

EAST PENNSBORO AREA SCHOOL DISTRICT

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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Greenawalt & Company, P.C.

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INDEPENDENT AUDITOR'S REPORT

Board of School Directors
East Pennsboro Area School District
Enola, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the fiduciary funds of East Pennsboro Area School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

IAR - 1

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the fiduciary funds of East Pennsboro Area School District, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages MDA-1 through MDA-9 and the other required supplementary information on pages ORSI-1 through ORSI-4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2017, on our consideration of East Pennsboro Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering East Pennsboro Area School District's internal control over financial reporting and compliance.



GREENAWALT & COMPANY, P.C.

January 18, 2017

Mechanicsburg, Pennsylvania

**EAST PENNSBORO AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Our discussion and analysis compares our financial position at June 30 of 2016, 2015 and 2014. It also provides an overview of our financial performance for the two years between these periods, fiscal years ended June 30, 2016 and 2015, in accordance with governmental reporting requirements. Please read our discussion and analysis in conjunction with the District's financial statements, which begin on page FS-1.

FINANCIAL HIGHLIGHTS

- Our financial position remained viable at the end of 2016. We have maintained sufficient fund balances, and established a budget that should result in a stable financial position through 2017-2018.
- In 2012 through 2016 we used available capital funds to complete additional renovation projects at the Middle School. The General Obligation Bond Fund of 2004 was closed during the 2015-2016 school year.
- For 2016, we paid down \$3.1 million of our General Obligation Debt. No additional new debt was incurred. We again expect to have adequate financial resources to meet all of our debt service obligations. The district began a feasibility study in June 2016. The borrowing needs of the district are currently being evaluated.
- The District has provided operating revenues within the constraints of ACT 1 of 2006. Since the implementation of ACT 1, the District has significantly reduced and eliminated critical areas of the budget. These reductions and eliminations did not immediately directly impact educational services; however, with the impact of economic conditions on local revenue and reductions in state and federal revenue, educational program cuts have occurred in previous budget years. Without change to the PSERS funding structure or increases in federal and state revenue, educational program cuts will continue to be a consideration during annual budget preparation. The District makes every effort to avoid educational program cuts.
- The District provides medical coverage through the South Central Trust (SCT). Expenses were more than anticipated in previous years and the reserve account is currently at zero. The reserved fund balance for the District's reserve at South Central Trust was \$0 at December 31, 2014, 2015 and 2016. The District created a committed fund balance for unanticipated future medical expenses.

**EAST PENNSBORO AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd.)
JUNE 30, 2016**

USING THESE FINANCIAL STATEMENTS

This report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages FS-1 and FS-2) provide information about the activities of the District as a whole, and present a longer-term view of the District's finances than Fund statements. Fund financial statements are on pages FS-3, FS-5 and FS-7 through FS-11. For governmental activities, these statements tell how District services have been financed in the short run, as well as show the amount remaining for future spending. Proprietary fund statements provide information about non-governmental operations, in this case food services. Fiduciary funds statements report funds held in trust by the District for such things as scholarship grants and student activity funds.

The Reconciliation of the Governmental Funds Balance Sheet on page FS-4 connects total governmental fund balance to the total net position balance - governmental activities from the Statement of Net Position. The reconciliation on page FS-6 does the same for the components of the changes in fund balances to changes in net position - governmental activities.

Reporting the District as a Whole

The statements present financial activities and the results of those activities in two categories, Governmental and Business-type. Capital assets (land, buildings, improvements, furniture and equipment) are presented with all other assets. Long-term debt is presented with all other liabilities. This is distinctly different from the fund statements in which assets and liabilities are separated into various funds such as General and Capital Projects.

The approach to measurement of revenue and expense is similar to that used in the private sector and is referred to as following the accrual basis of accounting. This is discussed further in the notes to the financial statements.

Reporting the District's Most Significant Funds

The funds statements provide financial information about the District's significant funds rather than the District as a whole. There are three fund types, Governmental, Proprietary and Fiduciary. The use of each type of fund is described in the notes to the financial statements. Unlike the entity-wide financial statements that measure revenues on the accrual basis, the funds statements report revenues only to the extent cash has been received, or is expected to be received in the near future.

The District as Trustee

The District acts as fiduciary for the Students Activities and Agency Funds. In comparison to the Governmental Funds, the amount held in the fiduciary funds is small. Fiduciary fund net position is presented on page FS-10 and the changes in net position on page FS-11.

**EAST PENNSBORO AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd.)
JUNE 30, 2016**

THE DISTRICT AS A WHOLE

Effective July 1, 2014, the District is required to report the net pension liability, pension expense, and deferred outflows and inflows of resources related to pensions. This Governmental Accounting Standards Board (GASB) Statement 68 requirement has significantly and negatively affected the Net Position on the District's financial statements for the 2015-2016 fiscal year.

Table A-1 summarizes and compares the Statement of Net Positions from page FS-1 of the financial statements for each of the past three years. We have brought forward the 2014 and 2015 balances from our 2015 MD&A with 2014 balances prior to the restatement due to GASB 68. These balances are otherwise not a part of the 2016 financial statement package. Within this and certain other schedules in our discussion, we have presented the dollar figures in thousands, unless otherwise indicated, to make them easier to read. This has resulted in rounding differences, and some columns may not add within a schedule.

**Table A-1
Statement of Net Position**

	Governmental Activities			Business-type Activities		
	2016	2015	2014	2016	2015	2014
Current and other assets	\$ 16,800	\$ 15,945	\$ 14,718	\$ 387	\$ 334	\$ 318
Capital assets	29,199	29,823	30,748	43	74	106
Deferred outflows of resources	3,876	1,059	166	-	-	-
Total assets and deferred outflows	49,875	46,827	45,632	430	408	424
Current and other liabilities	4,318	4,167	4,017	54	53	59
Long-term liabilities	58,664	57,522	17,661	-	-	-
Deferred inflows of resources	1,819	3,084	-	-	-	-
Total liabilities and deferred inflows	64,801	64,773	21,678	54	53	59
Capital assets (net of related debt)	19,146	16,591	13,999	43	74	106
Restricted for capital projects	-	-	2	-	-	-
Unrestricted	(34,071)	(34,536)	9,953	332	281	259
Total net position (deficit)	\$ (14,925)	\$ (17,945)	\$ 23,954	\$ 375	\$ 355	\$ 365

Total net position is the difference between total assets and deferred outflow of resources less total liabilities and deferred inflow of resources, and represent resources that can be used to pay for future operations and capital improvements. The bulk of our assets are capital assets. These have been paid for using borrowed money and do not add significantly to our net position.

**EAST PENNSBORO AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd.)
JUNE 30, 2016**

Table A-2 summarizes and compares activity presented in the Statement of Activities (page FS-2). It shows the activity behind the increase (decrease) in total net position for the years ending June 30, 2016 and 2015.

**Table A-2
Changes in Net Position**

	Governmental		Business-type		Total	
	Activities	Activities	Activities	Activities	Activities	Activities
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues						
Charges for services	\$ 712	\$ 449	\$ 596	\$ 594	\$ 1,308	\$ 1,043
Operating grants and contributions	5,441	5,091	571	507	6,012	5,598
Capital grants and contributions	139	217	-	-	139	217
General revenues						
Taxes	26,373	25,451	-	-	26,373	25,451
State general subsidies	6,492	6,352	-	-	6,492	6,352
Other	41	36	-	-	41	36
Total revenues	39,198	37,596	1,167	1,101	40,365	38,697
Direct expenses	36,178	34,617	1,147	1,111	37,325	35,728
Excess (deficiency before transfers)	3,020	2,979	20	(10)	3,040	2,969
Transfers	-	-	-	-	-	-
Change in net position	\$ 3,020	\$ 2,979	\$ 20	\$ (10)	\$ 3,040	\$ 2,969

The growth in total revenues from our Total Primary Governmental activities was in line with the increase in our direct expenses.

Governmental Activities

Table A-3 presents expense information from the Statement of Activities for governmental activities. The total cost of services represents the actual cost of providing the services while the net cost represents the amount of cost that is not recovered through program revenues, meaning user charges, grants and contributions. The total net cost of services of \$29,885,984 must be recovered through general revenue, primarily taxes and state subsidies. Amounts not recovered will reduce funds available for future years.

