

**Shanksville-Stonycreek School District  
Shanksville, Pennsylvania**

**Audit Report**

**For the Year Ended  
June 30, 2016**

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**List of Report Distribution**

December 9, 2016

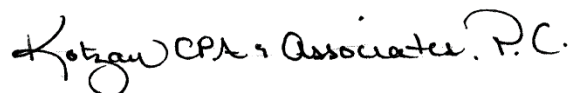
To the Members of the Board  
Shanksville-Stonycreek School District  
P.O. Box 128  
1325 Cornerstone Road  
Shanksville, PA 15560-0128

Board Members:

Not later than six months after the fiscal year end, Shanksville-Stonycreek School District must distribute the audit report as follows:

One (1) copy to: Department of Education  
Bureau of Budget and Fiscal Management  
333 Market Street  
Harrisburg, PA 17126-0333

Sincerely,



Kotzan CPA & Associates, P.C.

## **Independent Auditors' Report**

To the Members of the Board  
Shanksville-Stonycreek School District  
P.O. Box 128  
1325 Cornerstone Road  
Shanksville, PA 15560-0128

### **Report on the Financial Statements**

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

## **Opinions**

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

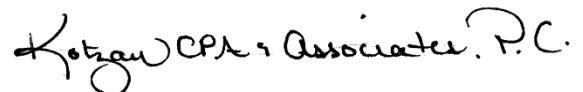
## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, historical pension information, and budgetary comparison information on pages 5 through 18, page 60 and page 61, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2016 on our consideration of Shanksville-Stonycreek 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 Shanksville-Stonycreek School District's internal control over financial reporting and compliance.



Kotzan CPA & Associates, P.C.  
Johnstown, Pennsylvania  
December 9, 2016

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# Management's Discussion and Analysis

## *Shanksville-Stonycreek School District*

2015-2016

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The Management's Discussion and Analysis (MD&A) of the Shanksville-Stonycreek School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2016. The MD&A is to provide reader friendly insight into management's analysis of the audit. This MD&A looks at the District's financial performance as a whole, although readers should review the independent auditor's transmittal letter and notes to the financial statements to enhance their understanding of the district's financial performance. Certain comparative information between the current year and prior year is required to be presented.

This discussion and analysis is part of the required supplementary information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. GASB Statement No. 34 requires certain comparative information to be presented between the current and the prior year and is detailed herein accordingly.

### **Description of the School District**

The Shanksville-Stonycreek School District is nestled along the slopes of the Allegheny Mountains in the central part of Somerset County about eight miles northeast of Somerset, Pennsylvania and 30 miles northwest of Cumberland, Maryland. It is comprised of the township of Stonycreek and the boroughs of Indian Lake and Shanksville. The school district has a population of approximately 2,500 residents.

Much of the land is productively engaged in farming. Lumbering and strip mining are important components of the local economy. The area has vast opportunities for the expansion of tourism and recreation in a multi-seasonal climate. The Flight 93 National Memorial is also part of the district and is expected to have an impact on the local economy as well.

Because of the size of its student population, which is approximately 330 students PreK-12, the District consistently ranks as one of the smallest, single-building districts in the state.

The District employed 65 regular employees through June 30, 2016, with roughly 25 part-time substitutes at any time. The District reduced their regular employees to 64 starting July 1, 2016. The teaching staff consisted of 1 part-time and 37 full-time professionals through June 30, 2016. There are only 36 full-time professionals as of July 1, 2016. Teachers in the District are members of the Pennsylvania State Education Association (PSEA) and the Shanksville-Stonycreek Education Association (SSEA), which is the representative bargaining unit. The SSEA contract is due to expire June 30, 2018.

