PENN MANOR SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2015

PENN MANOR SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2015

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PENN MANOR SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2015

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Independent Auditors' Report

Board of School Directors
Penn Manor School District
Millersville, 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 remaining fund information of Penn Manor School District (the School District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the School District'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 of the effectiveness of the School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the remaining fund information of Penn Manor School District as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Principles

As discussed in Note 18 to the financial statements, effective July 1, 2014, the District adopted new accounting guidance, Governmental Auditing Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71*, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of pension information, the information about other postemployment benefits - schedule of funding progress, and budgetary comparison information 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 Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 11, 2015 on our consideration of Penn Manor 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 Penn Manor School District's internal control over financial reporting and compliance.

Brown Schultz Sheridan & Fritz

Lancaster, Pennsylvania
November 11, 2015

The discussion and analysis of Penn Manor School District's financial performance provides an overall review of the School District's financial activities for the year ended June 30, 2015. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. It should be read in conjunction with the notes to the basic financial statements and the financial statements to enhance the understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2015 are as follows:

- Capital assets, net of depreciation, increased by $1.5 million. The overall total of capital assets increased during 2014-15 as asset additions outpaced annual depreciation expenses. The construction of a new elementary building was completed in time for the beginning of the 2014-15 school year. Planned facilities upgrades at Pequea Elementary School and Conestoga Elementary School will have an impact in future years. The sale of the old elementary school at 2121 Temple Avenue will be finalized before the end of 2015.

- Revenues totaled $73.2 million. General revenues accounted for $58.1 million or 79.4% of total revenues, which is slightly lower than the prior year. Program specific revenues in the form of charges for services and food sales, grants and contributions accounted for $15.1 million or 20.1% of total revenues, which is slightly higher than the prior year.

- The School District had $71.0 million in expenses related to governmental activities; $12.6 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of $58.1 million were adequate to provide for these programs.

- Among major funds, the General Fund had $70.6 million in revenues and $70.2 million in expenditures and other financing uses. This resulted in the addition of $394,080 to fund balance, bringing the General Fund's fund balance up to $17.1 million from $16.7 million. Approximately $782,000 of the General Fund's fund balance is budgeted to be utilized for the year ending June 30, 2016. The ending unassigned fund balance on June 30, 2015 of $5.2 million represents 7.0% of the budgeted expenditures and other financing uses for the 2015-16 fiscal year.

- Net position for Enterprise Funds increased from $963,322 to $1,050,747. This increase is attributed to a combination of increased operating revenues coupled with a decrease in associated operating expenses and an increase in state and federal subsidies received by the School District. The expansion of the school breakfast program in all buildings and high meal counts continue to provide our students with healthy, nutritional meals and our operation with valuable funding.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Penn Manor School District as a financial whole.

The statement of net position and statement of activities provide information about the activities of the entire School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how the services were financed in the short term as well as what remains for future spending. The fund financial statements also present the School District's most significant funds – in the case of Penn Manor School District, the General Fund is the most significant fund.

Reporting on the School District as a Whole

The analysis for the School District as a whole begins on page 6. One of the most important questions asked about the School District's finances is, "Have our financial results this year improved or diminished our overall financial position?" The statement of net position and the statement of activities report information about the School District as a whole and about the activities in a way that helps answer this question. These statements include all assets and deferred outflows and liabilities and deferred inflows using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net position and changes in net position. The change in net position is important because it tells the reader, for the School District as a whole, whether the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors.

In the statement of net position and the statement of activities, the School District's financial information is divided into two distinct kinds of activities:

- *Governmental Activities* - Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

- *Business-Type Activities* - These services are provided on a charge for goods or services basis to recover most of the expenses of the goods or services provided. The School District's food services are reported as business activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the School District as a whole. The School District's two principal types of funds, governmental and proprietary, use different accounting approaches.

- ***Governmental Funds -*** Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the financial statements.

- ***Proprietary Funds -*** Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net position for 2015 compared to 2014.

(Table 1)
Net Position

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Assets and deferred outflows:						
Current assets	$ 27,461,192	$ 23,449,428	$ 1,047,382	$ 964,676	$ 28,508,574	$ 24,414,104
Capital and noncurrent assets	131,010,919	123,864,076	106,769	107,383	131,117,688	123,971,459
Deferred outflows	6,127,504				6,127,504	
Total assets and deferred outflows	$ 164,599,615	$ 147,313,504	$ 1,154,151	$ 1,072,059	$ 165,753,766	$ 148,385,563
Liabilities and deferred inflows:						
Current liabilities	$ 12,705,714	$ 13,873,873	$ 60,629	$ 62,905	$ 12,766,343	$ 13,936,778
Noncurrent liabilities	152,542,479	47,797,297	42,775	45,832	152,585,254	47,843,129
Deferred inflows	8,125,506				8,125,506	
Total liabilities and deferred inflows	173,373,699	61,671,170	103,404	108,737	173,477,103	61,779,907
Net position (deficit):						
Net investment in capital assets	71,158,534	72,437,588	106,769	107,383	71,265,303	72,544,971
Unrestricted (deficit)	(79,932,618)	13,204,746	943,978	855,939	(78,988,640)	14,060,685
Total net position (deficit), restated	(8,774,084)	85,642,334	1,050,747	963,322	(7,723,337)	86,605,656
Total liabilities, deferred inflows and net position	$ 164,599,615	$ 147,313,504	$ 1,154,151	$ 1,072,059	$ 165,753,766	$ 148,385,563

In total, net position decreased $94.33 million from 2014. Net position of governmental activities decreased by $94.42 million while the net position of business-type activities increased by $87,425. The large difference in the net position of governmental activities is due to the introduction of new standards for reporting pension benefits for the School District that were not included in the fiscal numbers for 2014. Refer to Note 13 for a discussion of the new standards and to Note 18 for how the adoption was recorded. The food service operations operated with a profit in fiscal 2014-15 without a contribution from the General Fund. Looking ahead, continued School District General Fund support for the food service operation is not expected in assisting with equipment and technology purchases or fluctuating healthcare costs. While support may resume in future years, efforts will continue to make the food service operation entirely self-sufficient.

(Table 2)
Changes in Net Position

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	$ 698,407	$ 494,744	$ 1,175,609	$ 1,236,323	$ 1,874,016	$ 1,731,067
Operating grants	11,884,816	11,131,383	1,303,913	1,227,960	13,188,729	12,359,343
General revenue:						
Property and other taxes	47,027,055	44,480,359			47,027,055	44,480,359
Grants and entitlements	10,761,653	12,057,405			10,761,653	12,057,405
Other	337,955	219,505	2,078	557	340,033	220,062
Total revenues	70,709,886	68,383,396	2,481,600	2,464,840	73,191,486	70,848,236
Expenses:						
Program expenses, instruction	45,667,655	43,235,291			45,667,655	43,235,291
Support services:						
Instructional student support	3,522,163	3,408,023			3,522,163	3,408,023
Administrative and financial support services	7,757,261	6,015,121			7,757,261	6,015,121
Operation and maintenance of plant services	6,066,778	5,373,523			6,066,778	5,373,523
Pupil transportation	3,071,580	3,050,502			3,071,580	3,050,502
Student activities	1,471,395	1,306,032			1,471,395	1,306,032
Capital outlay	2,131,327	605,691			2,131,327	605,691
Interest on long-term debt	1,338,642	1,161,123			1,338,642	1,161,123
Food service			2,394,175	2,310,977	2,394,175	2,310,977
Other expenses	11,503	34,908			11,503	34,908
Total expenses	71,038,304	64,190,214	2,394,175	2,310,977	73,432,479	66,501,191
Increase (decrease) in net position	$ (328,418)	$ 4,193,182	$ 87,425	$ 153,863	$ (240,993)	$ 4,347,045

The statement of activities shows the cost of program services and the charges for services and grants offsetting those costs. Table 2 shows, for governmental and business-type activities, the total cost of services for fiscal year 2014-15 as compared to fiscal year 2013-14.

The School District passed the budget for 2015-16 in June 2015 with a 2.27% property tax increase. Under Act 1, the state allowed the School District to increase up to the adjusted index of 2.3%. While preparing for the 2016-17 budget, the state has set the adjusted index at 2.9%. The adjusted index is below the ten-year average of 3.35%, and when coupled with uncertain state subsidized support, presents significant financial challenges for the School District. Management will continue to carefully control expenses during the coming years to ensure a balance is struck between the need for tax increases in conjunction with the steady structured use of fund balance to balance future budgets.

Program revenues are used to partially offset the costs of governmental activities. Those program revenues that offset expenses this year include:

- Charges for services which include tuition for nonresident students, fees for extra programs, contracted rental of facilities and admission paid to athletic events.

- Operating grants and contributions include state subsidies for special education, transportation and employee benefits, as well as federal and state grants for specific programs.

Table 3 shows, for governmental activities, the total cost of services and the net cost of services.

(Table 3)
Governmental Activities

	Total cost of services		Net cost of services	
	2015	2014	2015	2014
Instruction	$ 45,667,655	$ 43,235,291	$ 37,468,819	$ 35,591,265
Support services:				
Instructional student support	3,522,163	3,408,023	3,150,311	3,036,255
Administrative and financial support services	7,757,261	6,015,121	7,317,237	5,592,416
Operation and maintenance of plant	6,066,778	5,373,523	5,806,288	5,119,415
Pupil transportation	3,071,580	3,050,502	1,635,738	1,777,214
Student activities	1,471,395	1,306,032	1,333,791	1,155,855
Capital outlay	2,131,327	605,691	2,131,327	605,691
Interest on long-term debt	1,338,642	1,161,123	(393,208)	(328,257)
Other expenses	11,503	34,908	4,778	14,233
Total expenses	$ 71,038,304	$ 64,190,214	$ 58,455,081	$ 52,564,087

The dependence upon tax revenues and grants and entitlements for governmental activities is apparent. 80.0% of instructional activities are supported through taxes and other general revenues as compared with 82.3% in the previous year. When looking at the total governmental activities, the general revenue and tax support needed increased slightly from 81.9% to 82.2%. The community, as a whole, is by far the primary financial support for Penn Manor School District.

Expenses for governmental activities increased by $6,848,090, which is a 10.7% increase over the prior year. While salaries experienced a modest raise, benefit increases were driven largely by the increased PSERS employer contribution. Self-funded healthcare costs increased considerably over the previous year in large part due to several high cost claims. The School District continued its efforts to reduce expenditures in operations, administration and personnel costs.

Business-Type Activities

Business-type activities consist only of food service operations. This program had revenues, including state and federal support, of $2.5 million and expenses of $2.4 million for the fiscal year. A modest increase in meal prices for some tiers was instituted at the beginning of the 2014-15 school year. Net position is listed as $1,050,747 as of June 30, 2015. The increase of net position can be attributed to an increase in state and federal meal subsidies received as a result of higher meal counts and the expansion of the student breakfast program. While self-funded, healthcare costs continue to be a concern for the food service operation, the operation saw reduced utilization in the 2014-15 fiscal year. The food service operation did not receive support from tax revenues in 2014-15. No transfer from the General Fund has been budgeted for the 2015-16 school year in an effort to promote self sustainability in the food service operation.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of $85.6 million and expenditures of $74.6 million. This resulted in the overall fund balance increasing by $11,018,350.