**EAST PENNSBORO AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd.)
JUNE 30, 2016**

**Table A-3
Governmental Activities**

	Direct Expenses		Program Revenues		Net Expense	
	2016	2015	2016	2015	2016	2015
Classroom instruction	\$ 24,874	\$ 23,454	\$ 4,784	\$ 4,255	\$ 20,090	\$ 19,199
Instructional student support	2,396	2,395	261	230	2,135	2,165
Administrative and financial support	3,467	3,454	284	242	3,183	3,212
Operation and maintenance of buildings	2,869	2,659	75	70	2,794	2,589
Student transportation	1,680	1,619	598	610	1,082	1,009
Student activities	695	660	152	132	543	528
Community services	12	12	-	-	12	12
Interest on long-term debt	185	363	139	217	46	146
Total governmental activities	\$ 36,178	\$ 34,616	\$ 6,293	\$ 5,756	29,885	28,860
State general subsidies revenues					(6,492)	(6,352)
Total needs from taxes and other local sources					\$ 23,393	\$ 22,508

Business-Type Activities

Table A-4 is similar to the previous table, except it presents business-type service costs. Note that almost all of the cost of food services is paid by program revenues.

**Table A-4
Business-Type Activities**

	Direct Expenses		Program Revenues		Net Expense	
	2016	2015	2016	2015	2016	2015
Food services	\$ 1,147	\$ 1,111	\$ 1,167	\$ 1,101	\$ 20	\$ (10)
Investment earnings					-	-
Total net expense					\$ 20	\$ (10)

There were no other significant changes during the year with the net cost of services remaining about the same in 2016 as in 2015. The Healthy Hungry Free Kids Act (HHFKA) implementation continues to have an impact on the revenues of the Food Service Fund, although has become less than previous years.

**EAST PENNSBORO AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd.)
JUNE 30, 2016**

DISTRICT'S FUNDS

The information in Table A-5 summarizes and compares the Governmental Funds' Fund Balances for June 30, 2016, 2015 and 2014. Note that we again brought forward 2015 and 2014 balances from our 2015 MD&A. This information is not otherwise a part of the 2016 financial statement package. The groupings are the same as those used in the Balance Sheet - Governmental Funds.

**Table A-5
Governmental Fund Balances**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2015-2016</u>		<u>2014-2015</u>	
				<u>Change</u>	<u>%Change</u>	<u>Change</u>	<u>%Change</u>
General Fund - committed	\$ 6,870	\$ 6,600	\$ 5,400	\$ 270		\$ 1,200	
General Fund - unassigned	2,855	2,855	2,713	-		142	
Capital Projects Fund - restricted	-	-	2	-		(2)	
Capital Reserve Fund - committed	1,551	1,298	1,756	253		(458)	
Special Revenue Fund - restricted	10	10	10	-		-	
Total governmental funds	<u>\$ 11,286</u>	<u>\$ 10,763</u>	<u>\$ 9,881</u>	<u>\$ 523</u>	4.8%	<u>\$ 882</u>	8.9%
Total restricted	\$ 10	\$ 10	\$ 12	\$ -		\$ (2)	
Total committed	8,421	7,898	7,156	523		742	
Total unassigned	2,855	2,855	2,713	-		142	
Total governmental funds	<u>\$ 11,286</u>	<u>\$ 10,763</u>	<u>\$ 9,881</u>	<u>\$ 523</u>	4.8%	<u>\$ 882</u>	8.9%

As previously mentioned, the basis of measurement for fund assets and liabilities is different than that used in the Statement of Net Position. The differences between the total governmental fund balance of \$11,286,527 and the total net position of \$(14,925,540) are itemized in the reconciliation presented within the financial statements on page FS-4.

The items that caused the change in fund balance during the year are presented in the Statement of Revenues, Expenditures and Changes in Fund Balances within the financial statements on page FS-5. The fund balance increased by \$523,402 because the total fund expenditures, including transfers, were less than the total fund revenues.

**EAST PENNSBORO AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd.)
JUNE 30, 2016**

General Fund Budgetary Highlights

Table A-6 has been summarized from the comparative budget information presented on page ORSI-1 of the other required supplemental information. The total variance was favorable in that we budgeted our total expenditures would be higher than total revenues by \$81,509 when in fact our total expenditures were less than our revenues by \$770,810. \$500,000 of this was transferred to the Capital Reserve fund for future capital project needs.

**Table A-6
Budget to Actual Comparisons**

	Budget		Actual		Variance	
	2016	2015	2016	2015	2016	2015
Total revenues	\$ 38,298	\$ 36,931	\$ 38,903	\$ 37,430	\$ 605	\$ 499
Total expenditures	38,380	37,799	38,132	36,088	248	1,711
Excess revenues (expenditures)	(82)	(868)	771	1,342	853	2,210
Other financing sources (uses)	(25)	(25)	(500)	-	(475)	25
Net change in fund balance	\$ (107)	\$ (893)	\$ 271	\$ 1,342	\$ 378	\$ 2,235

CAPITAL ASSETS

Table A-7 summarizes the Changes in Capital Assets note to the financial statements on pages FS-26. The original cost of the capital assets on the books at June 30, 2016 was \$67,208,706. Each year, for capital assets other than land and construction in progress, this amount is depreciated (reduced in value) to reflect usage. The net balance of \$29,198,715 is the amount remaining after this reduction for all government entities.

As construction projects are completed, related construction in progress balances are moved into the buildings and improvements category, and depreciated over the estimated useful life of the improvement.

During the year our capital projects activity was limited to carrying renovations to existing buildings.

**Table A-7
Capital Assets**

	2016	2015	2014
Governmental activities			
Land	\$ 326	\$ 326	\$ 326
Buildings and improvements	27,724	28,660	29,463
Furniture, equipment and library books	1,149	838	959
Total governmental capital assets	\$ 29,199	\$ 29,824	\$ 30,748
Business-type activities			
Furniture and equipment	\$ 43	\$ 74	\$ 106

**EAST PENNSBORO AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd.)
JUNE 30, 2016**

LONG-TERM LIABILITIES

Table A-8 summarizes the Long-Term Liabilities note to the financial statements on pages FS-27 to FS-36. Most of the debt relates to general obligation bonds and notes issued by the District to pay for capital improvements.

**Table A-8
Long-term Liabilities**

	2016	2015	2014
Governmental activities			
General obligation debt	\$ 9,980	\$ 13,124	\$ 16,546
Unamortized bond premiums and refunding costs	91	148	218
Compensated absences	457	426	313
Other Post Employment Benefits	792	680	584
Net pension liability	47,343	43,143	-
	<u>\$ 58,663</u>	<u>\$ 57,521</u>	<u>\$ 17,661</u>

Our ability to raise future funds through the issuance of debt depends on how well our existing bonds are rated by the investment community. Currently, the District is rated by Standard and Poor's as A+. ACT 1 of 2006 impacts a school district's ability to incur debt without voter approval. The District does anticipate incurring additional debt within the next two fiscal years.

Each year, the District pays interest to bond and note holders and pays down a portion of the outstanding debt, referred to as redemption. During 2016, our redemptions totaled \$3,144,000.

Compensated absences increased during the year from an entity-wide perspective from \$426,423 to \$457,377 at June 30, 2016. Compensated absences increased from June 30, 2014 to June 30, 2015 from an entity-wide perspective from \$313,024 to \$426,423.

Recording for other post employment benefits began in 2008-2009. The liability at June 30, 2016 from an entity-wide perspective was \$792,246, which was a net increase of \$112,023 from the previous year of \$680,223. Post employment benefits increased from June 30, 2014 to June 30, 2015 from an entity-wide perspective from \$584,220 to \$680,223.

GASB 68 required the District to report its pension liability and related items for the first time on our 2015 financial statements but required restatement back to June 30, 2014. The net pension liability, including deferred outflows and inflows, increased by approximately \$4.2 million during 2016. The total pension obligation at June 30, 2016 was \$47.3 million compared to \$43.1 million June 30, 2015.

**EAST PENNSBORO AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd.)
JUNE 30, 2016**

NEXT YEAR'S BUDGET

Table A-9 compares the original budget for 2016 to the 2017 budget that was approved June 2016. Similar to our 2016 budget, our budgeted expenditures for 2017 exceed budgeted revenues.

**Table A-9
Budget Comparisons**

	2016-2017	2015-2016	Change
Total revenues	\$ 39,486	\$ 38,298	\$ 1,188
Total expenditures	39,762	38,404	1,358
Excess revenues (expenditures)	(276)	(106)	(170)
Other financing sources (uses)	-	-	-
Net change in fund balance	\$ (276)	\$ (106)	\$ (170)

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

The District's financial report is intended to provide the readers with a general overview of the District's finances and to show the Board's accountability for the funds it receives. If you have questions about this report or wish to request additional financial information, please contact the district office of East Pennsboro Area School District, 890 Valley Street, Enola PA 17025, (717) 732-3601.

