government Wide Financial Analysis - Net Position						
(Amounts expressed in thousands)	Governmental Activities		Business-Type Activities		Totals	
	2015 (As Restated)	2016	2015 (As Restated)	2016	2015 (As Restated)	2016
Current Assets	\$ 8,701	\$ 22,663	\$ 200	\$ 202	\$ 8,901	\$ 22,865
Capital Assets	\$ 39,576	\$ 53,285	\$ 371	\$ 332	\$ 39,947	\$ 53,617
Prepaid Bond Insurance	\$ 51	\$ 50			\$ 51	\$ 50
Total Assets	\$ 48,328	\$ 75,998	\$ 571	\$ 534	\$ 48,899	\$ 76,532
Deferred Outflows of Resources	\$ 3,869	\$ 4,421	\$ 74	\$ 86	\$ 3,943	\$ 4,507
Current Liabilities	\$ 5,393	\$ 8,805	\$ 35	\$ 37	\$ 5,428	\$ 8,842
Noncurrent Liabilities	\$ 52,509	\$ 80,234	\$ 781	\$ 859	\$ 53,290	\$ 81,092
Total Liabilities	\$ 57,902	\$ 89,039	\$ 816	\$ 896	\$ 58,718	\$ 89,935
Deferred Inflows of Resources	\$ 2,729	\$ 357	\$ 55	\$ 7	\$ 2,784	\$ 364
Net Position:						
Invested in Capital						
Assets, Net of Debt	\$ 22,658	\$ 21,510	\$ 371	\$ 332	\$ 23,029	\$ 21,842
Restricted for Capital Projects	\$ 1,239	\$ 12,832	\$ -	\$ -	\$ 1,239	\$ 12,832
Restricted for Debt Service	\$ 0	\$ -	\$ -	\$ -	\$ 0	\$ -
Unrestricted	(\$ 32,331)	(\$ 43,319)	(\$ 597)	(\$ 615)	(\$ 32,928)	(\$ 43,934)
Total Net Position	(\$ 8,434)	(\$ 8,977)	(\$ 226)	(\$ 283)	(\$ 8,660)	(\$ 9,260)

The District reports an increase in its restricted net position while showing a decrease in unrestricted net position. The District's investment in capital assets, net of debt, decreased by approximately \$1,187,000 (net), as a result of equipment purchases, facility improvements, and additional debt during the fiscal year.

The District's total net position related to governmental activities decreased by approximately \$543,000. Additionally, the District's total unrestricted net assets related to governmental and business-type activities reflect a deficit balance of approximately \$43.9 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, 2015 – June 30, 2016 Changes in Net Position						
(Amounts expressed in thousands)	Governmental Activities		Business-Type Activities		Total	
	2015 (As Restated)	2016	2015 (As Restated)	2016	2015 (As Restated)	2016
Revenues						
Program Revenues						
Charges for Services	\$ 185	\$ 179	\$ 407	\$ 399	\$ 592	\$ 578
Operating Grants	\$ 4,725	\$ 5,124	\$ 387	\$ 421	\$ 5,112	\$ 5,545
Total Program Revenues	\$ 4,910	\$ 5,303	\$ 794	\$ 820	\$ 5,704	\$ 6,123
General Revenues						
Property Taxes	\$ 10,664	\$10,978	\$ -	\$ -	\$ 10,664	\$ 10,978
Other Taxes	\$ 3,824	\$ 3,779	\$ -	\$ -	\$ 3,824	\$ 3,779
Grants and Entitlements	\$ 7,217	\$ 7,957	\$ -	\$ -	\$ 7,217	\$ 7,957
Other	\$ 55	\$ 49	\$ -	\$ -	\$ 55	\$ 49
Total General Revenues	\$ 21,760	\$ 22,763	\$ -	\$ -	\$ 21,760	\$ 22,763
Total Revenues	\$ 26,670	\$28,066	\$ 794	\$ 820	\$ 27,464	\$ 28,886
Expenses						
Program Expenses						
Instruction	\$ 17,521	\$17,532	\$ -	\$ -	\$ 17,521	\$ 17,532
Support Services:						
Instructional Student Support	\$ 2,496	\$ 2,566	\$ -	\$ -	\$ 2,496	\$ 2,566
Administration	\$ 2,223	\$ 2,723	\$ -	\$ -	\$ 2,223	\$ 2,723
Maintenance	\$ 3,177	\$ 3,264	\$ -	\$ -	\$ 3,177	\$ 3,264
Pupil Transportation	\$ 1,086	\$ 1,147	\$ -	\$ -	\$ 1,086	\$ 1,147
Community Services	\$ 0	\$ 0	\$ -	\$ -	\$ 0	\$ 0
Student Activities	\$ 616	\$ 770	\$ -	\$ -	\$ 616	\$ 770
Interest and Fiscal Charges	\$ 531	\$ 607	\$ -	\$ -	\$ 531	\$ 607
Other Support Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Food Service	\$ -	\$ -	\$ 856	\$ 876	\$ 856	\$ 876
Depreciation, unallocated	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 27,650	\$ 28,609	\$ 856	\$ 876	\$ 28,506	\$ 29,485
Excess before transfers	(\$ 980)	(\$ 543)	(\$ 62)	(\$ 56)	(\$ 1,042)	(\$ 599)
Interfund Transfers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Loss on Disposal of Capital Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Net Position	(\$ 980)	(\$ 543)	(\$ 62)	(\$ 56)	(\$ 1,042)	(\$ 599)

FUND FINANCIAL STATEMENT ANALYSIS

At June 30, 2016, a combined fund balance of \$15,563,361 is reported on the District's governmental funds statement; overall, this is an increase of \$10,643,503 from the prior fiscal year.

Table A-3 Fiscal Year End Comparison June 30, 2015 – June 30, 2016 Changes in Governmental Funds Balances			
	Fund Balance 2015	Fund Balance 2016	Increase (Decrease)
General Fund	\$ 3,680,450	\$ 2,731,743	(\$ 948,707)
Capital Projects Fund			
Bond Proceeds for Capital Improvements	(\$ 2,149,360)	\$ 9,110,181	\$ 11,259,541
Reserved for Future Capital Improvements	\$ 3,388,768	\$ 3,721,437	\$ 332,669
Debt Service Fund	\$ 0	\$ 0	\$ 0
Total Fund Balance	\$ 4,919,858	\$ 15,563,361	\$ 10,643,503

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 real estate taxes; as well as (state revenue) reimbursement for contributions to the Public School Employees' Retirement System and the general instructional subsidy. The District received a private donation for the Memorial Stadium.