- General Fund transfers to other funds included the normal operating transfers to the Debt Service Fund for bond principal and interest and $500,000 to the Capital Reserve Fund which represented budgeted General Fund support for these areas. In addition, funds previously collected for the sale of land at Comet Field were transferred to the Athletic Capital Reserve Fund. At year-end, it was decided to transfer $38,633 from the General Fund to the Capital Reserve Fund, representing the difference between budgeted expenditures and actual expenditures.

- The General Fund fund balance increased by $394,080. Legislation enacted in December 2003 mandates that a school district may not carry an unassigned fund balance that exceeds 8% of expenditures. A commitment of fund balance occurred during the year-end process that set the estimated unassigned fund balance at 7.0%. A recommitment of funds will occur during the budgeting process for the 2016-17 fiscal year to accommodate the current year estimates calculated each spring.

- The School District starts the next fiscal year with a total fund balance of 22.8% of budgeted expenditures and other financing uses. A large portion of the fund balance is committed for planned and expected expenses related to the projected increase in employer retirement costs associated with the PSERS program, debt service stabilization efforts associated with future Plancon renovation projects and a new elementary textbook series. Planned use of the fund balance during the 2015-16 fiscal year is budgeted to keep the School District below the 8% limit on June 30, 2016.

- The planned, budgeted use of fund balance has allowed the School District to temper the impact of rising costs on the local tax levy. A tax increase was implemented for the 2015 tax levy in addition to planned use of fund balance to assist the School District in balancing the budget. As tough economic years are expected in the future, the Act 1 Index was increased slightly for the 2016-17 budget year. The adjusted index for Penn Manor School District has been set at 2.9% for the 2016-17 fiscal year, which is lower than the 10-year average of 3.35% and the 15-year average of 3.53%.

General Fund Budgeting Highlights

The School District's General Fund budget is prepared according to Pennsylvania law.

During the course of fiscal 2014-15, the School District administered expenditures based on its General Fund budget. The School District uses site based budgeting, and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. At the end of the fiscal year, the School Board approved certain budgetary transfers to be made, as needed, to comply with statutory requirements. No change was made to original revenue or expenditures/other financing uses budget total amounts; budgets were transferred within the original totals approved for 2014-15.

For the General Fund, actual revenues were $70.64 million: this was $1,726,544 over the original budget estimates of $68.9 million. The difference between actual and budgeted revenue is composed of fluctuations within several of the revenue accounts. Notably, the actual revenues generated by earned income taxes was in excess of the anticipated amount by $438,000 and rental reimbursements from PDE included $1,227,000 that was unexpected due to a stated moratorium on processing reimbursements pertaining to debt.

Capital Assets and Debt Administration

Capital assets

At the end of the fiscal year, the School District had $106.9 million invested in land, buildings and equipment, with $106.8 million in governmental activities. Table 4 shows the fiscal 2014 balance compared to 2015.

(Table 4)
Capital Assets at June 30, Net of Depreciation

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Land	$ 6,794,658	$ 6,794,658			$ 6,794,658	$ 6,794,658
Buildings and improvements	98,081,743	97,221,603			98,081,743	97,221,603
Furniture and equipment, vehicles	1,967,529	1,309,154	$ 106,769	$ 107,383	2,074,298	1,416,537
Totals	$ 106,843,930	$ 105,325,415	$ 106,769	$ 107,383	$ 106,950,699	$ 105,432,798

The overall total of capital assets increased during 2014-15 as asset additions outpaced annual depreciation expenses. The additional amount was primarily due to the amount spent on construction of a new elementary school. The amount classified as "construction in progress" at the end of the prior fiscal year was reclassified when the project was completed in time for use for the 2014-15 school year. A full appraisal was performed at the end of the 2006-07 fiscal year for insurance purposes and for fixed asset accounting. The fixed asset listing continues to be updated annually, while insurance appraisals are scheduled through the LLPSIP insurance pool consortium.

Debt

At June 30, 2015, the School District had $57.4 million in bonds and a note outstanding as compared to $47.5 million a year ago. Table 5 summarizes bonds outstanding.

(Table 5)
Outstanding Debt at Year End

	Governmental activities	
	2015	2014
General Obligation Bonds:		
Series of 2009	$ 1,650,000	$ 3,220,000
Series A of 2010	10,570,000	10,570,000
Series of 2012	9,190,000	9,195,000
Series of 2013	8,800,000	11,505,000
Series of 2014	8,340,000	8,345,000
Series of 2015	14,205,000	
General Obligation Note, Series of 2013A	4,655,000	4,660,000
Total	$ 57,410,000	$ 47,495,000

The School District increased its bonds and notes by a net of $9.9 million during 2014-15. A significant amount of principal was paid down according to the debt schedules as new debt was obtained to help fund the renovation of an existing elementary school. Moody's Investors Service has assigned an A1 enhanced with a stable outlook and an A2 underlying rating to the Penn Manor School District. The underlying A2 rating reflects the School District's satisfactory financial operations, manageable debt position and modestly growing rural/agricultural tax base. The A1 enhanced rating is based upon the additional security for these bonds provided by the Commonwealth of Pennsylvania's Act 150 School District Intercept Program. The Act provides for undistributed state aid to be diverted to bondholders in the event of default.

For the Future

While Penn Manor School District continues to be strong financially, there are concerns regarding the economic and political outlook for the state and the local community. As the preceding information shows, the School District maintains a healthy investment in fixed assets to support and provide comprehensive educational services. The School District also considers future implications of current and ongoing financial obligations and prudently manages its financial assets. Strong academic performance is supported by reasonable and competitive per pupil spending. Balanced payment schedules on existing debt obligations should mean steady tax implications in the future.

The Board of Directors has asked the administration to develop several options concerning a renovation to the high school facility. Four options with significant costs were presented and several public meetings have been scheduled in the 2015-16 fiscal year to garner community input. While the potential renovation is still several years in the future, the Board is prudently discussing funding options and implications.

As we have seen throughout the nation, the economic situation is having an effect on the public sector. Challenges face many districts in Pennsylvania on a number of issues. With the passage of Act 1 of 2006, our School District is faced with a cap on the amount of money that can be funded from a property tax increase. This cap is based upon a number calculated and provided by the Department of Education. While some exceptions may apply that would allow for a tax increase in excess of the index, the School District will face pressure to keep tax increases at or below the allowable increase for the foreseeable future. Limited tax relief arrived in the 2008-09 tax year as the Commonwealth was able to send school districts a portion of the gambling revenue to be used as an offset to real estate tax increases. In 2014-15, Penn Manor School District was fortunate to receive $1,293,176 that offset property taxes due from taxpayers who had qualified for the homestead or farmstead exemptions. Other implications of the new law include earlier budgetary planning cycles and limits on the tax increases which can be levied without voter referendums.

Many districts face the common problem of escalating costs for employee benefits, particularly the retirement expenses of the PSERS system and, as in the case for our School District, self-insured medical costs. Both of these costs are set by outside influences and, therefore, are not discretionary costs that can be controlled by School District management.

Market performance of the invested PSERS funds have resulted in estimated increases that will affect our employer contributions for years to come. While the actual effect of the current market has yet to be determined, higher employer costs in the short term and dramatically higher rates in the future are being planned for by the School District through the use of committed fund balance integrated with millage increases. This condition will have an alarming effect on school district budgeting across the Commonwealth and may lead to significant reductions in programs and services. The portion of funds committed in the School District's fund balance to be used to contain the projected increases in the employer share of PSERS will not be enough to alleviate the problem, but it will allow the School District to prudently plan for any potential changes. The School District is fortunate to have anticipated the looming crisis and fortunate to have committed funds available to help lessen the dramatic impact that other districts may experience.

The costs of medical benefits will continue to have an effect on the School District budget as we continue to offer a competitive benefits package to employees through our self-insured plan. The School District continues to implement various wellness strategies to lower the pace of medical inflation. A Collective Bargaining Agreement is in effect through the 2016-17 school year and has given some relief to these costs through employee contributions, but those contributions cover only a fraction of actual expenses. This past fiscal year saw a sharp increase in healthcare expenses due to an unusual number of high cost claims. Any changes to the employee healthcare plan will be a result of negotiating a comprehensive package with the education association.

In conclusion, Penn Manor School District has committed itself to financial and educational excellence for many years. The School District's system of budgeting and internal controls is well regarded and consistently followed. Continued diligence in all financial matters will be a key component of continued financial performance well into the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it received. If you have questions about this report or need additional financial information, please contact Christopher L. Johnston, Business Manager, at Penn Manor School District, PO Box 1001, Millersville, PA 17551 or visit our website at www.pennmanor.net.

PENN MANOR SCHOOL DISTRICT

STATEMENT OF NET POSITION (DEFICIT) - JUNE 30, 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	Governmental activities	Business-type activities	Total
Current assets:			
Cash and cash equivalents	$ 1,250,310	$ 762,914	$ 2,013,224
Investments	22,502,903	208,618	22,711,521
Taxes receivable, net	1,782,037		1,782,037
Due from other governments	1,685,889		1,685,889
Other receivables	228,212	6,994	235,206
Internal balances	11,841	(11,841)	-
Inventories		80,697	80,697
Total current assets	27,461,192	1,047,382	28,508,574
Noncurrent assets:			
Cash and cash equivalents held for long-term purposes	23,354,535		23,354,535
Investments held for long-term purposes	808,739		808,739
Construction in progress	1,360,497		1,360,497
Land	6,794,658		6,794,658
Site improvements, net of accumulated depreciation	3,139,990		3,139,990
Buildings and building improvements, net of accumulated depreciation	93,581,256		93,581,256
Furniture, equipment and educational media, net of accumulated depreciation	1,677,595	106,769	1,784,364
Vehicles, net of accumulated depreciation	289,934		289,934
Long-term debt insurance costs, net of accumulated amortization	3,715		3,715
Total noncurrent assets	131,010,919	106,769	131,117,688
Total assets	158,472,111	1,154,151	159,626,262
Deferred outflows of resources, pensions	6,127,504		6,127,504
Total assets and deferred outflows of resources	$ 164,599,615	$ 1,154,151	$ 165,753,766

See notes to financial statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)