EAST PENNSBORO AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 12,142,045	\$ 352,459	\$ 12,494,504
Taxes receivable (net of allowance for uncollectibles)	2,514,240	-	2,514,240
Internal balances	-	-	-
Due from fiduciary funds	689,030	-	689,030
Due from other governments	1,265,646	4,659	1,270,305
Other receivables	80,984	-	80,984
Prepaid expenses	53,400	-	53,400
Inventories	-	29,865	29,865
Restricted cash	54,693	-	54,693
Capital assets not being depreciated	325,826	-	325,826
Capital assets being depreciated, net	28,872,889	42,669	28,915,558
	45,998,753	429,652	46,428,405
Deferred outflows of resources			
Deferred outflows for pensions	3,808,706	-	3,808,706
Deferred charges on refundings	67,657	-	67,657
Total deferred outflows of resources	3,876,363	-	3,876,363
Liabilities			
Accounts payable	726,691	26,691	753,382
Payroll and benefits payable	3,497,382	-	3,497,382
Unearned revenues	44,495	27,750	72,245
Accrued interest on bonds and notes payable	49,348	-	49,348
Long-term liabilities			
Due within one year	3,521,569	-	3,521,569
Due in more than one year	7,799,412	-	7,799,412
Net pension liability	47,343,202	-	47,343,202
	62,982,099	54,441	63,036,540
Deferred inflows of resources			
Deferred inflows for pensions	1,818,557	-	1,818,557
Net position			
Invested in capital assets (net of related debt)	19,145,666	42,669	19,188,335
Unrestricted (deficit)	(34,071,206)	332,542	(33,738,664)
	\$ (14,925,540)	\$ 375,211	\$ (14,550,329)

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

EAST PENNSBORO AREA SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Functions/Programs	Direct Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
			Grants and Contributions Operating	Capital	Governmental Activities	Business-type Activities	Totals
Governmental activities							
Instruction	\$ 24,874,550	\$ 577,461	\$ 4,206,934	\$ -	\$ (20,090,155)	\$ -	\$ (20,090,155)
Instructional student support	2,395,857	-	260,680	-	(2,135,177)	-	(2,135,177)
Administrative and financial support	3,466,887	-	283,631	-	(3,183,256)	-	(3,183,256)
Operation and maintenance of plant	2,869,183	43,049	32,291	-	(2,793,843)	-	(2,793,843)
Student transportation	1,679,745	-	597,804	-	(1,081,941)	-	(1,081,941)
Student activities	695,415	92,002	59,918	-	(543,495)	-	(543,495)
Community services	11,849	-	-	-	(11,849)	-	(11,849)
Interest on long-term debt	184,768	-	-	138,500	(46,268)	-	(46,268)
Total governmental activities	36,178,254	712,512	5,441,258	138,500	(29,885,984)	-	(29,885,984)
Business-type activities							
Food service	1,147,423	596,036	571,235	-	-	19,848	19,848
Total school district	<u>\$ 37,325,677</u>	<u>\$ 1,308,548</u>	<u>\$ 6,012,493</u>	<u>\$ 138,500</u>	<u>(29,885,984)</u>	<u>19,848</u>	<u>(29,866,136)</u>
General revenues							
Real estate taxes					19,647,170	-	19,647,170
Earned income taxes					6,236,812	-	6,236,812
Other taxes					488,808	-	488,808
Investment earnings					40,699	402	41,101
State general subsidies					6,492,043	-	6,492,043
Transfers					-	-	-
Total general revenues and transfers					<u>32,905,532</u>	<u>402</u>	<u>32,905,934</u>
Change in net position					3,019,548	20,250	3,039,798
Net position (deficit) - beginning					<u>(17,945,088)</u>	<u>354,961</u>	<u>(17,590,127)</u>
Net position (deficit) - ending					<u>\$ (14,925,540)</u>	<u>\$ 375,211</u>	<u>\$ (14,550,329)</u>

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

EAST PENNSBORO AREA SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016

	General	Capital Reserve	Special Revenue	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 10,691,215	\$ 1,450,830	\$ -	\$ 12,142,045
Restricted cash	-	-	54,693	54,693
Taxes receivable (net of allowance for uncollectibles)	2,514,240	-	-	2,514,240
Prepaid expenses	53,400	-	-	53,400
Due from other funds	689,030	100,000	-	789,030
Due from other governments	1,265,646	-	-	1,265,646
Other receivables	80,984	-	-	80,984
	<u>15,294,515</u>	<u>1,550,830</u>	<u>54,693</u>	<u>16,900,038</u>
Total assets	<u>\$ 15,294,515</u>	<u>\$ 1,550,830</u>	<u>\$ 54,693</u>	<u>\$ 16,900,038</u>
Liabilities, deferred inflows of resources and fund balances				
Liabilities				
Accounts payable	\$ 726,691	\$ -	\$ -	\$ 726,691
Payroll and benefits payable	3,497,382	-	-	3,497,382
Due to other funds	100,000	-	-	100,000
Unearned revenues	-	-	44,495	44,495
Total liabilities	<u>4,324,073</u>	<u>-</u>	<u>44,495</u>	<u>4,368,568</u>
Deferred inflows of resources				
Unavailable tax revenue	<u>1,244,943</u>	<u>-</u>	<u>-</u>	<u>1,244,943</u>
Fund balances				
Restricted - Capital and other projects	-	-	10,198	10,198
Committed				
Future pension costs	5,200,000	-	-	5,200,000
Future medical premiums	1,000,000	-	-	1,000,000
Technology	400,000	-	-	400,000
Capital outlays	270,810	1,550,830	-	1,821,640
Unassigned	2,854,689	-	-	2,854,689
Total fund balances	<u>9,725,499</u>	<u>1,550,830</u>	<u>10,198</u>	<u>11,286,527</u>
	<u>\$ 15,294,515</u>	<u>\$ 1,550,830</u>	<u>\$ 54,693</u>	<u>\$ 16,900,038</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 15,294,515</u>	<u>\$ 1,550,830</u>	<u>\$ 54,693</u>	<u>\$ 16,900,038</u>

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

EAST PENNSBORO AREA SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Total fund balances - Governmental funds \$ 11,286,527

Amounts presented for governmental activities in the statement of net position are different because:

Capital assets are not financial resources and therefore are not presented as assets in the governmental funds, but are reported in the governmental activities in the statement of net position. At year end, capital assets consist of:

Cost of assets	\$ 67,208,706	
Accumulated depreciation	<u>(38,009,991)</u>	29,198,715

Taxes receivable will be collected, but are not available soon enough to pay for current year expenditures, and therefore are unavailable in the governmental funds. At year end, these taxes receivable consist of:

Real estate taxes	231,150	
Earned income taxes	<u>1,013,793</u>	1,244,943

Certain liabilities are not due and payable in the current year, and therefore are not presented as liabilities in the governmental funds. At year end, these liabilities consist of:

Bonds and notes payable	(9,980,000)	
Compensated absences	(457,377)	
Other post employment benefits	<u>(792,246)</u>	
Long-term liabilities	(11,229,623)	
Accrued interest on bonds and notes payable	<u>(49,348)</u>	(11,278,971)

Bond discounts (premiums) and charges on refundings are presented as expenditures in the governmental funds.

At year end, the remaining unamortized bond related costs consist of:

Bond discounts (premiums)	(91,358)	
Charges on refundings	<u>67,657</u>	(23,701)

Some liabilities, such as net pension obligations, are not due and payable in the current period and, therefore, are not reported in the governmental funds. At year end, these liabilities consist of:

Net pension liability	(47,343,202)	
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Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds. At year end, these consist of:

Deferred outflows of resources related to pensions	3,808,706	
Deferred inflows of resources related to pensions	<u>(1,818,557)</u>	<u>(45,353,053)</u>

Net position (deficit) - Governmental activities \$ (14,925,540)

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

EAST PENNSBORO AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	General	Capital Reserve	Special Revenue	Total Governmental Funds
Revenues				
Local sources - taxes	\$ 26,215,614	\$ -	\$ -	\$ 26,215,614
Local sources - other	1,067,942	101,693	35,913	1,205,548
State sources	11,266,378	-	-	11,266,378
Federal sources	353,087	-	-	353,087
Total revenues	<u>38,903,021</u>	<u>101,693</u>	<u>35,913</u>	<u>39,040,627</u>
Expenditures				
Instruction	23,692,295	-	35,827	23,728,122
Support services	10,061,654	-	-	10,061,654
Noninstructional services	701,179	-	-	701,179
Capital outlay	312,289	349,187	-	661,476
Debt service (principal and interest)	3,364,794	-	-	3,364,794
Total expenditures	<u>38,132,211</u>	<u>349,187</u>	<u>35,827</u>	<u>38,517,225</u>
Excess (deficiency) of revenues over expenditures	770,810	(247,494)	86	523,402
Other financing sources (uses)				
Transfers from other funds	-	500,000	-	500,000
Transfers to other funds	<u>(500,000)</u>	<u>-</u>	<u>-</u>	<u>(500,000)</u>
Net changes in fund balances	270,810	252,506	86	523,402
Fund balances - beginning	<u>9,454,689</u>	<u>1,298,324</u>	<u>10,112</u>	<u>10,763,125</u>
Fund balances - ending	<u>\$ 9,725,499</u>	<u>\$ 1,550,830</u>	<u>\$ 10,198</u>	<u>\$ 11,286,527</u>