Table A-4 Fiscal Year End Comparison June 30, 2015 – June 30, 2016 General Fund Revenues and Expenditures				
	2015 Amount	2016 Amount	Dollar Change	Percent Change
<i>Revenues</i>				
Local	\$ 15,039,338	\$ 15,910,482	\$ 871,144	5.79 %
State	\$ 11,337,128	\$ 11,880,737	\$ 543,609	4.79 %
Federal	\$ 308,173	\$ 274,920	(\$ 33,253)	(10.79) %
Total	\$ 26,684,639	\$ 28,066,139	\$ 1,381,500	5.18 %
<i>Expenditures</i>				
Instruction	\$ 16,082,131	\$ 16,263,437	\$ 181,306	1.13 %
Support Services	\$ 8,198,765	\$ 8,260,598	\$ 61,833	0.75 %
Noninstructional Services	\$ 660,027	\$ 629,185	(\$ 30,842)	(4.67) %
Debt Service	\$ 0	\$ 0	\$ 0	0.00 %
Refund of Prior Year Exp.	\$ 1,529	\$ 997	(\$ 532)	(34.79) %
Fund Transfers Out	\$ 2,442,300	\$ 3,860,629	\$ 1,418,329	58.07 %
Total	\$ 27,384,752	\$ 29,014,846	\$ 1,630,094	5.95 %
Excess Revenues (Expenditures)	(\$ 700,113)	(\$ 948,707)	(\$ 248,594)	(35.51) %

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 is also being 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.”
- 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, \$1,318,000 was transferred to this sub-category from unexpended general fund appropriations. The increase in fund balance is due to debt financing for the current building project.

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 2014 General Obligation Bonds, Series of 2015 Note, Series A of 2015 General Obligation Bonds and Series of 2016 General Obligation Bonds through the Debt Service Fund.

Proprietary Fund –

At June 30, 2016, the District's sole business-type activity, the proprietary fund, reported total net position of (\$282,493). 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, 2015 – June 30, 2016
Proprietary Fund Revenues and Expenditures

	2015 Amount (As Restated)	2016 Amount	Dollar Change	Percent Change
<i>Revenues</i>				
Food Service Revenue	\$ 400,119	\$ 397,015	(\$ 3,104)	(.78)%
Other Operating Revenues	\$ 6,892	\$ 2,349	(\$ 4,543)	(65.92)%
State Subsidies	\$ 59,910	\$ 67,597	\$ 7,687	12.83 %
Federal Subsidies	\$ 326,686	\$ 353,060	\$ 26,374	8.07 %
Total	\$ 793,607	\$ 820,021	\$ 26,414	3.33 %
<i>Expenditures</i>				
Salaries	\$ 261,037	\$ 266,686	\$ 5,649	2.16 %
Employee Benefits	\$ 182,385	\$ 191,215	\$ 8,830	4.84 %
Technical Services	\$ 1,000	\$ 0	(\$ 1000)	100.00 %
Purchased Property Services	\$ 6,385	\$ 6,809	\$ 424	6.64 %
Other Purchased Service	\$ 433	\$ 484	\$ 51	11.78 %
Supplies	\$ 363,049	\$ 372,156	\$ 9,107	2.51 %
Depreciation	\$ 40,968	\$ 38,765	(\$ 2,203)	(5.38)%
Other Operating Expenses	\$ 124	\$ 128	\$ 4	3.23 %
Total	\$ 855,381	\$ 876,243	\$ 20,862	2.43 %
Interfund transfers In	\$ -	\$ -	\$ -	- %
Capital Contributions	\$ -	\$ -	\$ -	- %
Change in Net Position	(\$ 61,774)	(\$ 56,222)	(\$ 5,552)	8.99 %

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, 2016 District had \$53,616,796 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 \$26,465,114 at year end. As displayed in Table A-6, the majority of asset acquisitions were for Construction in Progress during the 2015-2016 fiscal year.

Table A-6 Fiscal Year End Comparison June 30, 2015 – June 30, 2016 Capital Assets – Net of Depreciation						
	Governmental Activities		Business-Type Activities		Increase (Decrease) By Activity Type	
	2015	2016	2015	2016	Govern.	Business
(Amounts expressed in Thousands)						
Land and Improvements	\$ 1,841	\$ 1,740	\$ -	\$ -	(\$ 101)	\$ -
Buildings and Building Improvements	\$ 33,850	\$ 38,258	\$ -	\$ -	\$ 4,408	\$ -
Furniture and Equipment	\$ 1,336	\$ 1,193	\$ 371	\$ 332	(\$ 143)	(\$ 39)
Construction in Progress	\$ 2,548	\$ 12,093	\$ -	\$ -	\$ 9,545	\$ -
Total	\$ 39,575	\$ 53,284	\$ 371	\$ 332	\$ 13,709	(\$ 39)

Debt Administration

During the year, the District made payments against principal of \$2,050,000 and levied additional debt in the amount of \$25,500,000. The District refinanced Bonds, Series of 2010 for \$8,915,000 resulting in outstanding debt as of June 30, 2016 of \$40,390,000; this is displayed in Table A-7.

Table A-7 Outstanding Debt Comparison June 30, 2015 – June 30, 2016			
	2015	2016	Increase (Decrease)
Bonds, Series of 2010	\$ 8,675,000	\$ 0	(\$ 8,675,000)
Bonds, Series of 2014	\$ 8,025,000	\$ 7,035,000	(\$ 990,000)
Note, Series of 2015	\$ 0	\$ 7,855,000	\$ 7,855,000
Bonds, Series A of 2015	\$ 0	\$ 9,750,000	\$ 9,750,000
Bonds, Series of 2016	\$ 0	\$ 15,750,000	\$ 15,750,000
Total Debt Outstanding	\$ 16,700,000	\$ 40,390,000	(\$ 23,690,000)

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 20th largest state-sponsored defined benefit pension fund in the nation and has a membership of more than 257,000 active members and nearly 225,000 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 7.54% of their salary to help fund their retirement benefit in fiscal year 2017/2018. Employee (member) contributions of approximately \$1 billion are expected in fiscal year 2017/2018.
- 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. The next measurement period for the "shared risk" provisions ends June 30, 2017.

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 2017/2018 are estimated at \$4.4 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 2017/2018.

HISTORY OF EMPLOYER CONTRIBUTION RATES				
Fiscal Year	Employer Normal Cost %	Preliminary Employer Pension Rate %	Health Care Contributions %	Total Employer Contribution %
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
16/17	8.31	29.20	0.83	30.03
17/18	7.70	31.74	0.83	32.57

- The chart below shows the 5-year projected employer contribution rates using the June 30, 2016 valuation.

PROJECTED EMPLOYER CONTRIBUTION RATES AND TOTAL EMPLOYER CONTRIBUTIONS (Presumes an 7.5% rate of return)		
Fiscal Year Ending June	Total Employer Contribution Rate	Projected Total Employer Contribution (thousands)
17/18	32.57%	\$ 4,380,339
18/19	34.18%	\$ 4,668,189
19/20	35.53%	\$ 4,933,711
20/21	35.95%	\$ 5,081,955
21/22	36.40%	\$ 5,244,647

Investment Returns

- PSERS' rate of return for quarter ended September 30, 2016 was 3.65%, which added approximately \$1.4 billion (net of fees) in investment income to the Fund. The Fund had plan net assets of \$51.0 billion at September 30, 2016.

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	\$ 3,175,647
16/17	(Budgeted) \$ 3,678,400

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 School District has retained a consulting firm, Conrad Siegel Actuaries, to provide valuation services to measure its OPEB liabilities for future years. Pursuant to Governmental Accounting Standards Board 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, 2016, the School District reflected \$1,053,442 on the financial statements. No assurances can be given that the School District's future OPEB obligations will not have a material impact on the School District's ability to pay its debts, including Bonds.