	Governmental activities	Business-type activities	Total
Current liabilities:			
Accounts payable	$ 1,433,428	$ 4,547	$ 1,437,975
Accrued salaries and benefits	5,986,832		5,986,832
Current portion of:			
Bonds and note payable	4,485,000		4,485,000
Compensated absences	307,663	8,382	316,045
Payroll deductions and withholdings	256,255		256,255
Unearned revenue	2,848	47,700	50,548
Other current liabilities	233,688		233,688
Total current liabilities	12,705,714	60,629	12,766,343
Noncurrent liabilities:			
Bonds and note payable	55,024,118		55,024,118
Accrued retirement costs	958,552		958,552
Other postemployment benefits	812,215		812,215
Net pension liability	94,044,000		94,044,000
Long-term portion of compensated absences	1,703,594	42,775	1,746,369
Total noncurrent liabilities	152,542,479	42,775	152,585,254
Total liabilities	165,248,193	103,404	165,351,597
Deferred inflows of resources:			
Pensions	7,977,000		7,977,000
Deferred gain on refunding	148,506		148,506
Total deferred inflows of resources	8,125,506		8,125,506
Net position (deficit):			
Net investment in capital assets	71,158,534	106,769	71,265,303
Unrestricted	(79,932,618)	943,978	(78,988,640)
Total net position (deficit)	(8,774,084)	1,050,747	(7,723,337)
Total liabilities, deferred inflows of resources and net position (deficit)	$ 164,599,615	$ 1,154,151	$ 165,753,766

PENN MANOR SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

		Program revenues		Net revenue (expense) and changes in net position		
	Expenses	Charges for services	Operating grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities:						
Instruction	$ 45,667,655	$ 581,223	$ 7,617,613	$ (37,468,819)		$ (37,468,819)
Instructional student support	3,522,163		371,852	(3,150,311)		(3,150,311)
Administrative and financial support services	7,757,261		440,024	(7,317,237)		(7,317,237)
Operation and maintenance of plant services	6,066,778	57,099	203,391	(5,806,288)		(5,806,288)
Pupil transportation	3,071,580		1,435,842	(1,635,738)		(1,635,738)
Student activities	1,471,395	60,085	77,519	(1,333,791)		(1,333,791)
Community services	6,734		6,725	(9)		(9)
Scholarships and awards	2,313			(2,313)		(2,313)
Capital outlay	2,131,327			(2,131,327)		(2,131,327)
Long-term debt interest	1,338,642		1,731,850	393,208		393,208
Miscellaneous	2,456			(2,456)		(2,456)
Total governmental activities	71,038,304	698,407	11,884,816	(58,455,081)		(58,455,081)
Business-type activities, food services	2,394,175	1,175,609	1,303,913		$ 85,347	85,347
Total primary government	$ 73,432,479	$ 1,874,016	$ 13,188,729	(58,455,081)	85,347	(58,369,734)

(continued)

PENN MANOR SCHOOL DISTRICT

STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED JUNE 30, 2015

		Program revenues		Net revenue (expense) and changes in net position		
	Expenses	Charges for services	Operating grants and contributions	Governmental activities	Business-type activities	Total
General revenues:						
Taxes:						
Property taxes, etc.				$ 40,757,249		$ 40,757,249
Other				6,269,806		6,269,806
Grants, subsidies and other nonrestricted				10,761,653		10,761,653
Interest				83,099	$ 2,078	85,177
Miscellaneous				254,856		254,856
Total general revenues				58,126,663	2,078	58,128,741
Change in net position				(328,418)	87,425	(240,993)
Net position (deficit):						
July 1, 2014, restated				(8,445,666)	963,322	(7,482,344)
June 30, 2015				$ (8,774,084)	$ 1,050,747	$ (7,723,337)

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS – JUNE 30, 2015

ASSETS

	Major funds			
	General fund	Capital reserve	Capital projects	Total governmental funds
Assets:				
Cash and cash equivalents	$ 11,250,310		$ 13,354,535	$ 24,604,845
Investments	12,055,742	$ 4,196,985	7,058,915	23,311,642
Taxes receivable, net	1,782,037			1,782,037
Due from:				
Other funds	13,287	2,157,194		2,170,481
Other governments	1,685,889			1,685,889
Other receivables, net	228,212			228,212
Total assets	$ 27,015,477	$ 6,354,179	$ 20,413,450	$ 53,783,106

See notes to financial statements.

LIABILITIES, DEFFERED INFLOWS OF RESOURCES AND FUND BALANCES

	Major funds			
	General fund	Capital reserve	Capital projects	Total governmental funds
Liabilities:				
Due to other funds	$ 2,157,194		$ 1,446	$ 2,158,640
Accounts payable	1,103,743	$ 138,639	191,046	1,433,428
Accrued salaries and benefits	5,986,832			5,986,832
Payroll deductions and withholdings	256,255			256,255
Unearned revenue	2,848			2,848
Total liabilities	9,506,872	138,639	192,492	9,838,003
Deferred inflows of resources, unavailable revenue	460,399			460,399
Fund balances:				
Restricted		6,215,540		6,215,540
Committed	11,804,257			11,804,257
Assigned			20,220,958	20,220,958
Unassigned	5,243,949			5,243,949
Total fund balances	17,048,206	6,215,540	20,220,958	43,484,704
Total liabilities, deferred inflows of resources and fund balances	$ 27,015,477	$ 6,354,179	$ 20,413,450	$ 53,783,106

PENN MANOR SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

YEAR ENDED JUNE 30, 2015

Total fund balances, governmental funds		$ 43,484,704
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets and construction in progress used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is $160,709,067, and the accumulated depreciation is $53,865,137.		106,843,930
Property taxes receivable will be collected subsequent to year-end but are not available soon enough to pay for the current period's expenditures and, therefore, are unavailable in the funds.		460,399
Deferred gain on refunding is not reported as a deferred inflow of resources in the funds.		(148,506)
Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds, net pension liability.		(94,044,000)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:		
Deferred outflows of resources, pensions		6,127,504
Deferred inflows of resources, pensions		(7,977,000)
Long-term liabilities, net of related assets, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds and note payable	$ (57,410,000)	
Accrued interest on the bonds and note payable	(233,688)	
Unamortized:		
Long-term debt insurance costs	3,715	
Bond premium, net of discount	(2,099,118)	
Accrued retirement costs	(958,552)	
Other postemployment benefits	(812,215)	
Compensated absences	(2,011,257)	(63,521,115)
Total net position, governmental activities		$ (8,774,084)

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2015

	Major funds				
	General fund	Capital reserve	Capital projects	Debt service	Total governmental funds
Revenues:					
Local sources:					
Real estate taxes	$ 40,698,961				$ 40,698,961
Other taxes	6,269,806				6,269,806
Investment income	72,364	$ 1,320	$ 9,415		83,099
Other revenue	2,083,653	8,294			2,091,947
Total local sources	49,124,784	9,614	9,415		49,143,813
State sources	20,567,021				20,567,021
Federal sources	949,059				949,059
Total revenues	70,640,864	9,614	9,415		70,659,893

(continued)

PENN MANOR SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2015

	Major funds				
	General fund	Capital reserve	Capital projects	Debt service	Total governmental funds
Expenditures:					
Instructional services	$ 41,563,636				$ 41,563,636
Support services	19,514,078				19,514,078
Noninstructional services	1,196,543				1,196,543
Capital outlay		$ 3,902,265	$ 2,654,223		6,556,488
Debt service:					
Principal				$ 4,290,000	4,290,000
Interest				1,522,877	1,522,877
Refunds of prior years' receipts	2,456				2,456
Total expenditures	62,276,713	3,902,265	2,654,223	5,812,877	74,646,078

(continued)

PENN MANOR SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2015

	Major funds				
	General fund	Capital reserve	Capital projects	Debt service	Total governmental funds
Excess (deficiency) of revenues over expenditures	$ 8,364,151	$ (3,892,651)	$ (2,644,808)	$ (5,812,877)	$ (3,986,185)
Other financing sources (uses):					
Debt proceeds			14,205,000		14,205,000
Bond premium			970,017		970,017
Debt issuance costs			(170,482)		(170,482)
Interfund transfers	(7,970,071)	2,157,194		5,812,877	-
Total other financing sources (uses)	(7,970,071)	2,157,194	15,004,535	5,812,877	15,004,535
Net changes in fund balances	394,080	(1,735,457)	12,359,727	-	11,018,350
Fund balances:					
July 1, 2014	16,654,126	7,950,997	7,861,231		32,466,354
June 30, 2015	$ 17,048,206	$ 6,215,540	$ 20,220,958	$ -	$ 43,484,704

See notes to financial statements.

PENN MANOR 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, 2015

Total net change in fund balances, governmental funds		$ 11,018,350
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation expense for the period.		
Depreciation expense $(3,752,821)		
Capital outlay $5,271,336		1,518,515
Because some property taxes will not be collected for several months after the School District's fiscal year-end, they are not considered as available revenues in the governmental funds. Unavailable tax revenue decreased by this amount this year.		49,993
Issuance of long-term debt provides current financial resources to governmental funds. The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, this transaction has no effect on net position. Also, governmental funds report the effect of insurance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these transactions in the statement of activities is shown below:		
Bond proceeds	$ (14,205,000)	
Bond premium, net of discount	(970,017)	
Repayment of bond principal	4,290,000	
Amortization of:		
Long-term debt insurance costs	(4,053)	
Bond premium, net of discount	229,419	
Deferred gain on refunding	(5,344)	(10,664,995)

(continued)

PENN MANOR SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED JUNE 30, 2015

In the statement of activities, interest is accrued on outstanding bonds and note, whereas in the governmental fund, an interest expenditure is reported when due.		$ (35,787)
Governmental funds report District pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits is reported as pension expense.		
District pension contributions	$ 6,127,504	
Cost of benefits earned	(7,933,000)	(1,805,496)
In the statement of activities, certain operating expenses (compensated absences, other postemployment benefits and retirement costs) are measured by the amounts incurred during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount incurred versus the amount used.		
Compensated absences	(171,904)	
Retirement incentive liability	(37,928)	
Other postemployment liability	(199,166)	(408,998)
Change in net position of governmental activities		$ (328,418)

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

STATEMENT OF NET POSITION – PROPRIETARY FUND

JUNE 30, 2015

	Food service
ASSETS	
Current assets:	
Cash and cash equivalents	$ 762,914
Investments	208,618
Other receivables	6,994
Inventories	80,697
Total current assets	1,059,223
Noncurrent assets, machinery and equipment, net of accumulated depreciation	106,769
Total assets	$ 1,165,992
LIABILITIES AND NET POSITION	
Current liabilities:	
Accounts payable	$ 4,547
Current portion of compensated absences	8,382
Unearned revenue	47,700
Due to other funds	11,841
Total current liabilities	72,470
Noncurrent liabilities, noncurrent portion of compensated absences	42,775
Total liabilities	115,245
Net position:	
Net investment in capital assets	106,769
Unrestricted	943,978
Total net position	1,050,747
Total liabilities and net position	$ 1,165,992

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION – PROPRIETARY FUND

YEAR ENDED JUNE 30, 2015

	Food service
Operating revenues:	
Food service revenue	$ 1,125,937
Other operating revenue	49,672
Total operating revenues	1,175,609
Operating expenses:	
Salaries	641,336
Employee benefits	289,810
Supplies	1,372,850
Depreciation	16,469
Other operating expenses	73,710
Total operating expenses	2,394,175
Operating loss	(1,218,566)
Nonoperating revenues:	
Earnings on investments	2,078
Sources:	
State	169,232
Federal	1,134,681
Total nonoperating revenues	1,305,991
Change in net position	87,425
Net position:	
July 1, 2014	963,322
June 30, 2015	$ 1,050,747