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

EAST PENNSBORO AREA SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Total net change in fund balances - Governmental funds	\$	523,402
Amounts presented for governmental activities in the statement of activities are different because:		
Capital outlays are presented as expenditures in the governmental funds. In the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. During the year, the capital outlays and depreciation expense are as follows:		
Capital outlays, net of retirements	\$ 1,143,025	
Depreciation expense	<u>(1,767,882)</u>	(624,857)
Because some taxes will not be collected until ninety days after the end of the fiscal year, they are not considered as available revenues in the governmental funds. Unavailable taxes increased (decreased) during the year as follows:		
Real estate taxes	(56,424)	
Earned income taxes	<u>213,599</u>	157,175
Bond and note proceeds and principal repayments are presented as other financing sources and expenditures (other financing uses if refunded bonds) in the governmental funds. In the statement of activities, proceeds and repayments do not effect net position. During the year, proceeds and principal repayments are as follows:		
Proceeds from bonds and notes	-	
Principal repayments	<u>3,144,000</u>	3,144,000
Bond discounts (premiums) and charges on refundings (any difference between the carrying amount of refunded debt and its payoff amount) are presented as expenditures in the governmental funds. In the statement of activities, these amounts are allocated over the life of the debt as amortization expense. During the year, costs incurred and amortization expense are as follows:		
Bond discounts (premiums) and charges on refundings on new bonds	-	
Amortization of bond premiums (discounts)	<u>12,376</u>	12,376
Payments of interest are presented as expenditures in the governmental funds when the payment is due. In the statement of activities, the expense is measured by the amount accrued during the year. The liability for accrued interest on bonds and notes payable payable decreased during the year.		23,650
Payments of compensated absences are presented as expenditures in the governmental funds. In the statement of activities, the expense is measured by the amount earned by employees during the year. The liability for compensated absences increased during the year.		(30,954)
Payments of other post employment benefits are presented as expenditures in the governmental funds. In the statement of activities, the expense includes actuarial estimates, primarily for amortization of prior costs. The liability for other post employment benefits increased during the year.		(112,023)
Pension costs are presented as expenditures in the governmental funds. In the statement of activities, the changes in the unfunded pension obligation and changes in the deferred outflows and inflows related to pension are reported as additional pension costs:		
Change in deferred outflows and inflows	849,087	
Amortization of difference between plan contributions and actual contributions	(1,004,400)	
Amortization of change in proportionate share of net pension liability	<u>82,092</u>	<u>(73,221)</u>
Change in net position - Governmental activities	\$	<u><u>3,019,548</u></u>

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

EAST PENNSBORO AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2016

	Food Service
Assets	
Current assets	
Cash and cash equivalents	\$ 352,459
Due from other governments	4,659
Inventories	29,865
Total current assets	386,983
Capital assets being depreciated, net	42,669
Total assets	429,652
Liabilities	
Current liabilities	
Accounts payable	26,691
Unearned revenues	27,750
Total current liabilities	54,441
Net position	
Invested in capital assets (net of related debt)	42,669
Unrestricted	332,542
Total net position	\$ 375,211

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

EAST PENNSBORO AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016

	Food Service
Operating revenues - Food service revenue	\$ 596,036
Operating expenses	
Other purchased service	1,021,446
Food and milk	70,738
Other supplies	24,214
Depreciation	31,025
Total operating expenses	1,147,423
Operating income (loss)	(551,387)
Nonoperating revenues	
Earnings on investments	402
State sources - meal subsidies	35,389
Federal sources - meal subsidies	465,108
Federal sources - donated commodities	70,738
Total nonoperating revenues	571,637
Income (loss) before transfers	20,250
Transfers from other funds	-
Change in net position	20,250
Net position - beginning	354,961
Net position - ending	\$ 375,211

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

EAST PENNSBORO AREA SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016

	Food Service
Operating activities	
Cash received from users	\$ 594,606
Cash payments to suppliers for goods and services	(1,018,486)
Cash payments for other operating expenses	(24,434)
Net cash used for operating activities	(448,314)
Non-capital financing activities	
State sources	45,742
Federal sources	597,808
Net cash provided by non-capital financing activities	643,550
Capital and related financing activities	
Cash payments for equipment	-
Net cash provided by capital and related financing activities	-
Investing activities	
Earnings on investments	402
Net cash provided by investing activities	402
Net change in cash and cash equivalents	195,638
Cash and cash equivalents - beginning	156,821
Cash and cash equivalents - ending	\$ 352,459
Reconciliation of operating income (loss) to net cash used for operating activities	
Operating income (loss)	\$ (551,387)
Adjustments to reconcile operating income (loss) to net cash used for operating activities	
Depreciation	31,025
Donated commodities	70,738
Net change in other assets and other liabilities	
Inventories	(220)
Accounts payable	2,960
Unearned revenues	(1,430)
Total adjustments	103,073
Net cash used for operating activities	\$ (448,314)

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

EAST PENNSBORO AREA SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2016

	Private Purpose Trusts	Payroll	Student Activities	Totals
Assets				
Cash and cash equivalents	\$ 14,592	\$ 689,030	\$ 96,939	\$ 800,561
Investments	924,291	-	-	924,291
Total assets	938,883	689,030	96,939	1,724,852
Liabilities				
Due to governmental funds	-	689,030	-	689,030
Payroll deductions and withholdings	-	-	-	-
Due to student groups	-	-	96,939	96,939
Total liabilities	-	689,030	96,939	785,969
Net position	\$ 938,883	\$ -	\$ -	\$ 938,883

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

EAST PENNSBORO AREA SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2016

	Private Purpose Trusts
Additions	
Investment earnings	\$ 7,015
Gifts and contributions	5,500
Total additions	12,515
Deductions	
Scholarships awarded	12,500
Change in net position	15
Net position - beginning	938,868
Net position - ending	\$ 938,883

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

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

East Pennsboro Area School District is the level of government which has oversight responsibility and control over activities related to public school education. The report includes services provided by the District to residents within the boundaries of the Cumberland County Municipality of East Pennsboro Township. Services provided include a comprehensive curriculum for primary and secondary education as well as special education and vocational education programs. The District receives revenue from local, state and federal sources and must comply with the requirements of these funding sources.

Reporting entity

GASB establishes criteria for determining the activities, organizations and functions of government to be included in the financial statement of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the established criteria. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are:

The economic resources received or held by the separate organization are entirely for the direct benefit of the District or its constituents.

The District is entitled to (or has the ability to) access a majority of the economic resources received or held by the separate organization.

The economic resources received or held by an individual organization that the District is entitled to (or has the ability to) access is significant to the District.

There are no component units that the District feels meet all the above criteria for inclusion in this reporting entity.

Jointly-governed organizations

The District is a participant in four jointly-governed organizations, each of which is a separate legal entity that offers services to the District and its residents. Each of these entities serves several school districts and/or municipalities and therefore are not included in this reporting entity. These entities do not have taxing power, but are required to adopt an annual budget, which is funded primarily by its member Districts or others that use its services. Complete financial statements for these entities can be obtained from their respective administrative offices.

Capital Area Intermediate Unit provides special education services and programs.

Cumberland Perry Area Vocational Technical School provides vocational and technical education services and programs.

Harrisburg Area Community College provides community college education services and programs.

Cumberland County Tax Bureau provides earned income tax collection services.

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Basis of presentation

The financial statements of the District have been prepared in accordance with U.S. generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) establishes U.S. generally accepted accounting principles for governments. Accounting guidance is also provided through the Comptroller's office for Pennsylvania's Department of Education. The more significant of these accounting policies are as follows:

Basis of presentation - District-wide financial statements

District-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District. As a general rule the effect of interfund activity has been eliminated from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are presented separately from business-type activities which rely to a significant extent, on fees and charges for support.

District-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and the fiduciary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Real estate taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) is used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net position. Depreciation and amortization are charged as an expense against current operations. Capital assets (net of accumulated depreciation), bonds and notes payable (net of unamortized discounts or premiums) and net pension liability are presented in the statement of net position.