SCHOOL DISTRICT EMPLOYEE RELATIONS

There are presently approximately 253 employees of the School District, including 150 teachers and administrators, 103 support personnel including secretaries, maintenance staff and teacher assistants.

The School 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 School 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 School 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			
	2013-14	2014-15	2015-16
Total Revenues (All Governmental Funds)	\$ 26,160,490	\$ 26,684,639	\$ 28,066,139
Less: Required Deductions			
(a) Rental and Sinking Fund Reimbursement	\$ 427,024	\$ 366,296	\$ 440,031
(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	\$ 427,024	\$ 366,296	\$ 440,031
Total Revenues	\$ 25,733,466	\$ 26,318,343	\$ 27,626,108
Total Revenues for three years			\$ 79,677,917
Borrowing Base – Average Net Revenues for Three-Year Period			\$ 26,559,306
Calculation of Borrowing Capacity			
A. Non-Electoral Debt			
(a) Outstanding Principal			\$ 40,390,000
(b) Less: Subsidized Debt			-
(c) Net Non-Electoral Debt			\$ 40,390,000
B. Lease Rental Debt			
			-
Computation of Borrowing Capacity			
(a) Debt Limitation – 225% of Borrowing Base			\$ 59,758,439
(b) Less: Net Non-Electoral and Lease Rental Debt			\$ 40,390,000
(c) Current Non Electoral and Lease Rental Borrowing Capacity			\$ 19,368,439

TEN LARGEST TAXPAYERS

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

Name	2016-17 Assessed Valuation
Walmart, Inc	5,400,000
L.C. Realty Inc	4,731,400
Westco Williamsport LLC	3,874,960
Weis Markets Inc	3,086,930
PP&L	2,798,640
Moosekids LP	2,537,170
J Savoy Realty Co	2,439,060
Individual	2,163,010
Chrislin Realty Ltd	2,023,790
Weis Markets Inc	1,875,000
Total	30,929,960

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	\$ 799,143,910	\$ 1,050,123,403	76.1%
2015	\$ 802,419,940	\$ 1,075,629,946	74.6%

(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 previous eight 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%
2015-16	\$ 10,904,871	\$ 10,323,402	94.7%	\$ 10,820,005	99.2%

(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⁾	\$ 8,183,850
Municipalities – Cascade Township ⁽²⁾	\$ 14,104
Municipalities – Gamble Township ⁽²⁾	\$56,395
Municipalities – Plunketts Creek Township ⁽²⁾	\$ 24,111
Total Overlapping Debt	\$ 8,278,460
<p>(1) The outstanding general obligation debt of Lycoming County totaled approximately \$57,714,033 as of December 31, 2014 per the Department of Community and Economic Development (DCED) website. The School District's proportionate share, 14.18%, is determined by dividing the School District's reported 2014 assessed value by the total 2014 assessed values of all the municipalities within Lycoming County.</p> <p>(2) The only municipalities with outstanding debt as of December 31, 2014 were Cascade Township, Gamble Township and Plunketts Creek Township.</p>	

OUTSTANDING SCHOOL DISTRICT FINANCINGS

The outstanding long-term debt of the District as of June 30, 2016, is shown below:

General Obligation	Date of Issue	Original Amount	Final Maturity	Amount Outstanding	Project Reimbursable Percentage ⁽²⁾	Effective ⁽¹⁾ Reimbursement	State Share	Local Share
Series of 2014 Bonds	5/15/2014	\$ 8,625,000	4/1/2023	\$ 7,035,000	33.06%	18.35%	\$ 1,291,268	\$ 5,743,732
Series of 2015 Note	8/6/2015	\$ 8,915,000	5/1/2013	\$ 7,855,000	33.06%	18.35%	\$ 1,441,778	\$ 6,413,222
Series A of 2015 Bonds	9/17/2015	\$ 9,750,000	6/1/2036	\$ 9,750,000		0.00%	\$ -	\$ 9,750,000
Series of 2016 Bonds	4/20/2016	\$ 15,750,000	6/1/2036	\$ 15,750,000		0.00%	\$ -	\$ 15,750,000
TOTAL		\$ 43,040,000		\$ 40,390,000			\$ 2,733,046	\$ 37,656,954
<p>(1) The project's estimated reimbursable percentage multiplied by the School District's 2015-16 Aid Ratio (0.5552).</p> <p>(2) The project's estimated reimbursable percentage has not been established by PDE for Series A of 2015 Bonds and Series of 2016 Bonds.</p>								

SCHOOL DISTRICT FACILITIES

Building	Grades Served	Reimbursable Capacity	2016-2017 Enrollment
Elementary			
Loyalsock Valley Elementary	K-4	425	236
Lyter Elementary	K-4	625	508
C.E. McCall Middle School	5-6	563	322
Total Elementary		1,613	1,066
Secondary			
C.E. McCall Middle School	7-8	446	334
Montoursville Area High School	9-12	1,166	645
Total Secondary		1,612	979
Total School District	K-12	3,225	2,045

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	1,987
2014-15	1,096	924	2,020
2015-16	1,075	946	2,021
2016-17	1,066	979	2,045
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 0.5% to 2.5% per year until 2021-2022.

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 \$342,000 to mitigate the increasing employer pension costs and at June 30, 2016 the fund balance totaled \$1,160,550. The District plans to use \$405,600 of the committed fund balance during the 2016-2017 fiscal year to mitigate the increase in the PSERS employer contribution rate. The District contributed at a rate of 25.84% of payroll to PSERS for the 2015-2016 school year and is contributing a rate of 29.69% of payroll for the 2016-2017 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 is to be completed September 2017.

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 Mrs. Brandy N. Smith, 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, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 20,365,236	\$ 125,420	\$ 20,490,656
Taxes receivable, net	893,459		893,459
Prepaid expenses	38,776		38,776
Internal balances	(44,984)	44,984	
Due from other governments	1,403,254	864	1,404,118
Inventories		30,213	30,213
Other receivables	<u>7,866</u>	<u>291</u>	<u>8,157</u>
Total current assets	<u>22,663,607</u>	<u>201,772</u>	<u>22,865,379</u>
NONCURRENT ASSETS:			
Capital assets, net	53,284,537	332,259	53,616,796
Prepaid bond insurance	<u>49,537</u>		<u>49,537</u>
Total noncurrent assets	<u>53,334,074</u>	<u>332,259</u>	<u>53,666,333</u>
TOTAL ASSETS	<u>\$ 75,997,681</u>	<u>\$ 534,031</u>	<u>\$ 76,531,712</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred loss on refunding debt, net	\$ 202,326		\$ 202,326
Pension changes in proportion	1,247,569	\$ 25,461	1,273,030
Pension contributions subsequent to the measurement date	<u>2,971,078</u>	<u>60,267</u>	<u>3,031,345</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 4,420,973</u>	<u>\$ 85,728</u>	<u>\$ 4,506,701</u>
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable	\$ 3,699,709		\$ 3,699,709
Accrued salaries and benefits	2,929,169		2,929,169
Accrued interest	132,969		132,969
Payroll deductions and withholdings	5,534	\$ 186	5,720
Current portion of noncurrent liabilities	2,025,000		2,025,000
Unearned revenue		36,385	36,385
Other current liabilities	<u>12,888</u>		<u>12,888</u>
Total current liabilities	<u>8,805,269</u>	<u>36,571</u>	<u>8,841,840</u>
NONCURRENT LIABILITIES:			
Bonds and notes payable, net	38,928,731		38,928,731
Accumulated compensated absences, net	1,148,945	38,887	1,187,832
Net pension liability	<u>40,156,480</u>	<u>819,521</u>	<u>40,976,001</u>
Total noncurrent liabilities	<u>80,234,156</u>	<u>858,408</u>	<u>81,092,564</u>
TOTAL LIABILITIES	<u>\$ 89,039,425</u>	<u>\$ 894,979</u>	<u>\$ 89,934,404</u>
DEFERRED INFLOWS OF RESOURCES:			
Pension net difference between projected and actual earnings	\$ 81,340	\$ 1,659	\$ 82,999
Pension difference between expected and actual experience	165,620	3,380	169,000
Pension difference between employer contributions and proportionate share of total contributions	<u>109,490</u>	<u>2,234</u>	<u>111,724</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 356,450</u>	<u>\$ 7,273</u>	<u>\$ 363,723</u>
NET POSITION:			
Invested in capital assets, net of related debt	\$ 21,510,343	\$ 332,259	\$ 21,842,602
Restricted for capital projects	12,831,618		12,831,618
Unrestricted	<u>(43,319,182)</u>	<u>(614,752)</u>	<u>(43,933,934)</u>
TOTAL NET POSITION	<u>\$ (8,977,221)</u>	<u>\$ (282,493)</u>	<u>\$ (9,259,714)</u>