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUND

YEAR ENDED JUNE 30, 2015

	Food service
Cash flows from operating activities:	
Cash received from users	$ 1,174,826
Cash payments to:	
Suppliers for goods and services	(1,290,640)
Employees for services	(923,856)
Net cash used in operating activities	(1,039,670)
Cash flows from noncapital financing activities:	
Sources:	
State	169,233
Federal	982,295
Net cash provided by noncapital financing activities	1,151,528
Cash flows used in capital and related financing activities, purchase of machinery and equipment	(15,855)
Cash flows from investing activities:	
Earnings on investments	2,078
Withdrawals or redemptions from investment securities	2,180,486
Purchase of investment securities	(2,032,261)
Net cash provided by investing activities	150,303
Net increase in cash and cash equivalents	246,306
Cash and cash equivalents:	
Beginning of year	516,608
End of year	$ 762,914

(continued)

PENN MANOR SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUND (CONTINUED)

YEAR ENDED JUNE 30, 2015

	Food service
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (1,218,566)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	16,469
Donated commodities	152,386
(Increase) decrease in:	
Accounts receivable	(783)
Inventories	9,100
Increase (decrease) in:	
Accounts payable and other liabilities	(530)
Unearned revenue	2,254
Total adjustments	178,896
Net cash used in operating activities	$ (1,039,670)

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

STATEMENT OF NET POSITION – FIDUCIARY FUNDS

JUNE 30, 2015

	Private purpose trust	Agency
Assets:		
Cash and cash equivalents		$ 112,535
Investments	$ 64,584	26,410
Other		1,820
Total assets	$ 64,584	$ 140,765
Liabilities:		
Accounts payable	$ 1,150	$ 24,014
Other current liabilities		116,751
Total liabilities	1,150	140,765
Net position, reserved for:		
Scholarships	30,452	
Endowments	32,982	
Total net position	63,434	
Total liabilities and net position	$ 64,584	$ 140,765

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUNDS

YEAR ENDED JUNE 30, 2015

	Private purpose trust
Additions:	
Gifts and contributions	$ 2,000
Earnings and investments	11
	2,011
Deduction, scholarships awarded	(5,037)
Change in net position	(3,026)
Net position:	
July 1, 2014	66,460
June 30, 2015	$ 63,434

See notes to financial statements.

1. Summary of significant accounting policies:

Penn Manor School District (the School District), located in Lancaster County, Pennsylvania, provides a full range of educational services appropriate to grade levels kindergarten through 12 to students living in Conestoga Township, Manor Township, Martic Township, the Borough of Millersville and Pequea Township. These include regular, advanced academic and vocational education programs and special education programs for gifted and physically and mentally challenged children. The governing body of the School District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District, headed by the Superintendent of Schools who is appointed by the Board of School Directors. The School District is comprised of seven elementary schools, two middle schools and one high school, serving 5,163 students.

The financial statements of the Penn Manor School District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the School District's significant accounting policies.

Reporting entity:

The criteria used by the School District to evaluate the possible inclusion of related entities (authorities, boards, councils, etc.) within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the School District reviews the applicability of the following criteria.

The School District is financially accountable for:

1. Organizations that make up its legal entity.

2. Legally separate organizations if School District officials appoint a voting majority of the organization's governing body and the School District is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the School District as defined below.

   Impose its will - If the School District can significantly influence the programs, projects or activities of, or the level of services performed or provided by, the organization.

1. Summary of significant accounting policies (continued):

Reporting entity (continued):

Financial benefit or burden - If the School District (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.

3. Organizations that are fiscally dependent on the School District. Fiscal dependency is established if the organization is unable to adopt its own budget, levy taxes or set rates or charges or issue bonded debt without the approval of the School District.

Based on the foregoing criteria, no additional entities are included in the accompanying financial statements.

Basis of presentation, fund accounting:

The accounts of the School District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts comprising each fund's assets and deferred outflows of resources, liabilities and deferred inflows of resources, fund equity, revenues and expenditures/expenses. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

Basis of presentation, financial statements:

<u>Government-wide financial statements</u>

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. As a general rule, the effect of interfund activity has been eliminated from these financial statements. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

1. Summary of significant accounting policies (continued):

Basis of presentation, financial statements (continued):

<u>Government-wide financial statements (continued)</u>

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws on the general revenues of the School District.

<u>Fund financial statements</u>

Fund financial statements are provided for governmental, proprietary and fiduciary funds. Major individual governmental and proprietary funds are reported in separate columns. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets, current liabilities and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

1. Summary of significant accounting policies (continued):

Basis of presentation, financial statements (continued):

Fund financial statements (continued)

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included in the statement of net position. The statement of revenues, expenses and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

The School District reports the following major governmental funds:

General fund - The general fund is the principal operating fund of the School District. It is used to account for all current financial resources except those required to be accounted for in another fund.

Capital projects funds include the following:

Capital reserve fund - This fund is used to account for transfers from other funds and related investment earnings for capital outlays not accounted for in another fund.

Capital projects fund - This fund is used to account for financial resources related to general fixed asset acquisitions, construction and improvements.

Debt service fund - This fund is used to account for the accumulation of resources for and payment of general long-term debt principal and interest.

The School District reports the following enterprise fund:

Food service fund - This fund accounts for the revenues, food purchases and other costs and expenses of providing meals to students during the school year.

The School District accounts for assets held by the School District in a trustee capacity in a private purpose trust fund. This fund accounts for receipts and disbursement of monies contributed to the School District for scholarships and memorials.

1. Summary of significant accounting policies (continued):

Basis of presentation, financial statements (continued):

Fund financial statements (continued)

The agency fund is used to account for assets held by the School District as agent for others. Agency funds are custodial in nature and do not involve measurement of results of operations. This fund represents the student activities fund.

Basis of accounting:

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

Government-wide, proprietary and fiduciary fund financial statements measure and report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, expenses, gains and losses using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, except for postemployment healthcare benefits (Note 15). Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues in the year in which the eligibility requirements imposed by the provider have been met.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the School District is considered to be 60 days after fiscal year-end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except debt service and compensated absence payments which are recognized when due.

Under the modified accrual basis, the following revenue sources are considered susceptible to accrual at year-end: property taxes, tuition, grants and entitlements, student fees and interest on investments.

Current property taxes measurable at June 30, 2015, and which are not intended to finance 2014-2015 school year operations, have been recorded as unearned revenue. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue at year-end.

1. Summary of significant accounting policies (continued):

Basis of accounting (continued):

Revenues, exchange and nonexchange transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year in which the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from exchange and nonexchange transactions must also be available before it can be recognized.

Cash and cash equivalents:

Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and include investments with maturities of three months or less when purchased.

Cash and cash equivalents include amounts in demand and interest-bearing bank deposits at cost which are fair value.

Investments:

Investments are stated at fair value. Fair value of the investment is equal to cost/principal amounts because those are the values at which those investments could be readily redeemed.

1. Summary of significant accounting policies (continued):

Inventories:

There is no inventory recorded in the general fund. Items such as office supplies and cleaning materials are expensed as incurred.

Inventories in the food service fund represent the cost, using the first-in, first-out (FIFO) method, of food and supplies on hand at June 30, 2015, including the value of commodities donated by the federal government. Any unused commodities donated by the federal government are reported as unearned revenue until used.

Capital assets and depreciation:

The School District's property, plant and equipment with useful lives of more than one year are stated at historical cost (or estimated historical cost) and are comprehensively reported in the government-wide financial statements. Proprietary fund capital assets are also reported in its fund financial statements. Donated assets are stated at fair value on the date donated. The School District generally capitalizes assets with a cost of $5,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method over their estimated useful lives. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations. Estimated historical costs of capital assets were derived, when information supporting historical costs was not obtainable, by adjusting replacement cost back to the estimated year of acquisition.

Estimated useful lives, in years, for depreciable assets are generally as follows:

Assets	Years
School buildings	40
Building improvements	20
Site improvements	20
Furniture and equipment	5 to 12
Vehicles	12

1. Summary of significant accounting policies (continued):

Deferred outflows of resources:

Deferred outflows of resources represent a consumption of net position that applies to future periods and thus, will not be recognized as an outflow of resources until then. The District has two items that meet the criteria for reporting in the category. Deferred outflows of resources related to pensions primarily results from changes in the total pension liability and the pension plans fiduciary net position; and for contributions made to the plan between the measurement date of the net pension liability and the end of the District's fiscal year. The second item, deferred charge on refunding, results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. In the fund financial statements, governmental fund types recognize the deferred charge on refunding as an expense during the current period.

Deferred inflows of resources:

The District's government wide statement of net position and its governmental fund balance sheet report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. In the statement of net position, deferred inflows of resources related to pensions are reported for actual pension plan investment earnings in excess of the expected amount included in determining pension expense. This deferred inflow of resources is attributed to pension expense over a total of 5 years, including the current year. In the governmental funds, the deferred inflows of resources are for revenues that are not considered available. The District will not recognize the related revenues until they are available (collected no later than 60 days after the end of the District's fiscal year) under the modified accrual basis of accounting. Accordingly, the item unavailable revenue from property taxes is reported only in the governmental funds' balance sheet.

Long-term obligations:

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums and discounts, as well as insurance costs, are deferred and amortized over the life of the bonds using the straight-line method.

1. Summary of significant accounting policies (continued):

Long-term obligations (continued):

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

Compensated absences:

The School District accrues vacation leave and retirement costs as liabilities as the benefits are earned by the employees if it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Professional employees with qualifying years of service receive a lump-sum retirement bonus according to either the collective bargaining agreement or Act 93 agreement.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive severance benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year-end, taking into consideration any limits specified in the School District's severance policy. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected.

Additional amounts are accrued for salary-related payments associated with the payment of compensated absences using the rates in effect at the balance sheet date. The School District has accrued the employer's share of Social Security and Medicare taxes.

Encumbrances:

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration and project control in the general fund. Encumbrances outstanding at year-end are reported as reservations of fund balances because they do not constitute expenditures or liabilities. As of June 30, 2015, the School District had no encumbrances.

1. Summary of significant accounting policies (continued):

Pension plan:

Substantially all full-time and part-time employees of the District participate in a cost-sharing multiple-employer defined benefit pension plan through Public School Employees' Retirement System (PSERS or System). On the governmental fund financial statements, the District recognizes annual pension expenditures or expenses equal to its contractually required contributions. For the fiscal year ended June 30, 2015, the rate of employer contribution was 21.40%. The 21.40% rate is composed of a contribution rate of 20.50% for pension benefits and 0.90% for healthcare insurance premium assistance. The District is required to pay the entire employer contribution rate and is reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income aid ratio (as defined in Act 29 of 1994), which is at least one half of the total employer rate. Such payments are recorded in the general fund and proprietary funds as state source revenues. In the government-wide financial statements, payments are allocated based on function. The District made all required contributions for the year ended June 30, 2015 and has recognized them as expenditures or expenses.