The statement of activities demonstrates the degree to which the direct expenses of given functions or programs are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or program. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program. In addition, program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other items not properly included among program revenues are presented as general revenues.

Basis of presentation - Fund financial statements

Fund financial statements are also provided for all governmental funds, proprietary funds, and fiduciary funds of the District. Major individual governmental funds and major individual proprietary funds are presented as separate columns in the fund financial statements. Nonmajor funds, if any, are aggregated and presented in a single column. Fiduciary funds are presented by fund.

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Basis of presentation - Fund financial statements (Cont'd.)

Governmental funds are presented 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 received within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers tax revenue to be available if received within 90 days of the end of the fiscal period. Revenue from federal, state and other grants designated for payment of specific expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recognized as unearned revenues until earned. Expenditures generally are recognized when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recognized only when payment is due.

Proprietary funds generally follow standards for accounting and financial presentation for private business enterprises to the extent that those standards do not conflict with or contradict guidance of the GASB. The District does not attempt to allocate all "building-wide costs" to the proprietary fund. Thus, general fund expenditures which partially benefit the proprietary fund (utilities, janitorial services, insurance, etc.) are not proportionately recognized with the proprietary fund. Similarly, the proprietary fund does not recognize a cost for the building space it occupies.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. Operating expenses for the District's proprietary fund include food production costs, supplies, administrative costs, and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fund accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures, or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

When both restricted and unrestricted resources are available for use, the District's general policy is to use the restricted (primarily operating grants) resources first, then unrestricted resources as needed.

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Basis of presentation - Fund financial statements (Cont'd.)

Fund accounting (Cont'd.)

The District has the following major types of funds:

Governmental Funds – These funds account for the activities through which most of the District's operations are provided.

Proprietary Funds – These funds account for the operations of the District that are financed and operated in a manner similar to private business enterprises.

Fiduciary Funds – These funds account for the assets held by the District as a trustee or agent for individuals, private organizations and/or governmental units and are therefore not available to support the District's own programs.

The District presents the following major governmental funds:

The General Fund is the primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

An operating budget is adopted prior to the beginning of each year on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required.

The Pennsylvania School Code dictates specific procedures relative to budget adoption and financial statement presentations. The District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year. This process includes the publishing of notices by advertisement, that the proposed budget has been prepared and is available for public inspection at the administrative office of the District, and that public hearings are held on the proposed operating budget which are required to be scheduled at least ten days prior to when final action on adoption is taken by the Board.

Legal budgetary control is maintained at the sub-function/major object level. The Board may approve transfers of funds appropriated to any particular item of expenditure in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval, provided it is not at a higher level than the Board adopted budget.

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 recognized. Unused encumbrances expire at the end of each year.

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Basis of presentation - Fund financial statements (Cont'd.)

Fund accounting (Cont'd.)

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

Capital Projects Funds can consist of more than one project to separately account for each project, if required. Each issuance of new debt (primarily bonds) is a project to account for the debt proceeds and the expenditure of those proceeds. The District maintains a capital reserve account for funds transferred from the General Fund and the expenditure of those funds for capital outlays.

The Special Revenue Fund accounts for proceeds of other specific revenue sources that are restricted to expenditures of those funds for other specified purposes.

The Debt Service Fund, when applicable, accounts for the refinancing of existing debt.

The District reports the following proprietary fund:

The Food Service Fund accounts for the operations of the cafeterias.

The District reports the following fiduciary funds:

The Private Purpose Trusts account for assets held by the District in a trustee capacity, the contributions to and interest earnings on those scholarship funds and for payments of scholarship funds to selected students.

The Payroll Fund accounts for salaries paid to District employees.

The Student Activities Fund accounts for programs operated and sponsored by various clubs and organizations within the schools.

Cash and cash equivalents and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits (including pooled investments), and short-term investments with original maturities of three months or less from the date of acquisition.

The types of authorized investments are limited by State regulations. Pooled investment funds are required to be operated in accordance with State regulations.

Investments, including pooled investments, are presented at fair value.

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Taxes and taxes receivable

Real estate taxes are levied as of July 1 with a legal, enforceable claim against the property. Amounts not collected within six months (December 31) are considered delinquent and submitted to outside agencies/entities for collection actions.

Receivables and payables between funds

Activity between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the district-wide financial statements as "internal balances". Balances between funds are short-term items pending periodic repayments.

Inventories and prepaid items

Inventories are presented at the lower of cost or market on a first-in, first-out basis, and are expensed when consumed. Donated commodities are recognized as revenue and are inventoried at an estimated cost value.

Certain payments, if any, to vendors reflect expenses applicable to future accounting periods and are presented as prepaid items in both district-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are presented in the applicable governmental or business-type activities columns in the district-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$ 1,000 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous groups with individual costs of less than \$ 1,000 as capital assets for financial presentation purposes. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Such assets are presented at historical cost or estimated historical cost if purchased or constructed.

Major outlays for capital assets and improvements are capitalized when incurred. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Upon sale or retirement, the cost and related accumulated depreciation, if applicable, are eliminated from the respective district-wide and proprietary accounts and any resulting gain or loss is reflected in those accounts

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Capital assets (Cont'd.)

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

<u>Assets</u>	<u>Government Activities</u>	<u>Business-type Activities</u>
Buildings	40	-
Building and site improvements	15 to 40	-
Furniture and equipment	5 to 15	5 to 12
Library books	7	-

Long-term liabilities

In the district-wide financial statement, and proprietary fund types in the fund financial statements, bonds and notes payable and other long-term obligations are presented as liabilities. Bond discounts (premiums) and any charges on refundings are amortized over the life of the bonds using the effective interest method.

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

Deferred outflows /inflows of resources other than pensions

In addition to assets, if applicable, 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. The District has only one item that qualifies for reporting in this category. It is the deferred charges on refundings reported in the district-wide statement of net position. Charges on refundings result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable tax revenue*, is reported only in the governmental funds balance sheet. These unavailable revenues from taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Pensions

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

Plan description

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

Benefits provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one 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 to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending 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.

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Pensions (Cont'd.)

Benefits provided (Cont'd.)

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 benefits that would have been effective if the member had retired on the day before death.

Contributions

Member contributions

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

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

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

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-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 25.00% 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 for the District were \$ 3,599,291 for the year ended June 30, 2016.

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Net position

Net position (deficit) represents total assets plus deferred outflows of resources less total liabilities and deferred inflows of resources. In district-wide financial statements and proprietary fund financial statements, categories of net position are:

Invested in capital assets (net of related debt) - This category presents all capital assets into one component of net position. Accumulated depreciation and outstanding debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted – This category presents funds restricted for a specific purpose as per: external parties, contributors or enabling legislation.

Unrestricted - This category presents the net position (deficit) of the District, which is not restricted for any project or other purpose. However, these funds may be committed or assigned for specific projects or purposes in the fund financial statements.

Governmental fund balances

GASB has established criteria for classifying fund balances into specifically defined classifications based on a hierarchy that reflects the extent to which the District is bound to honor constraints on how those funds can be spent. The District's general policy is to first use restricted funds, if any, prior to using unassigned funds. Classifications of fund balances are:

Nonspendable - Amounts that cannot be spent because they are either in a (a) non-spendable form (i.e. inventories) or (b) legally or contractually required to be maintained intact (i.e. the principal of a permanent fund).

Restricted - Amounts constrained to be used for a specific purpose as per: External parties, contributors or enabling legislation.

Committed - Amounts constrained to be used for a specific purpose as per: The District's highest level of decision making authority which is the Board of School Directors.

Assigned - Amounts intended to be used for a specific purpose as per: Committee or individual authorized by the Board of School Directors (for example a budget or finance committee, or business manager/financial officer).

Unassigned - Amounts available for any purpose (amounts that are not Nonspendable, Restricted, Committed or Assigned) in the General Fund.

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Estimates

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

Recent accounting standards

The following reflects only those pronouncements effective for upcoming reporting periods which based on our review, may be applicable to the District's reporting requirements.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement replaces Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43 and Statement No. 50, *Pension Disclosures*. This statement is effective for financial statements for fiscal years beginning after June 15, 2016. The District is currently evaluating what effect, if any, the adoption of GASB 74 will have on the District's financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and establishes new accounting and financial reporting requirements for OPEB plans. This statement is effective for fiscal years beginning after June 15, 2017. The District is currently evaluating what effect, if any, the adoption of GASB 75 will have on the District's financial statements.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosure*. This statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. The District is currently evaluating what effect, if any, the adoption of GASB 77 will have on the District's financial statements.

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Recent accounting standards (Cont'd.)