See Notes to the Basic Financial Statements

MONTOURVILLE AREA SCHOOL DISTRICT
GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES:							
Instruction	\$ 17,532,004	\$ 93,678	\$3,592,202		\$(13,846,124)		\$(13,846,124)
Instructional student support	2,566,681		414,906		(2,151,775)		(2,151,775)
Administrative and financial support	2,723,349		109,846		(2,613,503)		(2,613,503)
Operation and maintenance of plant services	3,263,965		83,309		(3,180,656)		(3,180,656)
Pupil transportation	1,146,759		477,733		(669,026)		(669,026)
Student activities	770,266	72,493	6,270		(691,503)		(691,503)
Community services		12,630			12,630		12,630
Interest on long-term debt	<u>606,738</u>		<u>440,031</u>		<u>(166,707)</u>		<u>(166,707)</u>
Total governmental activities	28,609,762	178,801	5,124,297		(23,306,664)		(23,306,664)
BUSINESS-TYPE ACTIVITIES,							
Food service	<u>876,243</u>	<u>399,364</u>	<u>420,657</u>			\$ (56,222)	<u>(56,222)</u>
TOTAL	<u>\$29,486,005</u>	<u>\$578,165</u>	<u>\$5,544,954</u>	<u>\$</u>	<u>(23,306,664)</u>	<u>(56,222)</u>	<u>(23,362,886)</u>
GENERAL REVENUES AND SPECIAL ITEMS:							
Property taxes, levied for general purposes					10,978,186		10,978,186
Other taxes levied, net					3,779,430		3,779,430
Grants and entitlements not restricted to specific programs					7,957,091		7,957,091
Investment earnings					30,414		30,414
Miscellaneous income					22,106		22,106
Loss on disposal of capital assets					<u>(3,546)</u>		<u>(3,546)</u>
Total general revenues and special items					<u>22,763,681</u>		<u>22,763,681</u>
CHANGE IN NET POSITION					(542,983)	(56,222)	(599,205)
NET POSITION, BEGINNING (As restated, See Note 2)					<u>(8,434,238)</u>	<u>(226,271)</u>	<u>(8,660,509)</u>
NET POSITION, ENDING					<u>\$ (8,977,221)</u>	<u>\$ (282,493)</u>	<u>\$ (9,259,714)</u>

See Notes to the Basic Financial Statements

MONTOURSVILLE AREA SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	\$ 4,411,600	\$ 15,953,636		\$ 20,365,236
Taxes receivable, net	891,298			891,298
Due from other funds	2,324			2,324
Due from other governments	1,403,254			1,403,254
Other receivables	7,866			7,866
Prepaid expenses	<u>38,776</u>			<u>38,776</u>
TOTAL ASSETS	<u>\$ 6,755,118</u>	<u>\$ 15,953,636</u>	<u>\$</u>	<u>\$ 22,708,754</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:				
LIABILITIES:				
Due to other funds	\$ 45,176	\$ 2,132		\$ 47,308
Accounts payable	579,823	3,119,886		3,699,709
Accrued salaries and benefits	2,929,169			2,929,169
Payroll deductions and withholdings	5,534			5,534
Other liabilities	<u>12,888</u>			<u>12,888</u>
Total liabilities	<u>3,572,590</u>	<u>3,122,018</u>		<u>6,694,608</u>
DEFERRED INFLOWS OF RESOURCES,				
Unavailable revenue - delinquent property taxes	<u>450,785</u>			<u>450,785</u>
FUND BALANCES:				
Nonspendable	38,776			38,776
Restricted by law or regulation		12,831,618		12,831,618
Committed	1,160,550			1,160,550
Unassigned	<u>1,532,417</u>			<u>1,532,417</u>
Total fund balances	<u>2,731,743</u>	<u>12,831,618</u>		<u>15,563,361</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 6,755,118</u>	<u>\$ 15,953,636</u>	<u>\$</u>	<u>\$ 22,708,754</u>

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, 2016

TOTAL GOVERNMENTAL FUND BALANCES \$ 15,563,361

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	2,723,441
Buildings and building improvements	58,684,684
Furniture and equipment	5,482,571
Construction in progress	12,093,268
Accumulated depreciation	(25,699,427)

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.

49,537

Deferred loss on refunding bonds are not current financial resources, and therefore are not reported in the governmental funds balance sheet.

202,326

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	(132,969)
Bonds payable in future years	(40,953,731)
Accumulated compensated absences	(1,148,945)
Net pension liability	(40,156,480)

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	1,247,569
Pension contributions subsequent to the measurement date	2,971,078
Pension net difference between projected and actual investment earnings	(81,340)
Pension difference between expected and actual experience	(165,620)
Pension difference between employer contributions and proportionate share of total contributions	(109,490)

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.