Interfund activity:

Exchange transactions between governmental funds are eliminated on the government-wide statements.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as nonoperating revenues/expenses in proprietary funds.

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferrals and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. A significant assumption in these financial statements is the PSERS pension liability. Actual results could differ from those estimates.

1. Summary of significant accounting policies (continued):

Fund equity:

The School District follows GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a district's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

<u>Nonspendable fund balance</u> – amounts that cannot be spent because they are in a nonspendable form (i.e., inventory) or legally or contractually required to be maintained intact (i.e., principal of a permanent fund).

<u>Restricted fund balance</u> – amounts limited by external parties or legislations (i.e., debt covenants and grants).

<u>Committed fund balance</u> – amounts limited by Board policy or Board action (i.e., future anticipated costs).

<u>Assigned fund balance</u> – amounts that are intended for a particular purpose. Generally, balances in special revenue funds or capital project funds will be designated as assigned.

<u>Unassigned fund balance</u> – amounts available for consumption or not restricted in any manner.

Use of fund balance:

The restricted fund balance shall be reduced to the extent that the underlying reason for the restriction has been eliminated.

If the School District experiences an excess of expenditures over revenues for a given fiscal year, the fund balance shall be consumed in the following order:

Restricted fund balance to the extent that expenditures related to the restriction contributed to the excess of expenditures over revenues.

Committed fund balance to the extent that expenditures related to the commitment contributed to the excess of expenditures over revenues. If a plan for periodic use of committed fund balance is reviewed and approved by the Board, the committed fund balance will not be reduced by more than the amount designated in the plan.

1. Summary of significant accounting policies (continued):

Use of fund balance (continued):

Assigned fund balance to the extent that expenditures related to the assignment contributed to the excess of expenditures and revenues.

Unassigned fund balance for any remaining excess of expenditures over revenues.

Fund balance parameters:

The School District will strive to maintain an unassigned general fund fund balance of not less than 6% and not more than 8% of the budgeted expenditures for that fiscal year. The total fund balance, consisting of several portions, including restricted, committed, assigned and unassigned, may exceed 8%. If the unassigned portion, of the fund balance falls below the threshold of 6% of budgeted expenditures, the Board may pursue options for increasing revenues and decreasing expenditures, or a combination of both until 6% is attained. If the unassigned portion of the fund balance exceeds 8% of budgeted expenditures, the Board may utilize a portion of the fund balance by appropriating excess funds for expenditures. The goal shall be to use any excess fund balance for nonrecurring expenditures, not for normal operating costs.

Extraordinary and special items:

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. There were no extraordinary items for the year ended June 30, 2015.

Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. There were no special items for the year ended June 30, 2015.

Subsequent events:

The School District has evaluated subsequent events through November 11, 2015, which is the date the financial statements were available to be issued.

2. Cash, cash equivalents and investments:

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

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

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

Custodial credit risk, deposits:

Custodial credit risk is the risk that, in the event of a counterparty failure, the School District's deposits may not be returned to it. The School District's policy requires deposits in savings accounts or time deposits or share accounts of institutions to be insured or covered by approved collateral as provided by law. As of June 30, 2015, the School District's bank balance of $25,706,563 consisted of $308,579 insured by FDIC, $2,047,984 collateralized and held by the pledging banks trust department in accordance with Act 72 and $23,350,000 is collateralized certificates of deposits investment pool which invests in insured certificates of deposits.

Financial statement amounts, cash and cash equivalents:

Governmental activities:	
Cash and cash equivalents:	
Current	$ 1,250,310
Held for long-term purposes	23,354,535
Business-type activities	762,914
Fiduciary funds, agency	112,535
Total	$ 25,480,294

2. Cash, cash equivalents and investments (continued):

Investments:

Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of investments could occur in the near term and that such changes could materially affect account balances and the amounts reported in the statement of net position. As of June 30, 2015, the School District had the following investments:

Investment	Maturities	Fair value
PA School District Liquid Asset Fund, certificates of deposit (unrated/backed by AAAm rated collateral)	1 to 24 months	$ 39,152,258
PA Local Government Investment Trust (rated AAAm)	None	4,523,525
PA School District MAX (rated AAAm)	None	3,285,471
		46,961,254
Cash equivalents included above		(23,350,000)
Total		$ 23,611,254

Financial statement amounts for investments:

Governmental activities:	
Investments	$ 22,502,903
Held for long-term purposes	808,739
Business-type activities	208,618
Fiduciary funds:	
Private purpose trust	64,584
Agency	26,410
Total	$ 23,611,254

2. Cash, cash equivalents and investments (continued):

Interest rate risk:

The School District has a formal investment policy that permits investments as authorized by law. The policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk:

The School District's investment policy requires that its investment companies be registered under the Investment Company Act of 1940 with shares registered under the Securities Act of 1933. In addition, the investment companies used by the School District must be rated in the highest category by a nationally recognized rating agency.

3. Real estate taxes:

Based upon assessments provided by the County, the School District bills and collects its own property taxes. The School District tax rate for the year ended June 30, 2015 was 17.61 mills ($17.61 per $1,000 of assessed valuation) as levied by the Board of School Directors. The schedule for real estate taxes levied for each fiscal year is as follows:

July 1	Levy date
July 1 - September 1	2% discount period
September 2 - October 31	Face payment period
November 1 - December 31	10% penalty period
January 1	Lien date

4. Taxes receivable and related accounts, general fund:

The School District, in accordance with generally accepted accounting principles, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes as determined by the administration. A portion of the receivable amount, which was measurable and available within 60 days, was recognized as revenue and the balance reported as unavailable in the fund financial statements. The balances at June 30, 2015 are as follows:

	Gross taxes receivable	Allowance for uncollectible taxes	Net estimated to be collectible	Tax revenue recognized	Unavailable revenue	Unearned revenue
Real estate	$ 783,647	$ 34,641	$ 749,006	$ 288,607	$ 460,399	
Earned income taxes	974,010		974,010	974,010		
Per capita and occupation	284,816	281,968	2,848			$ 2,848
Transfer tax	56,173		56,173	56,173		
	$ 2,098,646	$ 316,609	$ 1,782,037	$ 1,318,790	$ 460,399	$ 2,848

5. Interfund accounts:

Individual fund receivable and payable balances at June 30, 2015 were as follows:

	Due from other funds	Due to other funds
General fund	$ 13,287	$ 2,157,194
Capital reserve fund	2,157,194	
Capital projects fund		1,446
Enterprise fund, food service		11,841
	$ 2,170,481	$ 2,170,481

5. Interfund accounts (continued):

	Transfers to other funds	Transfers from other funds
Major funds:		
General fund	$ 7,970,071	
Debt service fund		$ 5,812,877
Capital reserve fund		2,157,194
	$ 7,970,071	$ 7,970,071

The general fund due to other funds pertains to future capital projects of $2,157,194 to be paid by the capital reserve fund. The capital projects fund due to other funds pertains to building improvement supplies purchases of $1,446 paid by the general fund. The food service fund due to other funds pertains to employee benefits of $11,841 paid by the general fund.

6. Due from other governments:

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

	General fund
State subsidy:	
Rental	$ 816,499
Retirement	368,104
Social Security	114,589
Medical services	102,190
Grants and programs:	
Federal	100,313
Local	184,194
	$ 1,685,889

7. Changes in capital assets:

Capital asset activity for governmental activities for the year ended June 30, 2015 is as follows:

	Beginning balance	Increases	Decreases	Transfers	Ending balance
Governmental activities:					
Capital assets not being depreciated:					
Land	$ 6,794,658				$ 6,794,658
Construction in progress	23,496,092	$ 4,312,170		$ (26,447,765)	1,360,497
Total assets not being depreciated	30,290,750	4,312,170		(26,447,765)	8,155,155
Capital assets being depreciated:					
Site improvements	6,189,105				6,189,105
Buildings and building improvements	115,824,260			26,447,765	142,272,025
Furniture, equipment and educational media	2,667,389	836,292			3,503,681
Vehicles	548,759	122,874	$ (82,532)		589,101
Total assets being depreciated	125,229,513	959,166	(82,532)	26,447,765	152,553,912
Accumulated depreciation:					
Site improvements	2,805,570	243,545			3,049,115
Buildings and building improvements	45,482,284	3,208,485			48,690,769
Furniture and equipment	1,562,017	264,069			1,826,086
Vehicles	344,977	36,722	(82,532)		299,167
Total accumulated depreciation	50,194,848	3,752,821	(82,532)		53,865,137
Total capital assets being depreciated, net	75,034,665	(2,793,655)	-	26,447,765	98,688,775
Governmental activities, capital assets, net	$ 105,325,415	$ 1,518,515	$ -	$ -	$ 106,843,930

7. Changes in capital assets (continued):

Capital asset activity for business-type activities for the year ended June 30, 2015 is as follows:

	Beginning balance	Increases	Decreases	Ending balance
Business-type activities:				
Capital assets being depreciated, equipment	$ 700,558	$ 15,855		$ 716,413
Less accumulated depreciation for equipment	593,175	16,469		609,644
Business-type activities, capital assets, net	$ 107,383	$ (614)		$ 106,769

Depreciation expenses were charged to governmental functions as follows:

Instruction	$ 2,487,828
Instructional student support	2,451
Administration and financial services	8,713
Operation and maintenance of plant	191,108
Pupil transportation	36,722
Student activities	264,402
Capital outlay	761,597
	$ 3,752,821

8. Fund balances:

As of June 30, 2015, fund balances are composed of the following:

	General fund	Capital reserve	Capital projects	Total governmental funds
Restricted		$ 6,215,540		$ 6,215,540
Committed:				
Future pension obligations	$ 4,104,257			4,104,257
Textbook series replacement	500,000			500,000
Future capital projects	5,000,000			5,000,000
Future debt service payments	2,200,000			2,200,000
Assigned			$ 20,220,958	20,220,958
Unassigned	5,243,949			5,243,949
Total fund balances	$ 17,048,206	$ 6,215,540	$ 20,220,958	$ 43,484,704

9. Unearned revenue:

Unearned revenue at June 30, 2015 consists of the following:

	General fund	Proprietary fund	Total
Per capita and occupation taxes	$ 2,848		$ 2,848
Prepaid ticket sales		$ 39,200	39,200
Unused donated commodities		8,500	8,500
	$ 2,848	$ 47,700	$ 50,548

10. General long-term debt:

General obligation bonds and note:

The School District issued general obligation bonds (GOB) and a general obligation note (GON) to provide funds for major capital improvements. These bonds and note are direct obligations and pledge the full faith and credit of the School District. Currently, the School District has six general obligation bond series and one general obligation note with interest rates and outstanding principal amounts at June 30, 2015 as follows:

Issue	Final maturity date	Interest rate or yield	Amount
Series of 2009 GOB	June 1, 2016	5.00%	$ 1,650,000
Series A of 2010 GOB	June 1, 2018	3.61% - 4.21%	10,570,000
Series of 2012 GOB	April 1, 2022	0.65% - 3.00%	9,190,000
Series of 2013 GOB	June 1, 2019	1.75% - 3.00%	8,800,000
Series of 2013A GON	June 1, 2025	3.32%	4,655,000
Series of 2014 GOB	June 1, 2023	0.30% - 4.00%	8,340,000
Series of 2015 GOB	June 1, 2027	0.60% - 4.00%	14,205,000
			57,410,000
Bond premium, net of discount			2,099,118
Total long-term debt			59,509,118
Less current portion			4,485,000
			$ 55,024,118

General obligation bonds of 2015:

On January 25, 2015, the School District issued general obligations bonds of 2015 in the amount of $14,205,000. The bonds are to be used to fund various capital improvement projects of the School District and pay the costs of issuing the bonds. The bonds are payable over 12 years with interest ranging from 0.60% to 4.00%. Final payment is due June 1, 2027.