### **Financial Highlights**

Key financial highlights for the year ending June 30, 2016 are as follows:

- ❖ District-wide net position increased \$451,414
- ❖ Total fund balances of all governmental funds equaled \$3,070,689
- ❖ Unassigned general fund balance equaled \$944,716
- ❖ Committed general fund balance equaled \$2,080,000. This amount was committed as follows:
  - ❖ PSERS Retirement \$400,000
  - ❖ Technology Replacement \$230,000
  - ❖ Curriculum Enhancement \$200,000
  - ❖ Post-Employment Benefits \$400,000
  - ❖ Debt Service \$850,000

**Shanksville-Stonycreek School District**  
**Management's Discussion and Analysis (MD&A)**

- ❖ Capital Projects fund balance equaled \$30,655
- ❖ Debt Service fund balance equaled \$65
- ❖ Total general fund revenues exceeded budget by \$560,758
- ❖ Total general fund expenses were \$720,797 under budget
- ❖ The District's proprietary fund/business-type activity (cafeteria) had an increase in net position of \$9,115

**Long Term Issues and Commitments**

- ❖ Long Term Debt: Outstanding bond issues as of June 30, 2016 include the Series of 2014, Series of 2012, and the Series of 2011 with a combined total outstanding principal balance of \$2,820,000.
  - ❖ Long Term Debt also consists of the District's estimated share of the refinanced Series of 2004 area vocational-technical school's general obligation bond. The District's share of the balance outstanding at June 30, 2016 is \$324,991.
  - ❖ The District also has a new loan with a local financial institution for the purchase of a truck, with payments that extend through September 2019. The balance outstanding at June 30, 2016 is \$24,891.

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements and the required supplementary information. Management's discussion and analysis is intended to serve as an introduction to the District's basic financial statements.

The District's basic financial statements include two types of statements, which present different views of the District. The first type of statements are the **District-wide Financial Statements** that provide both short-term and long-term information about the District's overall financial status on a full accrual basis of accounting. The remaining statements are **Fund Financial Statements** that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide financial statements.

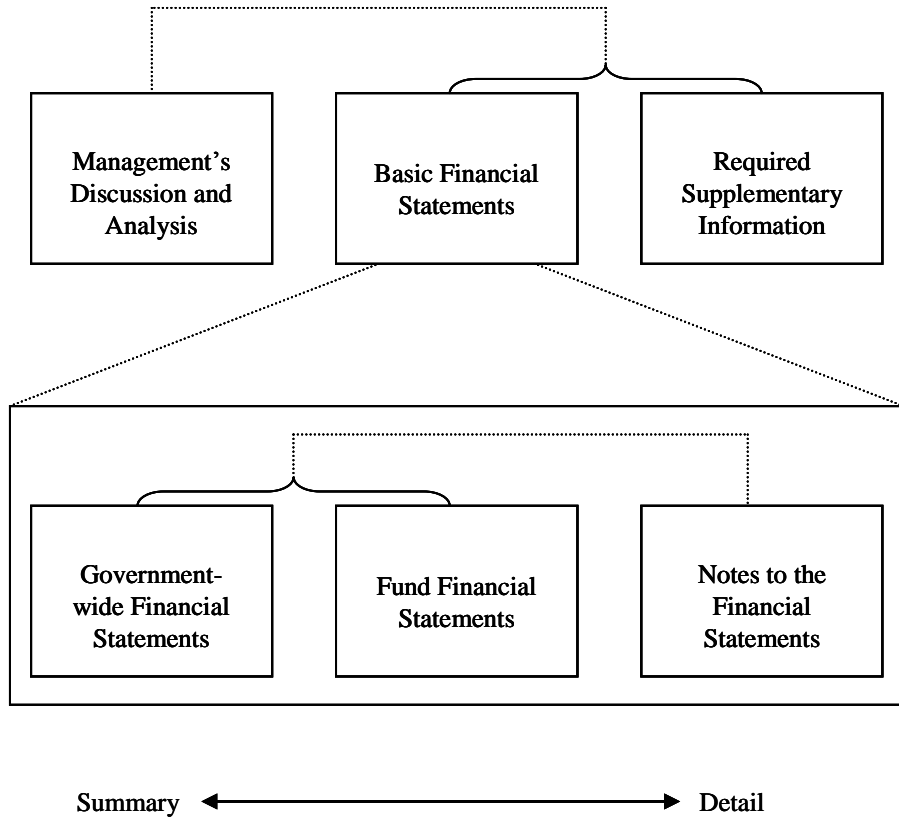
The Governmental fund statements indicate how the District financed its basic services such as regular and special education. Proprietary fund statements offer financial information about activities the District operates like a business, such as its Food Service Program. Fiduciary fund statements provide information about financial relationships where the School District acts solely as a trustee or agent for the benefit of others to whom the resources in question belong. For this School District, these are student activity funds.