452,946

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (8,977,221)

MONTOURSVILLE AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES:				
Local sources	\$ 15,910,482	\$ 10,225	\$ 289	\$ 15,920,996
State sources	11,880,737			11,880,737
Federal sources	<u>274,920</u>			<u>274,920</u>
Total revenues	<u>28,066,139</u>	<u>10,225</u>	<u>289</u>	<u>28,076,653</u>
EXPENDITURES:				
Instruction	16,263,437			16,263,437
Support services	8,260,598	359,053	86,000	8,705,651
Noninstructional services	629,185			629,185
Debt service (principal and interest)			2,627,141	2,627,141
Capital outlay		15,237,811		15,237,811
Refund of prior year receipts	<u>997</u>			<u>997</u>
Total expenditures	<u>25,154,217</u>	<u>15,596,864</u>	<u>2,713,141</u>	<u>43,464,222</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>2,911,922</u>	<u>(15,586,639)</u>	<u>(2,712,852)</u>	<u>(15,387,569)</u>
OTHER FINANCING SOURCES (USES):				
Interfund transfers in	289	1,318,000	2,542,918	3,861,207
Interfund transfers out	(3,860,918)		(289)	(3,861,207)
Proceeds from bonds and notes issued		25,500,000		25,500,000
Bond premiums		360,849		360,849
Proceeds from refunding of bonds			8,915,000	8,915,000
Debt service for refunded bonds			<u>(8,744,777)</u>	<u>(8,744,777)</u>
Total other financing sources (uses)	<u>(3,860,629)</u>	<u>27,178,849</u>	<u>2,712,852</u>	<u>26,031,072</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(948,707)	11,592,210		10,643,503
FUND BALANCES, BEGINNING	<u>3,680,450</u>	<u>1,239,408</u>		<u>4,919,858</u>
FUND BALANCES, ENDING	<u>\$ 2,731,743</u>	<u>\$ 12,831,618</u>	<u>\$</u>	<u>\$ 15,563,361</u>

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, 2016

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 10,643,503

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. 13,708,789

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. 34,738

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. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. (23,934,708)

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). (109,378)

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). (852,868)

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. (33,059)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (542,983)

MONTOURSVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2016

	Food Service Fund
ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 125,420
Due from other funds	45,176
Due from other governments	864
Other receivables	291
Inventories	<u>30,213</u>
 Total current assets	 <u>201,964</u>
 NONCURRENT ASSETS,	
Capital assets, net	<u>332,259</u>
 TOTAL ASSETS	 <u>\$ 534,223</u>
 DEFERRED OUTFLOWS OF RESOURCES:	
Pension changes in proportions	\$ 25,461
Pension contributions subsequent to the measurement date	<u>60,267</u>
 TOTAL DEFERRED OUTFLOWS OF RESOURCES	 <u>\$ 85,728</u>
 LIABILITIES:	
CURRENT LIABILITIES:	
Due to other funds	\$ 192
Payroll deductions and withholdings	186
Unearned revenue	<u>36,385</u>
 Total current liabilities	 <u>36,763</u>
 NONCURRENT LIABILITIES:	
Accumulated compensated absences, net	38,887
Net pension liability	<u>819,521</u>
 Total noncurrent liabilities	 <u>858,408</u>
 TOTAL LIABILITIES	 <u>\$ 895,171</u>
 DEFERRED INFLOWS OF RESOURCES:	
Pension net difference between projected and actual earnings	\$ 1,659
Pension difference between expected and actual experience	3,380
Pension difference between employer contributions and proportionate share of total contributions	<u>2,234</u>
 TOTAL DEFERRED INFLOWS OF RESOURCES	 <u>\$ 7,273</u>
 NET POSITION:	
Invested in capital assets	\$ 332,259
Unrestricted	<u>(614,752)</u>
 TOTAL NET POSITION	 <u>\$ (282,493)</u>

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, 2016

	Food Service Fund
OPERATING REVENUES:	
Food service revenue	\$ 397,015
Other operating revenues	<u>2,349</u>
Total operating revenues	<u>399,364</u>
OPERATING EXPENSES:	
Salaries	266,686
Employee benefits	191,215
Purchased property services	6,809
Supplies	372,156
Depreciation	38,765
Travel	484
Dues and fees	<u>128</u>
Total operating expenses	<u>876,243</u>
OPERATING LOSS	<u>(476,879)</u>
NONOPERATING REVENUES:	
State subsidies	67,597
Federal subsidies	<u>353,060</u>
Total nonoperating revenues	<u>420,657</u>
CHANGE IN NET POSITION	(56,222)
NET POSITION, BEGINNING (As restated, See Note 2)	<u>(226,271)</u>
NET POSITION, ENDING	<u><u>\$ (282,493)</u></u>

See Notes to the Basic Financial Statements

MONTOURSVILLE AREA SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Food Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from users	\$ 396,191
Cash received from other operating revenues	1,455
Payments to suppliers for goods and services	(326,100)
Payments to employees	<u>(439,775)</u>
Net cash used by operating activities	<u>(368,229)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State sources	24,591
Federal sources	<u>301,990</u>
Net cash provided by noncapital financing activities	<u>326,581</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(41,648)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>167,068</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 125,420</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	<u>\$ (476,879)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	38,765
Amortization	51,003
Donated commodities	53,424
Change in:	
Inventories	(1,686)
Receivables	(894)
Pension deferred outflows of resources	(67,407)
Unearned revenue	1,352
Payroll deductions and withholdings	378
Payables	(437)
Accumulated compensated absences	343
Net pension liability	76,981
Pension deferred inflows of resources	<u>(43,172)</u>
Total adjustments	<u>108,650</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (368,229)</u>
NONCASH NONCAPITAL FINANCING ACTIVITIES,	
The District received \$53,424 of food commodities.	

See Notes to the Basic Financial Statements

MONTOURSVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

	Scholarship Trust Funds	Agency Funds
ASSETS:		
Cash and cash equivalents	\$ 4,818	\$ 137,540
Prepaid expenses	<u> </u>	<u>10,500</u>
TOTAL ASSETS	<u>\$ 4,818</u>	<u>\$ 148,040</u>
LIABILITIES AND NET POSITION:		
LIABILITIES:		
Accounts payable		\$ 1,449
Due to student groups	<u> </u>	<u>146,591</u>
TOTAL LIABILITIES		148,040
NET POSITION, Restricted for scholarships	<u>\$ 4,818</u>	<u> </u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 4,818</u>	<u>\$ 148,040</u>

MONTOURSVILLE AREA SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Scholarship Trust Funds
ADDITIONS:	
Gifts and contributions	\$ 55,542
Investment income	<u>15</u>
Total additions	55,557
DEDUCTIONS,	
Scholarships awarded	<u>54,884</u>
CHANGE IN NET POSITION	673
NET POSITION, BEGINNING	<u>4,145</u>
NET POSITION, ENDING	<u>\$ 4,818</u>

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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.

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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.

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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. During the year ended June 30, 2016, the District recognized certain revenues from the Commonwealth of Pennsylvania which were received more than 60 days after year end, but are usually received within 60 days of year end. The District determined that their exclusion would be misleading to the financial statements. 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

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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.

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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, 2016, 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 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.

The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs (See Note 4).

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 \$30,213 include \$17,035 of food commodities donated by the federal government, which are valued at fair value. All other food or

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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 2016 and are uncollected as of June 30, 2016 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 \$15,253 as of June 30, 2016.

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.

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

Prepaid Bond Insurance and Amortization

The cost of prepaid bond insurance of the Series of 2010, 2014 and 2016 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 \$1,910 for the year ended June 30, 2016.

Bond Premium and Amortization

The premium recognized upon the issuance of the Series of 2010, 2014 and 2016 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 \$34,837 for the year ended June 30, 2016.

Loss on Refinancing and Amortization

The loss recognized on the refinancing of Series of 2009 and 2010 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 \$29,465 for the year ended June 30, 2016.

Fund Equity

In the governmental fund financial statements, the fund balance amounts are classified, based on the level of constraint placed upon funds, 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, 2016.
- *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.

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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 net 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, 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.

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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, 2016.

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.