10. General long-term debt (continued):

Letter of credit:

At June 30, 2015, the School District has a letter of credit with a local bank for $66,104 which pertains to the turf field project. The letter of credit is secured by property of the School District.

Long-term obligation activity:

Long-term obligation activity for governmental activities can be summarized as follows:

	Beginning balance	Increases	Decreases	Ending balance
General obligation bonds and note	$ 47,495,000	$ 14,205,000	$ 4,290,000	$ 57,410,000
Accrued retirement cost	920,624	37,928		958,552
Estimated liability for compensated absences	1,839,353	171,904		2,011,257
	$ 50,254,977	$ 14,414,832	$ 4,290,000	$ 60,379,809

Debt service requirements:

The annual requirements of the School District's debt service are listed below. The amounts shown exclude the interest subsidy for the Series A of 2010 "Build America Bonds."

Year ending June 30,	Principal	Interest	Total
2016	$ 4,485,000	$ 1,957,314	$ 6,442,314
2017	6,860,000	1,784,188	8,644,188
2018	5,010,000	1,523,626	6,533,626
2019	4,780,000	1,357,556	6,137,556
2020	4,215,000	1,262,245	5,477,245
2021-2025	23,080,000	4,318,043	27,398,043
2026-27	8,980,000	513,600	9,493,600
	$ 57,410,000	$ 12,716,572	$ 70,126,572

11. Operating leases:

On September 11, 1995, the School District entered into a 40-year operating lease with Millersville University of the Pennsylvania State System of Higher Education. The School District agreed to construct and maintain a two-tier parking garage on land owned by Millersville University. In lieu of rent, the School District agreed to allow Millersville University primary use of the lower tier of the parking garage.

On December 11, 1995, the School District entered into a 40-year operating lease with Millersville University. The School District agreed to lease approximately 2.32 acres of land, referred to as the "Athletic Field," to Millersville University. In lieu of rent, Millersville University agreed to lease to the School District .34 acres of land, referred to as the "Parking Lot." The School District and Millersville University have agreed to a land swap of these two parcels whereby the University would receive the 2.32 acres of land in exchange for giving the School District the .34 acres of land and a total of $61,287 that will be credited to future annual payments due for the lease of the Millersville University Stadium. While legislation has been passed and agreements signed, the School District is awaiting final approval by the Pennsylvania Department of General Services.

12. Risk management:

Property and liability:

For losses incurred prior to July 1, 1999 and subsequent to June 30, 2002, the School District joined together with other school districts in the area to form the Lancaster-Lebanon Public Schools Insurance Pool (the Pool), a public entity risk pool currently operating as a common risk management and insurance program for member school districts, the Lancaster-Lebanon Intermediate Unit, the Lancaster County Academy and the Lancaster County Career and Technical Center. This agreement states that the School District pays an annual premium to the Pool for the purpose of seeking the prevention or lessening of casualty losses to members from injuries to persons or properties which might result in claims being made against members and to pool the insurance risks, reserves, claims and losses and providing self-insurance and reinsurance. It is the intent of the members of the Pool that the Pool will utilize funds contributed by the members to provide self-insurance and reimbursement to the members for certain losses, to defend and protect each member of the Pool in accordance with the agreement against certain liabilities and losses and to purchase excess and aggregate stop-loss insurance for claims greater than $100,000 per occurrence.

As of June 30, 2015, the School District is not aware of any additional assessments relating to the Pool.

12. Risk management (continued):

Hospitalization:

The School District has a self-insured hospitalization plan with Health Assurance Management Services Company, the claims administrator, who processes and pays the claims. For the year ended June 30, 2015, the School District was limited in liability for claims to $150,000 per individual and $7,511,616 in total for the Point of Service Plan. A liability for claims incurred prior to June 30, 2015 and paid subsequently is recorded in the amount of $487,783 in accounts payable in the general fund.

Vision fund:

The School District administers a vision fund which is reflected in the general fund. The plan reimburses for professional eye examinations and the cost of prescription glasses and contacts. Eligible expenses in accordance with the plan are those incurred by either an employee or his/her dependents.

The plan requires submission of receipted invoices for eligible services and operates on a fiscal year from July 1 to June 30. Payment by the School District is made monthly and items submitted by the end of each month will be reimbursed by the 15th of the following month. In order to be eligible for payment, bills incurred must be less than six months old. Payment for the fiscal year ended June 30, 2015 is limited to $300 per eligible employee

Workers' compensation:

The School District is participating in the Lancaster-Lebanon Public Schools Workers' Compensation Fund which is a cooperative voluntary trust arrangement for 17 member school districts and the Lancaster-Lebanon Intermediate Unit. This agreement states that the School District pays an annual premium to the fund for the purpose of seeking prevention or lessening of claims due to injuries of employees of the members and pooling workers' compensation and occupational disease insurance risks, reserves, claims and losses and providing self-insurance and reinsurance thereof. It is the intent of the members of the fund that the fund will utilize funds contributed by the members, which shall be held in trust by the fund, to provide self-insurance and reimbursement to the members for their obligations to pay compensation as required under the Workers' Compensation Act and the Pennsylvania Occupational Disease Act and to purchase excess and aggregate insurance. As of June 30, 2015, the School District is not aware of any additional assessments relating to the fund.

12. Risk management (continued):

Unemployment compensation:

The School District has elected to self-insure for unemployment compensation rather than contribute to the state fund. Transactions relating to this plan are reflected in the general fund. As of June 30, 2015, the School District is not aware of any unemployment compensation claims.

Other risks:

The School District is exposed to various risks of loss related to theft and destruction of assets, errors and omissions and natural disasters. The School District has purchased various insurance policies to safeguard its assets from risk of loss. During the year ended June 30, 2015 and the two previous fiscal years, no settlements exceeded insurance coverage.

13. Defined benefit pension plan:

Plan description:

PSERS is a governmental cost-sharing multiple-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:

Benefits are provided by PSERS by statute, therefore financial statement amounts are affected by PSERS activity. The District's reported amounts will vary over time depending on the pension results of PSERS.

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 2010) 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).

13. Defined benefit pension plan (continued):

Benefits provided (continued):

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

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

Member contributions:

Active members who joined the System prior to July 22, 1983 contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the members' 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 July 1, 2002.

13. Defined benefit pension plan (continued):

Member contributions (continued):

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 the Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer contributions:

The school district's contractually required contribution rate for fiscal year ended June 30, 2015 was 20.50% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were $6,127,504 for the year ended June 30, 2015.

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions:

For purposes of measuring the District's net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position 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.

At June 30, 2015, the District reported a liability of $94,044,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward PSERS's total pension liability as of June 30, 2013 to June 30, 2014. The District's proportion of the net pension liability was calculated utilizing the employer's one -year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the District's proportion was .2376%, which was a decrease of .0038% from its proportion measured as of June 30, 2013.

13. Defined benefit pension plan (continued):

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

For the year ended June 30, 2015, the District recognized pension expense of $7,933,000. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on pension plan investment		$ 6,723,000
Changes in proportion and difference between District contributions and proportionate share of contributions		1,254,000
District contributions subsequent to the measurement date	$ 6,127,504	
	$ 6,127,504	$ 7,977,000

13. Defined benefit pension plan (continued):

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

For the year ended June 30, 2015, $6,127,504 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 as a decrease in pension expense as follows:

Year ended June 30,	
2016	$ (1,983,000)
2017	(1,983,000)
2018	(1,983,000)
2019	(1,983,000)
2020	(45,000)

Actuarial assumptions*:*

The total pension liability as of June 30, 2014 was determined by rolling forward the PSERS's total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method:	Entry age normal - level % of pay
Investment return:	7.5% includes inflation of 3.00%
Salary increases:	Effective average of 5.5%, which reflects an allowance for inflation of 3.00%, real wage growth of 1% and merit or seniority increases of 1.50%
Mortality rates:	RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for 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

13. Defined benefit pension plan (continued):

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

Actuarial assumptions (continued):

The actuarial assumptions used in the June 30, 2013 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the PSERS Board 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.

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

13. Defined benefit pension plan (continued):

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

The PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2014 are:

Asset class	Target allocation	Long-term expected real rate of return
Public market global equity	19 %	5.0 %
Private markets (equity)	21	6.5
Private real estate	13	4.7
Global fixed income	8	2.0
U.S. long treasuries	3	1.4
Treasury inflation protected securities	12	1.2
High yield bonds	6	1.7
Cash	3	0.9
Absolute return	10	4.8
Risk parity	5	3.9
Master limited partnerships/infrastructure	3	5.3
Commodities	6	3.3
Financing (LIBOR)	(9)	1.1
	100 %	

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 plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

13. Defined benefit pension plan (continued):

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

Sensitivity of the District's proportionate share:

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

	1% Decrease 6.50%	Current discount rate 7.50%	1% Increase 8.50%
District's proportionate share of the net pension liability	$ 117,307,000	$ 94,044,000	$ 74,185,000

Pension plan fiduciary net position:

Detailed information about PSERS's fiduciary net position is available in PSERS's Comprehensive Annual financial report which can be found on PSERS's website at www.psers.state.pa.us.

14. Joint ventures:

Lancaster County Career and Technology Center (LCCTC):

The School District is one of 16 member school districts of the Lancaster County Career and Technology Center (LCCTC). LCCTC provides vocational-technical training and education to participating students of the member school districts. LCCTC is controlled and governed by the Career and Technology Board for Lancaster County, which is composed of school board members of all the member school districts. No member school district exercises specific control over the fiscal policies or operations of LCCTC. The LCCTC is not reported as part of the School District's reporting entity. The School District's share of annual operating costs for LCCTC fluctuates based upon the percentage of enrollment of each member school district. The amount paid for these services in the year ended June 30, 2015 was approximately $1,395,652, which has been reported in the general fund. Complete financial statements for LCCTC can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

The District entered into a lease agreement with the Lancaster County Career and Technology Center Authority (Authority) along with 15 other school districts. The Lancaster County Career and Technology Center Authority is an authority created under the Pennsylvania Municipality Authorities Act and is empowered to acquire, hold, construct, improve, maintain, operate and lease public school buildings and other school projects for public school purposes. By resolution, the member districts have requested the Authority to proceed with improvement of the school facilities of the Lancaster County Career Technical Center (LCCTC) to be funded by lease revenue bonds not to exceed the maximum aggregate principal amount of $43,000,000. The bonds will be designated Lancaster County Career and Technology Center Authority Guaranteed Lease Revenue Bonds. Each district will pay its proportionate share of the lease rentals in order to fund the debt.