The financial statements also include notes that explain some of the information in the statements, and provide more detailed data.

**Shanksville-Stonycreek School District**  
*Management's Discussion and Analysis (MD&A)*

**Figure A-1** shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1**  
**Required components of**  
**Shanksville-Stonycreek School District's**  
**Financial Report**





**Shanksville-Stonycreek School District**  
**Management's Discussion and Analysis (MD&A)**

**Figure A-2** summarizes the major features of the financial statements, including the portion of the District they cover and the types of information they contain.

**Figure A-2**  
**Major Features of Shanksville-Stonycreek School District's**  
**District-wide and Fund Financial Statements**

	<b>District-Wide Statements</b>	<b>Fund Financial Statements</b>		
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as education, administration and community services	Activities the District operate similar to private business – Food Services	Instances in which the District administers resources on behalf of someone else – student activity funds and private purpose trust funds
Required financial statements	Statement of net position Statement of activities	Balance Sheet Statement of revenues, expenditures, and changes in fund balance	Statement of net position Statement of revenues, expenses and changes in net position Statement of cash flows	Statement of fiduciary net position Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow-outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

**Shanksville-Stonycreek School District**  
**Management's Discussion and Analysis (MD&A)**

**District-Wide Financial Statements**

The District-wide financial statements are designed to provide the reader of the District's Annual Financial Report with a broad overview of the financial activities in a manner similar to a private sector business. The District-wide financial statements include the Statement of Net Position and the Statement of Activities.

The *Statement of Net Position* includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when cash is received or paid.

The *Statement of Activities* reports the change in net position. Net position – the difference between the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources – is one way of measuring the District's financial health or position. Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the District's overall health one must also consider additional factors such as changes in enrollment, increases (decreases) to the District's long-term debt, changes in the District's property tax base, changes in the State's funding of educational costs, changes in the economy, and the condition of or need for improvements or expansion to existing school facilities.

In the District-wide financial statements, the District's activities are divided into two categories as follows:

- **Governmental Activities:** Most of the District's basic services are included here, such as regular and special education, maintenance and operation of plant services, transportation services and administrative services. Property taxes, along with state formula aid, finance most of these activities. Fixed assets and related debt are also supported by taxes and intergovernmental activities.
- **Business-type Activities:** The District charges fees to cover the cost of certain services such as its food service program.

**Fund Financial Statements**

The fund financial statements provide detailed information about the School District's operations. The School District is required to provide detailed information for its "major" funds. Funds are accounting components the District uses to keep track of specific sources of funding and spending on particular programs.

The District has three types of funds as follows:

**Governmental Funds** are used to account for essentially the same functions reported as governmental activities in the District-wide financial statements. Most of the District's basic services are included in the governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted into cash inflows and outflows and (2) balances left at year-end that are available for spending. Therefore, the governmental funds statements provide a short-term view of the School's operations. They are reported using an accounting method called modified accrual which measures amounts using only cash and other short-term assets and liabilities (receivables and payables) that will soon be converted to cash or will soon be paid with cash. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The District's governmental funds are the General Fund, the Capital Projects Fund, and the Debt Service Fund.

Because the focus of fund financial statements is narrower than that of the District-wide statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the District-wide Statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Reconciliations for both the Governmental Fund Balance Sheet to Statement of Net Position District-wide and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities are provided to facilitate this comparison between governmental funds and governmental activities.

**Shanksville-Stonycreek School District**  
*Management's Discussion and Analysis (MD&A)*

**Proprietary Funds** are comprised of the services for which the District charges a fee. Proprietary funds are reported on a full accrual basis of accounting in both the fund financial statements and the District-wide financial statements. A district's *Enterprise Funds* (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, its Food Service Fund.

**Fiduciary Funds** are the assets that the District serves as the trustee of, such as the student activity funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

**Financial Analysis of the District as a Whole**

The District's financial position is a result of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

**Shanksville-Stonycreek School District**  
**Management's Discussion and Analysis (MD&A)**

Figure A-3 summarizes the assets, liabilities, and net position of the District at June 30, 2016.