There are other GASB pronouncements that will become effective for future reporting periods. The District does not currently anticipate any significant impact on the District's financial statements from these pronouncements.

Subsequent events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through January 18, 2017, the date the financial statements were available to be issued.

CASH AND CASH EQUIVALENTS AND INVESTMENTS

Pennsylvania statutes provide for investment of District funds into authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of funds for investment purposes.

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned to it. The District policy requires that all deposits in excess of federal deposit insurance coverage be collateralized by the depository institution with approved collateral as provided by law.

At June 30, 2016, the District's deposits totaled \$ 12,460,282 and the depository institution balances totaled \$ 13,403,987. Of the depository institution balances, \$ 355,905 was covered by federal depository insurance and \$ 13,048,082 was collateralized by pooled assets. The pooled assets collateral is held by the Federal Home Loan Bank, but is not titled in the District's name.

The District also has cash equivalents with organizations that operate as common law trusts established pursuant to the Intergovernmental Cooperation Act and related statutes for the purpose of pooling investments. Each organization's fundamental policy is to maintain a net asset value of \$ 1 per share, but there can be no assurance that the net asset value will not vary from \$ 1 per share. They may only purchase securities which are permitted under PA law. As of June 30, 2016, District deposits in these organizations are as follows:

Pennsylvania Local Government Investment Trust (PLGIT)	\$	604,441
Pennsylvania School District Liquid Asset Fund (PSDLAF)		285,035

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy for interest rate risk. The weighted average maturity of the securities held by each of the organizations is generally less than 90 days.

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

CASH AND CASH EQUIVALENTS AND INVESTMENTS (Cont'd.)

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District does not have a formal investment policy for credit risk. The District's deposits in each of the organizations were rated "AAAm" by Standard & Poor's.

Cash and cash equivalents and investments at June 30, 2016 are as follows:

	<u>Cash and Cash</u> <u>Equivalents</u>	<u>Investments</u>
Governmental activities	\$ 12,196,738	\$ -
Business-type activities	352,459	-
Fiduciary funds	<u>800,561</u>	<u>924,291</u>
 Total cash and cash equivalents and investments	 <u>\$ 13,349,758</u>	 <u>\$ 924,291</u>

Investments generally consist of certificates of deposits with original maturities of more than three months from the date of acquisition. All of the certificates were held at a local financial institution and not covered by federal depository insurance but were collateralized by pooled assets. The pooled assets collateral is held by the Federal Reserve Bank, but is not titled in the District's name.

TAXES RECEIVABLE

Taxes receivable are as follows:

	<u>Taxes</u> <u>Receivable</u> <u>(Gross)</u>	<u>Allowance for</u> <u>Uncollectibles</u>	<u>Taxes</u> <u>Receivable</u> <u>(Net)</u>	<u>Unavailable</u> <u>Tax</u> <u>Revenue</u>
Real estate taxes	\$ 592,000	\$ (17,760)	\$ 574,240	\$ 231,150
Earned income taxes	<u>1,940,000</u>	<u>-</u>	<u>1,940,000</u>	<u>1,013,793</u>
General Fund	2,532,000	(17,760)	2,514,240	1,244,943
Full accrual adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,244,943)</u>
 Governmental activities	 <u>\$ 2,532,000</u>	 <u>\$ (17,760)</u>	 <u>\$ 2,514,240</u>	 <u>\$ -</u>

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

DUE FROM/TO OTHER FUNDS AND INTERFUND TRANSFERS

Interfund balances are as follows:

<u>Assets</u>		<u>Liabilities</u>	
General Fund	\$ 689,030	\$ 689,030	Payroll Fund
Capital Reserve Fund	100,000	100,000	General Fund

Interfund transfers were as follows:

<u>Other financing sources</u>		<u>Other financing uses</u>	
Capital Reserve Fund	\$ 500,000	\$ 500,000	General Fund

DUE FROM OTHER GOVERNMENTS

Due from other governments are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Local sources – other taxes	\$ 34,372	\$ -
State sources	1,078,288	316
Federal sources	<u>152,986</u>	<u>4,343</u>
	<u>\$ 1,265,646</u>	<u>\$ 4,659</u>

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

CAPITAL ASSETS

Changes in capital assets were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 325,826	\$ -	\$ -	\$ 325,826
Capital assets being depreciated				
Buildings and improvements	58,258,347	549,617	-	58,807,964
Furniture and equipment	6,379,687	585,035	(23,000)	6,941,722
Library books	<u>1,124,821</u>	<u>8,373</u>	<u>-</u>	<u>1,133,194</u>
	<u>65,762,855</u>	<u>1,143,025</u>	<u>(23,000)</u>	<u>66,882,880</u>
Accumulated depreciation				
Buildings and improvements	(29,598,267)	(1,486,059)	-	(31,084,326)
Furniture and equipment	(5,606,428)	(259,688)	23,000	(5,843,116)
Library books	<u>(1,060,414)</u>	<u>(22,135)</u>	<u>-</u>	<u>(1,082,549)</u>
	<u>(36,265,109)</u>	<u>(1,767,882)</u>	<u>23,000</u>	<u>(38,009,991)</u>
Capital assets being depreciated, net	<u>29,497,746</u>	<u>(624,857)</u>	<u>-</u>	<u>28,872,889</u>
Governmental activities capital assets, net	<u>\$ 29,823,572</u>	<u>\$ (624,857)</u>	<u>\$ -</u>	<u>\$ 29,198,715</u>
Business-type activities				
Capital assets being depreciated				
Furniture and equipment	\$ 649,455	\$ -	\$ -	\$ 649,455
Accumulated depreciation				
Furniture and equipment	<u>(575,761)</u>	<u>(31,025)</u>	<u>-</u>	<u>(606,786)</u>
Capital assets being depreciated, net	<u>73,694</u>	<u>(31,025)</u>	<u>-</u>	<u>42,669</u>
Business-type activities capital assets, net	<u>\$ 73,694</u>	<u>(31,025)</u>	<u>\$ -</u>	<u>\$ 42,669</u>

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

CAPITAL ASSETS (Cont'd.)

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
Instruction	\$ 1,425,906
Instructional student support	205,416
Administrative and financial support	7,378
Operation and maintenance of plant	128,528
Student transportation	-
Student activities	<u>654</u>
	<u>\$ 1,767,882</u>
Business-type activities – Food service	<u>\$ 31,025</u>

LONG-TERM LIABILITIES

Changes in the following long-term liabilities were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds and notes payable	\$ 13,124,000	\$ -	\$ (3,144,000)	\$ 9,980,000	\$ 3,206,000
Unamortized bond premium (discount)	147,885	-	(56,527)	91,358	-
Compensated absences	426,423	255,954	(225,000)	457,377	220,000
Other post employment benefits	680,223	207,592	(95,569)	792,246	95,569
Net pension liability	<u>43,142,982</u>	<u>7,038,471</u>	<u>(2,838,251)</u>	<u>47,343,202</u>	<u>-</u>
	<u>\$ 57,521,513</u>	<u>\$ 7,502,017</u>	<u>\$ (6,359,347)</u>	<u>\$ 58,664,183</u>	<u>\$ 3,521,569</u>

Bonds and notes payable

Changes in bonds and notes payable were as follows:

	<u>Beginning Balance</u>	<u>New Issue</u>	<u>Refunding</u>	<u>Scheduled Redemptions</u>	<u>Ending Balance</u>
Series A of 2009	\$ 535,000	\$ -	\$ -	\$ (535,000)	\$ -
Series of 1999 note	1,080,000	-	-	(345,000)	735,000
Series of 2011 note	1,509,000	-	-	(199,000)	1,310,000
Series of 2015 note	<u>10,000,000</u>	<u>-</u>	<u>-</u>	<u>(2,065,000)</u>	<u>7,935,000</u>
	13,124,000	-	-	(3,144,000)	9,980,000
Unamortized bond premium (discount)	<u>147,885</u>	<u>-</u>	<u>-</u>	<u>(56,527)</u>	<u>91,358</u>
	<u>\$ 13,271,885</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,200,527)</u>	<u>\$ 10,071,358</u>

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

LONG-TERM LIABILITIES (Cont'd.)

Bonds and notes payable (Cont'd.)