On June 29, 2012, a new lease was signed and the Authority issued Guaranteed Lease Revenue Bonds Series of 2012 in the amount of $9,995,000. Payments are required over the period February 2013 until February 2037, with interest payable semi-annually. The average bond yield is 3.50%. The balance of the District's share of this obligation at June 30, 2015 was $901,407.

On September 20, 2013, the Authority completed issuance of Guaranteed Lease Revenue Bonds, Series of 2013, in the amount of $9,995,000. Payments are required over the period February 2014 until February 2037, with interest payable semi-annually. The average bond yield is 4.55%. The balance of the District's share of this obligation at June 30, 2015 was $1,109,475.

14. Joint ventures (continued):

Lancaster County Career and Technology Center (LCCTC) (continued):

On July 9, 2014, the Authority completed issuance of Guaranteed Lease Revenue Bonds, Series of 2014, in the amount of $3,900,000. Payments are required over the period February 2015 until February 2037, with interest payable semi-annually. The average bond yield is 3.88%. The balance of the District's share of this obligation at June 30, 2015 was $403,014.

Minimum future rental payments under the operating leases for the School District are as follows:

Fiscal year ending	Total
2016	$ 99,803
2017	99,714
2018	110,799
2019	110,673
2020	110,644
2021-2025	553,802
2026-2030	553,511
2031-2035	553,755
2036-2037	221,195
Total minimum future rental payments	$ 2,413,896

Lancaster-Lebanon Joint Authority:

The School District is a member in the Lancaster-Lebanon Joint Authority (Joint Authority). The Lancaster Lebanon Joint Authority was incorporated on February 14, 1980 under the Municipality Authorities Act of 1945, Act of May 2, 1945, P.L. 382, as amended by the Boards of School Directors of the 22 school districts located in Lancaster and Lebanon counties. The school districts established the Joint Authority for the purposes of acquiring, holding, constructing, improving, maintaining, operating, owning and/or leasing projects for public school purposes and for the purposes of the Lancaster-Lebanon Intermediate Unit No. 13.

14. Joint ventures (continued):

Lancaster-Lebanon Joint Authority (continued):

The School District did not have any financial transactions with the Joint Authority during the year ended June 30, 2015. Complete financial statements for the Joint Authority can be obtained from the Administrative Office at 1020 New Holland Avenue, Lancaster, PA 17601.

Lancaster-Lebanon Intermediate Unit (LLIU):

The Lancaster-Lebanon Intermediate Unit (LLIU) Board of Directors consists of 20 members from the LLIU's constituent school districts. The LLIU Board members are school district board members who are elected by the public and are appointed to the LLIU Board by the member school districts' Boards of Directors. Penn Manor School District is responsible for appointing one of these members. The LLIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. Penn Manor School District contracts with the LLIU for special education services for School District students. The amount paid for these services and various other support services during the year ended June 30, 2015 was approximately $2,412,270. Complete financial information for LLIU can be obtained from the Administrative Office at 1020 New Holland Avenue, Lancaster, PA 17601.

Lancaster County Academy (Academy):

The Academy is an alternative public school organized by 11 public school districts in Lancaster County to provide services in the county. Each of the public school districts appoints one member to serve on the joint operating committee. As a member district, the School District has an ongoing financial responsibility to fund the operations of the Academy. The amount paid to the Academy in the year ended June 30, 2015 was $35,450. Complete financial information for the Academy can be obtained from the Administrative Office at 1202 Park City Center, Lancaster, PA 17601.

14. Joint ventures (continued):

Lancaster County Tax Collection Bureau (Bureau):

The School District participates with all Lancaster County school districts and associated municipalities as prescribed by Act 32 for the collection of earned income taxes and local service tax (LST). The joint operating committee is comprised of representatives from the 17-member school districts and 16 municipal representatives. The Bureau's operating expenditures are deducted from the distributions, which are made quarterly. The School District's portion of the operating expenditures for the year ended June 30, 2015 was $87,470. Financial information for the Bureau can be obtained from the Administrative Office at 1845 William Penn Way, Lancaster, PA 17601.

No member school district exercises specific control over the fiscal policies or operations of these joint ventures. As a result, these entities are not reported as part of the School District's reporting entity.

15. Postemployment healthcare benefits:

Plan description:

The School District permits any professional employee who retires at age 50 or later to continue group insurance coverage to age 65 by remitting the monthly premium to the School District. The retiree's cost of group insurance is calculated by the plan administrator and is based on projected expenditures for the year. The retiree's premium for the group insurance is payable in advance on a monthly basis. The School District recognizes expenditures for postemployment group insurance when claims are filed with the plan administrator. The School District is responsible for all claims in excess of the premiums received by the qualified retirees.

The plan does not issue a publicly available financial report. As of June 30, 2015, there were 49 participants receiving benefits.

Funding policy:

The School District currently follows a pay-as-you-go funding approach, paying an amount each year equal to the benefits claimed in that year.

15. Postemployment healthcare benefits (continued):

Annual OPEB cost and net OPEB obligation:

The School District's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the School District's OPEB cost for the year, the amount contributed to the plan and changes in the School District's OPEB obligation to the plan.

Normal cost as of July 1, 2014	$ 169,015
Interest on net OPEB obligation	27,587
Adjustment to ARC	(37,636)
Total normal cost	158,966
30-year amortization of unfunded actuarial accrued liability	192,133
Annual required contribution	$ 351,099
Annual OPEB cost	$ 351,099
Contributions made (estimated)	(151,933)
Increase in net OPEB obligation	199,166
Net OPEB obligation:	
Beginning of year	613,049
End of year	$ 812,215

15. Postemployment healthcare benefits (continued):

Trend information:

Fiscal year ended	Annual OPEB cost	Employer contributions	Percentage of annual OPEB cost contributed	Net OPEB obligation
6/30/2015	$ 351,099	$ 151,933	43.27%	$ 812,215
6/30/2014	187,708	176,817	94.20%	613,049
6/30/2013	187,920	184,636	98.25%	602,158

Funded status and funding progress:

The funded status of the plan was as follows:

Actuarial valuation date	7/1/2014	7/1/2012	7/1/2010
Unfunded actuarial accrued liability	$ 3,129,630	$ 1,507,001	$ 3,034,874
Funded ratio	0.00%	0.00%	0.00%
Covered payroll	$ 26,319,343	$ 27,187,958	$ 28,241,347
Unfunded actuarial accrued liability as a percentage of covered payroll	11.89%	5.54%	10.75%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

15. Postemployment healthcare benefits (continued):

Actuarial methods and assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of the valuation.

In the July 1, 2014 actuarial valuation, the entry age normal cost method was used. An assumption for salary increases was used only for spreading contributions over future pay under this cost method. For this purpose, salary increases were composed of a 3% cost-of-living adjustment, 1% real wage growth and, for teachers and administrators, a merit increase which varied by age from 3% to .25%. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and the assumed retirement age.

Beginning July 1, 2014, claims costs for medical and prescription drugs are based on the maximum portion of the group's overall cost attributed to individuals in the specified age and gender brackets. Prior to July 1, 2012, actuarial evaluations were based on claim costs on the expected portion of overall costs. Dental and vision costs are assumed not to vary with age or gender. Retiree contributions are assumed to increase at the same rate as the Health Care Cost Trend Rate, which was 6.0% in 2015, decreasing 0.5% per year to an ultimate rate of 5.5% in 2016.

Other actuarial assumptions include the following: a 4.5% discount rate, retirement rates based on PSERS plan experience and mortality rates as assumed in the PSERS defined benefit pension plan actuarial valuation.

16. Termination benefits:

According to the School District's negotiated agreement with the Penn Manor Education Association, teachers are eligible for an early retirement incentive if the date of retirement is at the conclusion of the school year, written notice of retirement is provided before April 1 preceding the date of retirement, the employee accepts benefits under the Pennsylvania Employees' Retirement System and the employee has at least 15 consecutive years of service at the School District. The retirement incentive is calculated by multiplying $135 per year for each year of employment and $70 per day for each unused sick and/or personal day with the School District, and the total incentive is limited to a maximum of $30,000. Payments are paid as employer non-elective contributions to employee 403(b) accounts at the time of retirement.

16. Termination benefits (continued):

Retiring administrators with at least ten years of service may either elect to receive $250 for each full year of service to the School District, or $500 for each full year of administrative service to the School District and $70 per day for each unused sick and/or personal day. At no time can the monetary compensation to a retiring administrator exceed $36,000.

The School District records retirement incentive expenses and liabilities at the government-wide level and in the proprietary funds. A prorata formula based on years of service is used to calculate the liabilities for employees who have less than the required minimum years of service. The retirement incentive liability was included in the statement of net position and totaled $958,552 as of June 30, 2015.

17. Commitments:

As of June 30, 2015, the School District was committed under various construction contracts totaling $11,268,802, including $10,000 for Hambright Elementary School, $10,894,848 for Pequea Elementary School, $4,044 for a wastewater study and $359,910 for District wide technology improvements. Of these amounts, a total of $59,601 was recorded in accounts payable at year end.