**Figure A-3**  
**Net Position as of June 30, 2016 - (District-Wide)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total School District</u>		<u>Total % Change 2015-16</u>
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	
<b>Assets</b>							
Current Assets	\$ 4,134,987	\$ 4,126,835	\$ 37,567	\$ 17,091	\$ 4,172,554	\$ 4,143,926	
Capital Assets	4,423,336	4,691,253	3,638	6,758	4,426,974	4,698,011	
<b>Total Assets</b>	<b>\$ 8,558,323</b>	<b>\$ 8,818,088</b>	<b>\$ 41,205</b>	<b>\$ 23,849</b>	<b>\$ 8,599,528</b>	<b>\$ 8,841,937</b>	<b>-2.74%</b>
<b>Deferred Outflows of Resources</b>	<b>\$ 695,406</b>	<b>\$ 528,155</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 695,406</b>	<b>\$ 528,155</b>	<b>31.67%</b>
<b>Liabilities</b>							
Current Liabilities	\$ 1,325,948	\$ 1,428,364	\$ 21,163	\$ 12,502	\$ 1,347,111	\$ 1,440,866	
Long-Term Liabilities	11,243,034	11,240,431	2,874	3,294	11,245,908	11,243,725	
<b>Total Liabilities</b>	<b>\$ 12,568,982</b>	<b>\$ 12,668,795</b>	<b>\$ 24,037</b>	<b>\$ 15,796</b>	<b>\$ 12,593,019</b>	<b>\$ 12,684,591</b>	<b>-0.72%</b>
<b>Deferred Inflows of Resources</b>	<b>\$ 120,000</b>	<b>\$ 555,000</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 120,000</b>	<b>\$ 555,000</b>	<b>-78.38%</b>
<b>Net Position</b>							
Invested in Capital Assets, net of Related Debt	\$ 1,574,639	\$ 1,192,508	\$ 3,638	\$ 6,758	\$ 1,578,277	\$ 1,199,266	
Restricted	30,720	70,359	0	0	30,720	70,359	
Unrestricted	(5,040,612)	(5,140,419)	13,530	1,295	(5,027,082)	(5,139,124)	
<b>Total Net Position</b>	<b>\$ (3,435,253)</b>	<b>\$ (3,877,552)</b>	<b>\$ 17,168</b>	<b>\$ 8,053</b>	<b>\$ (3,418,085)</b>	<b>\$ (3,869,499)</b>	<b>11.67%</b>

Current assets are largely comprised of cash and cash equivalents which represent approximately \$3.0 million at June 30, 2016. Capital assets represent land, buildings and equipment less accumulated depreciation. Current liabilities are comprised primarily of accrued salaries and wages, payroll deductions and withholdings, and the current portion of long-term liabilities, representing an approximate total of \$1,250,000 at June 30, 2016. The financial statements reflect deferred inflows and outflows of resources relating to the pension plan as a result of GASB 68.

The decrease in total liabilities and deferred inflows of resources, combined with the increase in deferred outflows of resources, offset by the decrease in total assets resulted in an increase in net position of approximately \$450,000 in fiscal year 2016.

**Shanksville-Stonycreek School District**  
**Management's Discussion and Analysis (MD&A)**

**Figure A-4** summarizes the revenues, expenses, and changes in net position of the District for the year ended June 30, 2016.