	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Callable Date</u>	<u>Due Within One Year</u>
Series A of 2009	3.00%	August 2020	February 2015	\$ -
Series of 1999 note	Variable	February 2018	Not callable	360,000
Series of 2011 note	2.68%	August 2021	Not callable	202,000
Series of 2015 note	1.50%	August 2020	Not callable	<u>2,644,000</u>
				<u>\$ 3,206,000</u>

Scheduled debt service requirements, payable by the General Fund, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 3,206,000	\$ 139,096	\$ 3,345,096
2018	3,270,000	91,107	3,361,107
2019	2,006,000	46,831	2,052,831
2020	624,000	24,527	648,527
2021	640,000	12,411	652,411
2022	<u>234,000</u>	<u>3,136</u>	<u>237,136</u>
	<u>\$ 9,980,000</u>	<u>\$ 317,108</u>	<u>\$ 10,297,108</u>

Compensated absences

Compensated absences (those for which employees received pay) are presented using the termination payment method. A liability is computed using estimates which apply historical data to current factors. The District maintains records of unused leave and applies the contracted rate for employees eligible for termination payments. The District allows only restricted sabbatical leave and therefore does not present any liability in advance of the sabbatical. Payments for compensated absences are made in the year the absence is taken or the employee retires. When an employee retires, the payout is as follows:

Vacation (administrative personnel only) - unused vacation days (not to exceed 5 days) are paid at the time of separation.

Sickness - no payout required except to retirees who meet the requirements below for severance payments

Personal days - unused personal days (not to exceed 5 days) may be carried over but no payment is required upon termination

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

LONG-TERM LIABILITIES (Cont'd.)

Compensated absences (Cont'd.)

Retirement severance payments - retiring employees with at least seven consecutive years of District employment immediately prior to retirement, at least twenty years of service to the District, and at least thirty years of total school service credited under the State Retirement System are eligible for severance payments based on years of service and accumulated sick leave days. The retirement payment amount is equal to \$ 300 times the number of years of continuous District service to a maximum of \$ 9,000 for thirty years. In addition, eligible retirees are reimbursed for accumulated unused sick leave in excess of one hundred days to a maximum of three hundred days at a rate of \$ 50 per day for a maximum payment of \$ 10,000 for accumulated sick leave. Additional severance is payable to retirees with a minimum of twenty years of service to the District of \$ 20,000 payable over five years. This new severance benefit replaces post-employment health benefits provided under the prior contract. Total maximum severance payments to each eligible retiree under the collective bargaining agreement in effect through August 31, 2017 are \$ 39,000.

Other post employment benefits (OPEBs)

OPEBs are presented in accordance with GASB Statement No. 45, which requires their recognition as part of the compensation package of active employees for services rendered. The cost and obligation for OPEBs are required to be measured by an actuarial valuation.

Plan description

All eligible retirees (see pension plan) including teachers, administrators, and support staff are allowed to continue coverage for themselves and their dependents until the retiree attains the Medicare eligible age. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purpose of COBRA.

Retiree's premiums are less than the District's actual cost to provide health care coverage to retirees. The premium amount retirees pay is a blended rate for covering both active and retired Plan members. The fact that the blended rate that retirees pay is less than the cost of covering retired members and their dependents results in what is known as an "implicit rate subsidy," which creates an additional cost to the District.

Participant information

Active participants	266
Vested former members	8
Retired participants	<u>32</u>
	<u>306</u>

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

LONG-TERM LIABILITIES (Cont'd.)

Other post employment benefits (OPEBs) (Cont'd.)

Funding policy

The District funds Plan liabilities on a “pay-as-you-go” basis, and has not established an OPEB trust fund to accumulate assets to fund Plan obligations. The District has no statutory or contractual obligation to fund the Plan and would only do so at the District’s discretion.

Annual OPEB cost and net OPEB obligation

The annual OPEB cost (expense) is calculated based on the actuarially determined annual required contribution (ARC) of the District. The ARC represents a funding level that if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial accrued liability (UAAL) over 7 years.

Components of the annual OPEB cost, the amount contributed to the Plan, and changes in the net OPEB obligation are as follows:

District normal cost	\$ 73,730
Amortization of unfunded actuarial accrued liability	<u>218,687</u>
Annual required contribution	292,417
Interest on the net OPEB obligation	30,610
Adjustment to the ARC	<u>(115,435)</u>
Annual OPEB cost	207,592
Contributions made to the plan	<u>(95,569)</u>
Increase in net OPEB obligation	112,023
Net OPEB obligation - beginning	<u>680,223</u>
 Net OPEB obligation - ending	 <u>\$ 792,246</u>

The percentage of annual OPEB cost contributed was as follows:

<u>Year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 2016	\$ 207,592	46.04%	\$ 792,246

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

LONG-TERM LIABILITIES (Cont'd.)

Other post employment benefits (OPEBs) (Cont'd.)

Funding status and funding progress

The District's actuarial accrued liability (AAL) for OPEBs as of July 2014 was \$ 1,288,657. There are no Plan assets, thus, the entire amount is unfunded. The District does not have any current plans to fund the AAL.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
July 2014	\$ -	\$ 1,288,657	\$ 1,288,657	0.00%	\$ 13,061,691	9.87%

Actuarial assumptions and methods

Actuarial assumptions and methods used in the July 2014 actuarial valuation include the following:

Interest rate	4.50%
General inflation rate	2.50%
Health care cost trend rate	6.50% in 2014 decreasing by 0.5% per year to 5.50% in 2015. Rates gradually decrease from 5.30% in 2017 to 4.20% in 2089 and later.
Actuarial cost method	Benefits are allocated on a level basis over the earnings of an individual from date of hire to assumed retirement date
Amortization (blended)	Active employees over expected future service period, and retirees over expected future payment period

Actuarial evaluations on an ongoing basis involve estimates of the reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Projections of benefits are based on the types of benefits provided under the plan at the time of each valuation and on the pattern of sharing of benefit costs between the District and plan members to that point in time.

Actuarial calculations reflect a long-term perspective, and consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in accrued liabilities.

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

LONG-TERM LIABILITIES (Cont'd.)

Other post employment benefits (OPEBs) (Cont'd.)

Actuarial assumptions and methods (Cont'd.)

The required schedule of funding progress in the other required supplementary information (ORSI) immediately following the notes to financial statements, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, because the District maintains no Plan assets, information relative to Plan asset disclosures is not applicable.

PSERS health insurance premium assistance

While PSERS is primarily responsible for administering a defined benefit pension plan, it also administers its Health Insurance Premium Assistance Program (Premium Assistance). Under this program, employer contribution rates for Premium Assistance are established to provide reserves in its Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

The contribution rate for employers used to fund Premium Assistance was .84% for the year ended June 2016. Contributions to the Premium Assistance plan for the District were \$120,936 for the year ended June 2016. This is in addition to the 25.00% employer contribution rate for the pension plan.

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 \$ 47,343,202 for its proportionate share of the net pension liability. 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 .1093%, which was an increase of .0003 from its proportion measured as of June 30, 2014

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

LONG-TERM LIABILITIES (Cont'd.)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions (Cont'd.)

For the year ended June 30, 2016, the District recognized pension expense of \$ 3,672,512. 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>
Net difference between projected and actual investment earnings	\$ -	\$ 291,197
Difference between expected and actual experience	101,785	-
Changes in proportions	-	1,527,360
Difference between employer contributions and proportionate share of total contributions	107,630	-
Contributions subsequent to the measurement date	<u>3,599,291</u>	<u>-</u>
	<u>\$ 3,808,706</u>	<u>\$ 1,818,557</u>

In the year ended June 30, 2016, \$ 3,599,291 was 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. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense for the year ended June 30 as follows:

2017	\$ (726,000)
2018	(726,000)
2019	(726,000)
2020	460,000

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

LONG-TERM LIABILITIES (Cont'd.)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions (Cont'd.)

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 % of pay
- Investment return - 7.50%, includes inflation at 3.00%
- Salary increases - Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1% and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined 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 Board at its March 11, 2011 board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

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

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

LONG-TERM LIABILITIES (Cont'd.)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions (Cont'd.)

Actuarial assumptions (Cont'd.)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public markets global equity	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	<u>(14.0%)</u>	1.1%
	<u>100%</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.

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

LONG-TERM LIABILITIES (Cont'd.)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions (Cont'd.)

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% point lower (6.50%) or 1% point higher (8.50%) than the current rate:

	1% Decrease <u>6.50%</u>	Current Discount Rate <u>7.50%</u>	1% Increase <u>8.50%</u>
District's proportionate share of the net pension liability	\$ 58,356,000	\$ 47,344,000	\$ 38,088,000

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.

OPERATING LEASES

The District leases photocopying machines and modular office buildings pursuant to various lease agreements which are being accounted for as operating leases. Total operating lease payments included in General Fund expenditures for the year ended June 30, 2016 amounted to approximately \$ 100,057. There are no minimum net lease rental payments for future periods since copier lease agreement is currently on month-to-month basis.

MANAGEMENT SERVICES

The cafeteria facilities of the District are operated by a third party vendor. Under the terms of the contract, the vendor provides for the operation and maintenance of food services as required by law, with the policies subject to the approval of the District. Operating costs, management fees and administrative costs are billed monthly to the District.