Implementation of GASB Statement

During the year ended June 30, 2016, the District implemented GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes and applying fair value to certain investments, as well as improving disclosures related to all fair value measurements. The effects of this statement have been included in the notes to the District's financial statements.

2. RESTATEMENT - CORRECTION OF AN ERROR:

Effective July 1, 2015, the District corrected an error in previously reported pension deferred outflows and inflows of resources, 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	\$(8,095,481)
Correction of an error,	
Pension deferred outflows and inflows of resources	<u>(338,757)</u>
Net position, as restated	<u><u>\$(8,434,238)</u></u>
Business-Type Activities:	
Net position, as previously reported	\$(219,358)
Correction of an error,	
Pension deferred outflows and inflows of resources	<u>(6,913)</u>
Net position, as restated	<u><u>\$(226,271)</u></u>

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Proprietary Fund - Food Service Fund:	
Net position, as previously reported	\$(219,358)
Correction of an error,	
Pension deferred outflows and inflows of resources	<u>(6,913)</u>
Net position, as restated	<u>\$(226,271)</u>

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, 2016, \$112,773 of the District's bank balance of \$20,790,193 was exposed to custodial credit risk as follows:

Collateralized with securities held by the pledging financial institution	<u>\$ 112,773</u>
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Reconciliation to Financial Statements

Collateralized with securities held by financial institution amount above	\$ 112,773
Plus insured amount	12,444,471
Less outstanding checks	<u>(157,779)</u>
Carrying amount	12,399,465
Plus petty cash	600
Plus pooled cash equivalents in:	
General fund	3,261,872
Capital Projects fund	<u>4,971,077</u>
Total cash and cash equivalents per financial statements	<u>\$20,633,014</u>

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 (PSDLAF).

Pennsylvania Act 10 of 2016 became effective May 25, 2016 and expanded the permitted investment types to include commercial paper, bankers' acceptances, negotiable certificates of deposit, and insured bank deposit reciprocals as long as certain safeguards related to credit quality and maturity are met.

As of June 30, 2016, investments consisted of the following:

<u>Description</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
PSDLAF - Max Series	\$8,215,335		\$8,215,335	

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PSDLAF is a common law trust organized to provide Pennsylvania school districts with a convenient method of pooling their cash for temporary investment. PSDLAF functions similar to a money market fund, seeking to maintain a net asset value of \$1 per share. Shares may be withdrawn at anytime. Portfolio securities are valued at amortized cost, which approximates fair value as of June 30, 2016. PSDLAF may invest in any securities authorized by Section 440.1 of the Pennsylvania School Code. All investments in an external investment pool that is not SEC - registered are subject to oversight by the Commonwealth of Pennsylvania.

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 does not have a formal investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2016, the investments were rated as follows:

<u>Description</u>	<u>Standard & Poor's</u>
PSDLAF - 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	\$ 8,215,335
Less deposits in investment pool considered cash equivalents	<u>(8,215,335)</u>
Total investments per financial statements	<u>\$ _____</u>

5. REAL ESTATE TAXES:

The tax on real estate, as levied by the School Board, was 14.21 mills (\$14.21 per \$1,000 of assessed valuation) for fiscal year 2016. The original assessed value at July 1, 2015, upon which the 2016 levy was based, was \$803,334,140. 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:

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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, 2016 were 95.9% of the tax levy. Estimated collectible delinquent real estate taxes at June 30, 2016 amounted to \$538,689.

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, 2016, the following amounts are due from other governments:

	<u>General Fund</u>	<u>Proprietary Fund</u>	<u>Total</u>
Federal	\$ 41,972	\$800	\$ 42,772
State	1,184,329	64	1,184,393
Local	<u>176,953</u>	<u> </u>	<u>176,953</u>
Total	<u>\$1,403,254</u>	<u>\$864</u>	<u>\$1,404,118</u>

7. INTERFUND BALANCES:

As of June 30, 2016, interfund receivables and payables that resulted from various interfund transactions were as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General fund	\$ 2,324	\$45,176
Capital projects fund		2,132
Food service fund	<u>45,176</u>	<u>192</u>
Total	<u>\$47,500</u>	<u>\$47,500</u>

8. CAPITAL ASSETS:

A summary of changes in capital assets is as follows:

	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
GOVERNMENTAL ACTIVITIES:				
Capital Assets, not being depreciated:				
Land	\$ 184,579			\$ 184,579
Construction in progress	<u>2,548,276</u>	<u>15,279,463</u>	<u>\$(5,734,471)</u>	<u>12,093,268</u>
Total capital assets, not being depreciated	<u>2,732,855</u>	<u>15,279,463</u>	<u>\$(5,734,471)</u>	<u>12,277,847</u>

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	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
Capital Assets, being depreciated:				
Land improvements	\$ 2,527,197	\$ 11,665		\$ 2,538,862
Building and building improvements	53,048,878	5,635,806		58,684,684
Furniture and equipment	<u>5,351,126</u>	<u>138,868</u>	\$ (7,423)	<u>5,482,571</u>
Total capital assets, being depreciated	60,927,201	5,786,339	(7,423)	66,706,117
Less accumulated depreciation	<u>(24,084,308)</u>	<u>(1,618,996)</u>	<u>3,877</u>	<u>(25,699,427)</u>
Total capital assets, being depreciated, net	<u>36,842,893</u>	<u>4,167,343</u>	<u>(3,546)</u>	<u>41,006,690</u>
Governmental activities capital assets, net	<u>\$39,575,748</u>	<u>\$19,446,806</u>	<u>\$(5,738,017)</u>	<u>\$ 53,284,537</u>
<u>BUSINESS-TYPE ACTIVITIES:</u>				
Capital Assets, being depreciated:				
Furniture and equipment	\$ 1,097,946			\$ 1,097,946
Less accumulated depreciation	<u>(726,922)</u>	\$ (38,765)		<u>(765,687)</u>
Total capital assets, being depreciated, net	<u>371,024</u>	<u>(38,765)</u>		<u>332,259</u>
Business-type activities capital assets, net	<u>\$ 371,024</u>	<u>\$ (38,765)</u>	<u>\$</u>	<u>\$ 332,259</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 602,798
Instructional student support	89,510
Administrative and financial support	42,731
Operation and maintenance of plant services	747,280
Pupil transportation	4,136
Student activities	<u>132,541</u>
Total	<u>\$1,618,996</u>

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, 2016, the estimated liability for accumulated retirement severance benefit due upon retirement or termination of certain administrators and non-professional employees was \$134,390. This liability has been recorded in accumulated compensated absences in the government-wide statement of net position. For the year ended June 30, 2016, the District made payments amounting to approximately \$5,970.

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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 \$43,000 for the fiscal year ended June 30, 2016. Total retiree contributions made by plan members were approximately \$205,000 for the fiscal year ended June 30, 2016.