18. Adoption of new accounting principles:

Effective July 1, 2014, the District adopted GASB Statement No. 67, *Financial Reporting for Pension Plans,* GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71*, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The new standards revise and establish new financial reporting requirements for pension benefits provided for employees. The following is the adjustment to net position for governmental activities:

	Governmental activites
Beginning net position as previously reported at June 30, 2014	$ 85,642,334
Prior period adjustment, implementation of GASB 68, net pension liability (measurement date)	(98,820,000)
Deferred outflows, School District's contribution made during fiscal year 2014	4,732,000
Total prior period adjustment	(94,088,000)
Net position (deficit) as restated, July 1, 2014	$ (8,445,666)

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE PENSION LIABILITY
(Required Supplementary Information)
(unaudited)

YEAR ENDED JUNE 30, 2015

	2015
School District's proportion of the net pension liability	0.2376 %
School District's proportionate share of the net pension liability	$ 94,044,000
School District's covered-employee payroll	$ 30,322,698
School District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	310.14 %
Plan fiduciary net position as a percentage of the total pension liability	57.24 %

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
(Required Supplementary Information)
(unaudited)

YEAR ENDED JUNE 30, 2015

	2015
Contractually required contribution	$ 5,944,023
Contributions in relation to the contractually required contribution	5,944,023
Contribution deficiency (excess)	$ -
School District's covered payroll	$ 30,139,391
Contributions as a percentage of covered employee payroll	19.72%

PENN MANOR SCHOOL DISTRICT

OTHER POSTEMPLOYMENT BENEFITS
(Required supplementary information)
(unaudited)

SCHEDULE OF FUNDING PROGRESS

YEAR ENDED JUNE 30, 2015

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) - entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/ c)
7/1/2014	$ -	$ 3,129,630	$ 3,129,630	0.00%	$ 26,319,343	11.89%
7/1/2012	$ -	$ 1,507,001	$ 1,507,001	0.00%	$ 27,187,958	5.54%
7/1/2010	$ -	$ 3,034,874	$ 3,034,874	0.00%	$ 28,241,347	10.75%

PENN MANOR SCHOOL DISTRICT

(Required supplementary information)
(unaudited)

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND

YEAR ENDED JUNE 30, 2015

	Budget amounts		Actual budgetary basis	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Local sources:				
Real estate taxes	$ 40,463,108	$ 40,463,108	$ 40,698,961	$ 235,853
Other taxes	5,740,937	5,740,937	6,269,806	528,869
Investment income	70,050	70,050	72,364	2,314
Other revenue	1,891,151	1,891,151	2,083,653	192,502
Total local sources	48,165,246	48,165,246	49,124,784	959,538
State sources	19,851,449	19,851,449	20,567,021	715,572
Federal sources	897,625	897,625	949,059	51,434
Total revenues	68,914,320	68,914,320	70,640,864	1,726,544
Expenditures:				
Instructional services:				
Regular programs	30,993,954	29,945,000	29,945,000	-
Special programs	8,681,204	9,607,329	9,607,329	-
Vocational programs	1,984,755	1,830,650	1,830,650	-
Other instructional programs	198,391	180,657	180,657	-
Support services:				
Pupil personnel	2,230,723	2,102,494	2,102,494	-
Instructional staff	905,955	721,357	721,357	-
Administrative	4,506,938	5,129,193	5,129,193	-
Pupil health	639,086	583,750	583,750	-
Business	819,887	767,975	767,975	-
Operation and maintenance of plant	5,883,865	5,754,476	5,754,476	-
Student transportation	3,116,478	3,058,490	3,058,490	-
Central and other support	1,029,983	1,197,281	1,197,281	-
Other support services	88,034	199,062	199,062	-

(continued)

PENN MANOR SCHOOL DISTRICT
(Required supplementary information)
(unaudited)

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND (CONTINUED)

YEAR ENDED JUNE 30, 2015

	Budget amounts		Actual budgetary basis	Variance with final budget positive (negative)
	Original	Final		
Expenditures (continued):				
Operation of noninstructional services:				
Student activities	$ 1,132,584	$ 1,187,505	$ 1,187,505	$ -
Community services		6,725	6,725	-
Scholarships and awards	3,500	2,313	2,313	-
Debt service (principal and interest)	5,812,877	5,812,877	5,812,877	-
Total expenditures	68,028,214	68,087,134	68,087,134	-
Excess of revenues over expenditures	886,106	827,186	2,553,730	1,726,544
Other financing sources (uses):				
Refund of prior year receipts		(2,456)	(2,456)	-
Interfund transfers	(2,118,561)	(2,157,194)	(2,157,194)	-
Budgetary reserve	(100,000)			-
Total other financing sources (uses)	(2,218,561)	(2,159,650)	(2,159,650)	-
Net changes in fund balances	$ (1,332,455)	$ (1,332,464)	394,080	$ 1,726,544
Fund balances:				
July 1, 2014			16,654,126	
June 30, 2015			$ 17,048,206	

Budgetary data:

Penn Manor School District follows the following procedures in establishing the budgetary data:

a. Prior to May 31, management submits to the School Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the general fund.

b. A public hearing is conducted to obtain taxpayer comments.

c. Prior to June 30, the budget is legally enacted through passage of an ordinance.

d. Legal budgetary control is maintained by the School Board at the departmental level. Transfers between departments, whether between funds or within a fund or revisions that alter the total revenues and expenditures of any fund, must be approved by the Board.

e. Budgetary data is included in the School District’s management information system and is employed as a management control device during the year.

f. Unused appropriations lapse at the end of each fiscal year; however, the School District increases the subsequent year's appropriation by an amount equal to outstanding encumbrances and reserves a portion of the fund balance in a like amount. There were no outstanding encumbrances at June 30, 2015.

g. The budget for the general fund is adopted on the modified accrual basis of accounting, except that a budgetary reserve is provided.

h. For budgetary purposes, the School District includes debt service payments (principal and interest) in the general fund. In accordance with generally accepted accounting principles, these amounts are shown as transfers to the debt service fund on the fund level financial statements.

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2015

Federal grantor/ pass-through grantor/program title	Source code	Federal CFDA number	Pass-through grantor's number	Grant period beginning/ ending date	Program or award amount	Total received for the year		Accrued (unearned) revenue at July 1, 2014		Revenue recognized		Expenditures	Accrued (unearned) revenue at June 30, 2015	
U.S. Department of Agriculture:														
Passed through the Pennsylvania Department of Education:														
Child Nutrition Cluster:														
School Breakfast Program	I/F	10.553	N/A	7/01/14 - 6/30/15	N/A	$ 182,233				$ 182,233		$ 182,233	$ -	
National School Lunch Program	I/F	10.555	N/A	7/01/14 - 6/30/15	N/A	800,062				800,062		800,062	-	
Total passed through the Pennsylvania Department of Education						982,295				982,295		982,295	-	
Passed through the Pennsylvania Department of Agriculture, National School Lunch Program value of U.S. donated commodities	I/F	10.555	N/A	7/01/14 - 6/30/15	N/A	149,043	(b)	$ (11,842)	(a)	152,385	(c)	152,385	(8,500)	(d)
Total U.S. Department of Agriculture						1,131,338		(11,842)		1,134,680		1,134,680	(8,500)	

(continued)

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2015

Federal grantor/ pass-through grantor/program title	Source code	Federal CFDA number	Pass-through grantor's number	Grant period beginning/ ending date	Program or award amount	Total received for the year	Accrued (unearned) revenue at July 1, 2014	Revenue recognized	Expenditures	Accrued (unearned) revenue at June 30, 2015
U.S. Department of Education:										
Passed through the Pennsylvania Department of Education:										
Title I Cluster:										
Title I Grants to Local Educational Agencies:	I/F	84.010	013-140324	7/01/13 - 9/30/14	$ 553,718	$ 306,707	$ 306,707			$ -
	I/F	84.010	013-150324	7/01/14 - 9/30/15	613,204	524,188		$ 613,204	$ 613,204	89,016
Title II Improving Teacher Quality State Grants:	I/F	84.367	020-110324	7/01/12 - 9/30/13	106,314	13,917	13,917			
	I/F	84.367	020-110324	7/01/13 - 9/30/14	98,147	54,414	54,414			-
	I/F	84.367	020-150324	7/01/14 - 9/30/15	98,037	90,610		98,037	98,037	7,427
Total passed through the Pennsylvania Department of Education						989,836	375,038	711,241	711,241	96,443
Passed through the Lancaster-Lebanon Intermediate Unit #13,										
Special Education Cluster:										
IDEA Part B	I/F	84.027	062-14-0013	7/01/13 - 9/30/14	970,321	247	247			-
	I/F	84.027	062-15-0013	7/01/14 - 9/30/15	1,045,479	1,045,479		1,045,479	1,045,479	-
Early Intervention IDEA:	I/F	84.173	131-13-0-013	7/01/13 - 9/30/14	2,042	2,042	2,042			-
	I/F	84.173	131-14-0-013	7/01/14 - 9/30/15	3,297			3,297	3,297	3,297
Total passed through Intermediate Unit #13						1,047,768	2,289	1,048,776	1,048,776	3,297
Total U.S. Department of Education						2,037,604	377,327	1,760,017	1,760,017	99,740

(continued)

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2015

Federal grantor/ pass-through grantor/program title	Source code	Federal CFDA number	Pass-through grantor's number	Grant period beginning/ ending date	Program or award amount	Total received for the year	Accrued (unearned) revenue at July 1, 2014	Revenue recognized	Expenditures	Accrued (unearned) revenue at June 30, 2015
U.S. Department of Health and Human Services										
Passed through the Pennsylvania Department of Public Welfare, Access:	I/F	93.778	N/A	7/11/13 - 6/30/14	$ 32,893	$ 8,080	$ 8,080			$ -
	I/F	93.778	N/A	7/11/14 - 6/30/15	21,431	17,560		$ 21,431	$ 21,431	3,871
Total U.S. Department of Health and Human Services						25,640	8,080	21,431	21,431	3,871
Total expenditures of federal awards						$ 3,194,582	$ 373,565	$ 2,916,128	$ 2,916,128	$ 95,111

(continued)

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2015

Source codes:
I = Indirect funding
F = Federal share
CFDA = Catalog of Federal Domestic Assistance

Calculation of 50% rule (25% for low-risk auditee):

	Total expenditures per above				$ 2,916,128
Child Nutrition Cluster:					
10.555	National School Lunch program	$ 952,447			
10.553	School Breakfast program	182,233			
		$ 1,134,680			
		$ 1,134,680			
		$ 2,916,128	=	38.91%	Programs meet the 25% requirement

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1 - Significant accounting policies

The accompanying Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

Note 2 - Food donation

a) Beginning inventory at July 1
b) Total amount of commodities received from the Department of Agriculture
c) Total amount of commodities used
d) Ending inventory at June 30

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of School Directors
Penn Manor School District
Millersville, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the remaining fund information of Penn Manor School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated November 11, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Penn Manor School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Penn Manor School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Penn Manor School District's internal control.

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Penn Manor School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

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

Brown Schultz Sheridan & Fritz

Lancaster, Pennsylvania
November 11, 2015

Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

Board of School Directors
Penn Manor School District
Millersville, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Penn Manor School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Penn Manor School District's major federal programs for the year ended June 30, 2015. Penn Manor School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

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Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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

Brown Schultz Sheridan & Fritz

Lancaster, Pennsylvania
November 11, 2015

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2015

I. SUMMARY OF AUDITORS' RESULTS:

Financial statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	______ yes __X__ no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	______ yes __X__ none reported
Noncompliance material to financial statements noted?	______ yes __X__ no

Federal awards

Internal control over major programs:	
Material weakness(es) identified?	______ yes __X__ no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	______ yes __X__ none reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	______yes __X__ no

(continued)

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

I. SUMMARY OF AUDITORS' RESULTS (CONTINUED):

Identification of major programs:

CFDA number(s)	Name of federal program or cluster
	Child Nutrition Cluster:
10.555	National School Lunch program
10.553	School Breakfast program

Auditee qualified as low-risk auditee? _X_ yes ____ no

II. FINANCIAL STATEMENT FINDINGS:

None

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

None

PENN MANOR SCHOOL DISTRICT

SUMMARY OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2015

There were no prior year OMB Circular A-133 audit findings.