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

RISK MANAGEMENT

Health insurance

The District is a member of South Central Trust for processing claims and obtaining reinsurance through commercial insurance carriers. The District has joined three other school districts and two other educational institutions in a risk sharing pool. The premium rates charged to the District are based on 50% of the prior actual claims of the School and 50% in the prior year actual claims experienced of the entire risk sharing pool. The pool has reinsurance for claims in excess of \$ 150,000 specific (per person). Financial statements of the trust are provided to member districts. District transactions within the trust were as follows:

Cash balance in the trust - beginning		\$ 613,300
Payments from the District and its retirees	\$ 3,693,781	
Stop loss and other reimbursements	<u>95,001</u>	3,788,782
Benefit claims paid by the trust	(3,475,623)	
Stop loss premiums and commissions	(92,173)	
Administrative and other fees, net of interest earned	<u>(148,160)</u>	<u>(3,715,956)</u>
Cash balance in the trust - ending		686,126
District accrual for health insurance benefits		<u>100,000</u>
Amount available for benefit claims		<u>\$ 786,126</u>

The amount available for benefit claims was as follows:

Accrual for benefit claims	\$ 464,256
Accrual for health insurance coverage on payroll payable	<u>321,870</u>
Amount available for benefit claims	<u>\$ 786,126</u>

There are various methodologies for estimating a reasonable accrual for benefit claims. District management has selected the methodology of approximately '2 months of paid claims'. District management believes this methodology provides an adequate amount for accrued claims.

Other insurance

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

RISK MANAGEMENT (Cont'd.)

Other insurance (Cont'd.)

For State unemployment compensation laws, the District is self-insured, which is a common practice for local governmental units. Any unemployment claims are paid by the District on a quarterly basis as incurred.

For workers' compensation insurance, approximately 80 Districts participate in a public entity risk sharing pool (School Districts Insurance Consortium) for processing claims and obtaining reinsurance through commercial insurance carriers. Under this plan, the District's annual cost should not exceed standard commercial insurance rates.

COMMITMENTS AND CONTINGENCIES

The District's collective bargaining agreement with its teaching staff expires August 2017.

In the normal course of business, the District is subject to legal disputes and claims. The District does not anticipate any material losses from any pending or threatened litigation.

In the normal course of preparing for the subsequent school year, the District has awarded bids for various supplies, fuel contracts, etc. No major commitments in excess of routine requirements have been made by the District.

The District participates in state and federal grant programs which are governed by various rules and regulations. Expenditures charged to these grant programs are subject to program compliance audits and reviews by the grantor agencies. The District is potentially liable for any expenditures which may be disallowed by the rules of these grant programs. The District does not anticipate any material disallowance of program expenditures. The District is also audited by the State's Department of the Auditor General. Findings, if any, from these audits could result in the repayment of funds, or receipt of additional funds.

COMMITTED FUND BALANCE

Committed amounts of fund balance of the General Fund are as follows:

Pension plan rate increases	\$ 5,200,000
Health insurance	1,000,000
Technology	400,000
Capital Outlays	<u>270,810</u>
	<u>\$ 6,870,810</u>

EAST PENNSBORO AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2016

SUBSEQUENT EVENTS

During the summer of 2016, the District experienced two separate events that have or are expected to have substantial financial consequences. Mold was discovered at the opening of school in August at several District buildings requiring mold remediation and air quality testing. Also in August, sewer and water lines behind the District's Middle School collapsed underground. The total costs of these two events to the District is expected to range from \$ 1.3 - \$ 1.5 million with most to be paid from the Capital Reserve Fund. The District currently does not expect any cost of clean-up or repairs to be covered by their insurance.

EAST PENNSBORO AREA SCHOOL DISTRICT
BUDGETARY COMPARISON INFORMATION - GENERAL FUND
YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual Amount	Favorable (Unfavorable) Variance	
	Original	Final		Original Budget to Actual Amount	Final Budget to Actual Amount
Revenues					
Local sources - taxes	\$ 25,617,170	\$ 25,617,170	\$ 26,215,614	\$ 598,444	\$ 598,444
Local sources - other	754,750	754,750	1,067,942	313,192	313,192
State sources	11,599,316	11,599,316	11,266,378	(332,938)	(332,938)
Federal sources	326,871	326,871	353,087	26,216	26,216
Total revenues	<u>38,298,107</u>	<u>38,298,107</u>	<u>38,903,021</u>	<u>604,914</u>	<u>604,914</u>
Expenditures					
Regular programs	17,717,772	16,761,838	16,684,108	1,033,664	77,730
Special programs	5,537,888	6,404,248	6,404,248	(866,360)	-
Vocational programs	400,639	384,956	384,956	15,683	-
Other instructional programs	104,621	14,621	6,483	98,138	8,138
Community college programs	212,500	212,500	212,500	-	-
Pupil personnel	1,035,144	1,035,144	1,028,023	7,121	7,121
Instructional staff	799,822	802,954	802,954	(3,132)	-
Administration	2,435,721	2,378,861	2,237,857	197,864	141,004
Pupil health	434,580	358,279	349,150	85,430	9,129
Business	648,551	494,551	466,819	181,732	27,732
Operation and maintenance of plant	2,478,742	2,737,728	2,737,728	(258,986)	-
Student transportation	1,529,692	1,679,745	1,679,745	(150,053)	-
Central services	505,518	729,427	729,427	(223,909)	-
Other support services	31,350	31,350	29,951	1,399	1,399
Student activities	791,670	689,330	689,330	102,340	-
Community services	12,000	12,000	11,849	151	151
Capital outlay	300,000	312,290	312,289	(12,289)	1
Debt service (principal and interest)	3,403,406	3,339,794	3,364,794	38,612	(25,000)
Total expenditures	<u>38,379,616</u>	<u>38,379,616</u>	<u>38,132,211</u>	<u>247,405</u>	<u>247,405</u>
Excess (deficiency) of revenues over expenditures	(81,509)	(81,509)	770,810	852,319	852,319
Other financing sources (uses)					
Transfers to other funds	(25,000)	(25,000)	(500,000)	(475,000)	(475,000)
Budgetary reserve	-	-	-	-	-
Net change in fund balances	<u>(106,509)</u>	<u>(106,509)</u>	<u>270,810</u>	<u>377,319</u>	<u>377,319</u>
Fund balance - beginning	<u>7,219,430</u>	<u>7,219,430</u>	<u>9,454,689</u>	<u>2,235,259</u>	<u>2,235,259</u>
Fund balance - ending	<u>\$ 7,112,921</u>	<u>\$ 7,112,921</u>	<u>\$ 9,725,499</u>	<u>\$ 2,612,578</u>	<u>\$ 2,612,578</u>

EAST PENNSBORO AREA SCHOOL DISTRICT
OTHER POST EMPLOYMENT BENEFIT PLANS
LAST 3 BIENNIAL VALUATIONS

HEALTH CARE BENEFITS
SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
July 2014	\$ -	\$ 1,288,657	\$ 1,288,657	0.00%	\$ 13,061,691	9.87%
July 2012	-	1,151,886	1,151,886	0.00%	14,176,212	8.13%
July 2010	-	1,186,187	1,186,187	0.00%	14,148,249	8.38%

The District is required to have an actuarial valuation at least biennially (every 2 years). If the plan experiences significant changes, a new actuarial valuation should be performed rather than waiting for the next scheduled valuation date.

EAST PENNSBORO AREA SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST 10 FISCAL YEARS*

Year Ended	District Proportion of the Net Pension Liability	District Proportionate Share of the Net Pension Liability	District's Covered Employee Payroll	District Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
June 30, 2015	0.1090%	\$ 43,142,982	\$ 13,906,300	310.24%	57.24%
June 30, 2016	0.1093%	47,343,202	14,061,243	336.69%	54.36%

* The amounts presented for each fiscal year were determined as of the measurement date of June 30 of the year prior to the fiscal year presented. This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in fiscal year ending June 30, 2015, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

EAST PENNSBORO AREA SCHOOL DISTRICT
SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
LAST 10 FISCAL YEARS*

Year Ended	Statutorily Required Contribution	Actual Employer Contribution	Contribution Excess/ (Deficiency)	District's Covered Member Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2015	\$ 2,904,343	\$ 2,904,343	\$ -	\$ 14,167,525	20.50%
June 30, 2016	3,599,291	3,599,291	-	14,397,164	25.00%

* The amounts presented for each fiscal year were determined as of the measurement date of June 30 of the year prior to the fiscal year presented. This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in fiscal year ending June 30, 2015, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.