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 <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ARC	\$ 412,211	\$ 5,067	\$ 417,278
Interest on net OPEB obligation (estimated)	40,467	1,734	42,201
Adjustment to annual required contribution (estimated)	<u>(55,208)</u>	<u>(2,366)</u>	<u>(57,574)</u>
Annual OPEB cost (expense)	397,470	4,435	401,905
Contributions made (estimated)	<u>(282,192)</u>	<u>(4,092)</u>	<u>(286,284)</u>
Increase in net OPEB obligation	115,278	343	115,621

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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, 2016:

	Balance June 30, <u>2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Amortization</u>	Balance June 30, <u>2016</u>	<u>Amounts Due in One Year</u>
Governmental Activities:						
General obligation bonds payable	\$16,700,000	\$34,415,000	\$10,725,000		\$40,390,000	\$2,025,000
Plus deferred net bond premium	<u>315,016</u>	<u>360,849</u>	<u> </u>	<u>\$(112,134)</u>	<u>563,731</u>	<u> </u>
Total	17,015,016	34,775,849	10,725,000	(112,134)	40,953,731	2,025,000
Compensated Absences	1,039,567	403,540	294,162		1,148,945	
Net pension liability	<u>36,384,460</u>	<u>3,772,020</u>	<u> </u>	<u> </u>	<u>40,156,480</u>	<u> </u>
Total	<u>\$54,439,043</u>	<u>\$38,951,409</u>	<u>\$11,019,162</u>	<u>\$(112,134)</u>	<u>\$82,259,156</u>	<u>\$2,025,000</u>
Business-Type Activities:						
Compensated Absences	\$ 38,544	\$ 4,435	\$ 4,092		\$ 38,887	
Net pension liability	<u>742,540</u>	<u>76,981</u>	<u> </u>	<u> </u>	<u>819,521</u>	<u> </u>
Total	<u>\$ 781,084</u>	<u>\$ 81,416</u>	<u>\$ 4,092</u>	<u>\$</u>	<u>\$ 858,408</u>	<u>\$</u>

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General obligation bonds and notes payable at June 30, 2016 are comprised of the following:

Series of 2014, due in varying installments through April 2023, with interest rates ranging from 2.0% to 4.0% per annum.	\$ 7,035,000
Series of 2015, due in varying installments through May 2023, with interest at of 2.17% per annum.	7,855,000
Series A of 2015, due in varying installments through June 2036, with interest rates ranging from 1.65% to 4.5% per annum.	9,750,000
Series of 2016, due in varying installments through June 2036, with interest rates ranging from 1.2% to 4.0% per annum.	<u>15,750,000</u>
Total	40,390,000
Less amounts due in one year	2,025,000
Plus deferred bond premium	<u>563,731</u>
Noncurrent portion of general obligation bonds and notes payable	<u><u>\$38,928,731</u></u>

The annual requirements to amortize general obligation bonds and notes payable at June 30, 2016 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 2,025,000	\$ 1,069,721	\$ 3,094,721
2018	2,090,000	1,063,793	3,153,793
2019	2,150,000	1,036,075	3,186,075
2020	2,220,000	994,107	3,214,107
2021	2,265,000	947,837	3,212,837
2022 – 2026	9,225,000	4,177,898	13,402,898
2027 – 2031	9,375,000	2,918,638	12,293,638
2032 – 2036	<u>11,040,000</u>	<u>1,252,230</u>	<u>12,292,230</u>
Total	<u>\$40,390,000</u>	<u>\$13,460,299</u>	<u>\$53,850,299</u>

The total interest expense related to the general obligation bonds and notes payable for the year ended June 30, 2016 amounted to \$606,738. No interest expense was capitalized during the year ended June 30, 2016.

12. PENSION BENEFITS:

Plan Description

PSERS (System) 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

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any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class 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.

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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, 2016 was 25.0% 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 \$3,031,345 for the year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$40,976,001 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, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the District's proportion was 0.0946%, which was an increase of 0.0008% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense in the government-wide statement of activities as follows:

Governmental activities	\$3,823,586
Business-type activities	<u>78,032</u>
Total	<u>\$3,901,618</u>

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience		\$169,000
Changes in assumptions		
Net difference between projected and actual investment earnings		82,999
Changes in proportion	\$1,273,030	

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	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between employer contributions and proportionate share of total contributions		\$111,724
Contributions subsequent to the measurement date	<u>\$3,031,345</u>	_____
Total	<u>\$4,304,375</u>	<u>\$363,723</u>

\$3,031,345 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$121,743
2018	121,743
2019	121,743
2020	544,077

Actuarial Assumptions

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

- Actuarial cost method - Entry Age Normal - level 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, 2014 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the 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 expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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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.

Asset Class:	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public markets global equity	23%	4.8%
Private markets (equity)	15%	6.6%
Private real estate	12%	4.5%
Global fixed income	7%	2.4%
U.S. long treasuries	3%	1.4%
TIPS	12%	1.1%
High yield bonds	6%	3.3%
Cash	3%	0.7%
Absolute return	10%	4.9%
Risk parity	10%	3.7%
MLPs/Infrastructure	5%	5.2%
Commodities	8%	3.1%
Financing (LIBOR)	<u>(14)%</u>	1.1%
Total	<u>100%</u>	

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

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 <u>6.50%</u>	Discount Rate <u>7.50%</u>	1% Increase <u>8.50%</u>
District's proportionate share of the net pension liability (in thousands)	\$50,507	\$40,976	\$32,966

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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, 2016.

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 \$34,931,000 of which approximately \$15,636,000 has been paid or accrued as of June 30, 2016.

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

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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, 2016, the District made payments for healthcare benefit claims of approximately \$2,889,000 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, 2016, the District paid approximately \$186,000 to the Center. As of June 30, 2016, there were no amounts due to or due from the Center. Audited financial statements of the Center are available.

17. SUBSEQUENT EVENTS:

On January 17, 2017, the District issued General Obligation Note, Series of 2017 in the principal amount of \$9,995,000. The funds will be drawn down as construction progresses. The Note is payable in varying installments through June 2036 with interest at 3.16% per annum. The proceeds will be used for construction costs related to the high school and Loyalsock Valley elementary school renovation projects.

Subsequent events have been evaluated through February 17, 2017 which is the date the financial statements were available to be issued.

18. RECENT ACCOUNTING PRONOUNCEMENTS:

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 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.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*. This statement requires a reporting entity to include in its financial statements, as a blended

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

component unit, any not-for-profit corporation of which the primary government is the sole corporate member. This statement is effective for reporting periods 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 March 2016, GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement clarifies the application of certain provisions of Statements No. 67, 68, and 73 including items related to the presentation of payroll-related measures in required supplementary information, selection of assumptions used in determining the total pension liability and related measures, and classification of employer-paid member contributions. 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 January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities based on whether the government controls the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. Activities that meet the criteria should be reported as a fiduciary fund in the basic financial statements and include a statement of fiduciary net position and a statement of changes in fiduciary net position. This statement is effective for fiscal years beginning after December 15, 2018. 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
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		Actual
	Original	Final	Budgetary Basis
REVENUES:			
Local sources	\$ 14,905,260	\$ 14,905,260	\$ 15,910,482
State sources	11,799,680	11,799,680	11,880,737
Federal sources	<u>294,120</u>	<u>294,120</u>	<u>274,920</u>
Total revenues	<u>26,999,060</u>	<u>26,999,060</u>	<u>28,066,139</u>
EXPENDITURES:			
Instruction	16,088,790	16,088,790	16,263,437
Support services	8,578,930	8,578,930	8,260,598
Noninstructional services	612,650	612,650	629,185
Refund of prior year receipts	<u> </u>	<u> </u>	<u>997</u>
Total expenditures	<u>25,280,370</u>	<u>25,280,370</u>	<u>25,154,217</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,718,690</u>	<u>1,718,690</u>	<u>2,911,922</u>
OTHER FINANCING SOURCES (USES):			
Interfund transfers in			289
Interfund transfers out	(3,126,640)	(3,126,640)	(3,860,918)
Budgetary reserve	<u>(586,000)</u>	<u>(586,000)</u>	<u> </u>
Total other financing uses	<u>(3,712,640)</u>	<u>(3,712,640)</u>	<u>(3,860,629)</u>
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(1,993,950)	(1,993,950)	(948,707)
FUND BALANCE, BEGINNING	<u>3,154,500</u>	<u>3,154,500</u>	<u>3,680,450</u>
FUND BALANCE, ENDING	<u>\$ 1,160,550</u>	<u>\$ 1,160,550</u>	<u>\$ 2,731,743</u>

MONTOURSVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2016

	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 Activities	1/1/2014	\$	\$ 3,786,074	\$ 3,786,074	0.00%	\$ 11,129,710	34.02%
	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 Activities	1/1/2014		44,227	44,227	0.00%	122,374	36.14%
	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
PENSION PLAN
JUNE 30, 2016
(Dollar amounts in thousands)

	2015*	2014*
District's proportion of the net pension liability (asset)	0.0946%	0.0938%
District's proportionate share of the net pension liability (asset)	\$ 40,976	\$37,127
District's covered-employee payroll	\$ 12,172	\$11,974
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	336.64%	310.06%
Plan fiduciary net position as a percentage of the total pension liability	54.36%	57.24%

* This schedule is intended to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is completed, the District is presenting information for those years only for which information is available

MONTOURSVILLE AREA SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
JUNE 30, 2016
(Dollar amounts in thousands)

	2015*	2014*
Contractually required contribution	\$ 3,031	\$ 2,428
Contributions in relation to the contractually required contribution	<u>3,031</u>	<u>2,428</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>
District's covered-employee payroll	\$ 12,172	\$11,974
Contributions as a percentage of covered-employee payroll	24.90%	20.28%

* This schedule is intended to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is completed, the District is presenting information for those years only for which information is available.

MONTOURSVILLE AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

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, 2015	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue June 30, 2016	Passed Through To Subrecipients
U.S. DEPARTMENT OF EDUCATION											
Passed through the Pennsylvania Department of Education:											
Title I Improving Basic Programs	I	84.010	13-150264	07/01/14-09/30/15	\$193,688	\$ 24,605	\$ 24,605				
Title I Improving Basic Programs	I	84.010	13-160264	07/01/15-09/30/16	202,928	<u>162,205</u>		\$ 202,928	\$ 202,928	\$ 40,723	
Total Title I						<u>186,810</u>	<u>24,605</u>	<u>202,928</u>	<u>202,928</u>	<u>40,723</u>	
Title II Improving Teacher Quality	I	84.367	20-160264	07/01/15-09/30/16	69,281	<u>69,281</u>		69,281	69,281		
Passed through BLaST Intermediate Unit #17:											
IDEA	I	84.027	N/A	07/01/14-06/30/15	N/A	82,353	82,353				
IDEA Extended School Year	I	84.027	N/A	07/01/15-09/30/16	N/A	43,671		43,671	43,671		
IDEA	I	84.027	N/A	07/01/15-09/30/16	N/A	170,000		219,975	219,975	49,975	
Total						<u>296,024</u>	<u>82,353</u>	<u>263,646</u>	<u>263,646</u>	<u>49,975</u>	
Special Education - Preschool Grants - Early Intervention	I	84.173	N/A	07/01/15-06/30/16	N/A	3,227		3,227	3,227		
Total Special Education Cluster						<u>299,251</u>	<u>82,353</u>	<u>266,873</u>	<u>266,873</u>	<u>49,975</u>	
TOTAL U.S. DEPARTMENT OF EDUCATION						<u>555,342</u>	<u>106,958</u>	<u>539,082</u>	<u>539,082</u>	<u>90,698</u>	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES											
Passed through Leader Services:											
Medical Assistance Program	I	93.778	N/A	07/01/14-06/30/15	N/A	716	716				
Medical Assistance Program	I	93.778	N/A	07/01/15-06/30/16	N/A	1,462		2,711	2,711	1,249	
Total Medicaid Cluster						<u>2,178</u>	<u>716</u>	<u>2,711</u>	<u>2,711</u>	<u>1,249</u>	
U.S. DEPARTMENT OF AGRICULTURE											
Passed through the Pennsylvania Department of Education:											
National School Lunch Program	I	10.555	N/A	07/01/15-06/30/16	N/A	266,598	2,534	264,602	264,602	538	
Passed through the Pennsylvania Department of Agriculture:											
National School Lunch Program	I	10.555	N/A	07/01/15-06/30/16	N/A	53,424 (a)	(14,859) (b)	51,248 (c)	51,248 (c)	(17,035) (d)	
Total						<u>320,022</u>	<u>(12,325)</u>	<u>315,850</u>	<u>315,850</u>	<u>(16,497)</u>	
Passed through the Pennsylvania Department of Education:											
School Breakfast Program	I	10.553	N/A	07/01/15-06/30/16	N/A	37,568	620	37,210	37,210	262	
Total Child Nutrition Cluster						<u>357,590</u>	<u>(11,705)</u>	<u>353,060</u>	<u>353,060</u>	<u>(16,235)</u>	
TOTAL U.S. DEPARTMENT OF AGRICULTURE						<u>357,590</u>	<u>(11,705)</u>	<u>353,060</u>	<u>353,060</u>	<u>(16,235)</u>	
TOTAL FEDERAL AWARDS						<u>\$ 915,110</u>	<u>\$ 95,969</u>	<u>\$ 894,853</u>	<u>\$ 894,853</u>	<u>\$ 75,712</u>	<u>\$</u>

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

FOOTNOTES:
(a) Total amount of commodities received.
(b) Beginning inventory at July 1, 2015.
(c) Total amount of commodities used.
(d) Ending inventory at June 30, 2016.

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

1. BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of Montoursville Area School District under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to be and does not present the financial position, changes in net assets, or cash flows of the District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Federal receipts are reported on the cash basis of accounting as requested by Pennsylvania state agencies.

3. INDIRECT COST ALLOCATION:

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



**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, and each major fund, of Montoursville Area School District (District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 17, 2017.

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.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

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
February 17, 2017



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

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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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, 2016.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Larson, Kellett & Associates, P.C.

Montoursville, Pennsylvania
February 17, 2017

MONTOURSVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified.

Internal control over financial reporting:

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

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

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

_____ yes x no

Identification of major programs:

CFDA Number Name of Federal Program

10.553	School Breakfast Program - Child Nutrition Cluster
10.555	National School Lunch Program - Child Nutrition Cluster
84.367	Improving Teacher Quality

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

\$750,000

Auditee qualified as low-risk auditee?

_____ yes x no

SECTION II – FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED AUDITING STANDARDS AND GOVERNMENT AUDITING STANDARDS

None reported.

MONTOURSVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None reported.