**Figure A-4**  
**Changes in Government-wide Net Position**  
**For the Year Ended June 30, 2016**

	Governmental Activities		Business-type Activities		Total School District		Total % Change 2015-16
	2016	2015	2016	2015	2016	2015	
<b>Revenues:</b>							
Program Revenues:							
Charges for Services	\$ 118,105	\$ 63,804	\$ 96,928	\$ 100,821	\$ 215,033	\$ 164,625	
Operating Grants and Contributions	1,033,270	916,502	83,902	74,940	1,117,172	991,442	
Capital Grants and Contributions	112,631	26,687	0	0	112,631	26,687	
<b>Total Program Revenues</b>	<u>1,264,006</u>	<u>1,006,993</u>	<u>180,830</u>	<u>175,761</u>	<u>1,444,836</u>	<u>1,182,754</u>	22.16%
General Revenue:							
Property and Other Taxes Levied	3,783,554	3,800,136	0	0	3,783,554	3,800,136	
Grants, subsidies, contributions	1,684,238	1,647,349	0	0	1,684,238	1,647,349	
Investment Earnings	8,272	5,129	23	3	8,295	5,132	
Miscellaneous Income	1,623	3,246	0	0	1,623	3,246	
Transfers	(87,097)	(65,975)	87,097	65,975	0	0	
Gain on disposition of assets	8,750	0	0	0	8,750	0	
<b>Total General Revenues</b>	<u>5,399,340</u>	<u>5,389,885</u>	<u>87,120</u>	<u>65,978</u>	<u>5,486,460</u>	<u>5,455,863</u>	0.56%
<b>Expenses:</b>							
Instruction	3,788,178	3,818,174	0	0	3,788,178	3,818,174	
Instructional Student Support	683,649	584,142	0	0	683,649	584,142	
Admin and Financial Support Services	787,523	850,423	0	0	787,523	850,423	
Operating and Maintenance							
of Plant Services	499,697	530,633	0	0	499,697	530,633	
Pupil Transportation	256,397	248,990	0	0	256,397	248,990	
Student Activities	127,307	131,251	0	0	127,307	131,251	
Interest on Long-term Debt	78,296	85,908	0	0	78,296	85,908	
Food Service	0	0	258,835	251,372	258,835	251,372	
<b>Total Expenses</b>	<u>6,221,047</u>	<u>6,249,521</u>	<u>258,835</u>	<u>251,372</u>	<u>6,479,882</u>	<u>6,500,893</u>	-0.32%
Increase (Decrease) in Net Position	<u>\$ 442,299</u>	<u>\$ 147,357</u>	<u>\$ 9,115</u>	<u>\$ (9,633)</u>	<u>\$ 451,414</u>	<u>\$ 137,724</u>	

**Shanksville-Stonycreek School District**  
**Management's Discussion and Analysis (MD&A)**

The School District experienced an overall increase in net position of \$451,414 for fiscal year 2016, with an increase in total revenues offset by a slight decrease in expenditures compared to the prior year.

The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues and unrestricted state entitlements.

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2016	2016	2015	2015
<b>Program Expenses</b>				
Governmental Activities:				
Instruction	\$ 3,788,178	\$ 2,756,999	\$ 3,818,174	\$ 2,933,658
Instructional student support	683,649	683,649	584,142	584,142
Administration	787,523	775,505	850,423	850,423
Maintenance	499,697	362,179	530,633	503,946
Pupil transportation	256,397	179,697	248,990	161,438
Student activities	127,307	120,716	131,251	123,013
Interest and fiscal charges	78,296	78,296	85,908	85,908
Net program expenses	<u>\$ 6,221,047</u>	4,957,041	<u>\$ 6,249,521</u>	5,242,528
Less: Unrestricted state entitlements		(1,684,238)		(1,647,349)
Total governmental activities		<u>\$ 3,272,803</u>		<u>\$ 3,595,179</u>
Business-type activities:				
Food service	<u>\$ 258,835</u>	<u>\$ 78,005</u>	<u>\$ 251,372</u>	<u>\$ 75,611</u>

**Governmental Activities**

Total net cost of service decreased approximately \$320,000 (9.0%) from 2014-2015 to 2015-2016.

**Business-Type Activities**

Food service management—the cafeteria continues to rely on subsidy from the general fund for operations. The dependency has increased greatly over the past couple of years with the increased menu restrictions placed on the school district by the federal government.

**Shanksville-Stonycreek School District**  
**Management's Discussion and Analysis (MD&A)**

**Figure A-5** breaks out expenditures by function per the fund financial statements (general fund) with a comparison to the prior year as well as current year budget variances.

**Figure A-5**  
**Expenditures by Function - Budget vs. Actual**

<u>Function</u>	<u>Description</u>	<u>Actual 2015-16 Expenses</u>	<u>Actual 2014-15 Expenses</u>	<u>Increase/ (Decrease) From P/Y</u>	<u>2015-16 Budget</u>	<u>(Over)/ Under Budget</u>
1100	Regular Educational Programs	\$2,601,969	\$ 2,543,159	\$ 58,810	\$ 2,954,915	\$ 352,946
1200	Special Programs	464,640	492,204	(27,564)	541,500	76,860
1300	Vocational Education	325,603	321,238	4,365	300,000	(25,603)
1400	Other Instructional Programs	5,885	2,482	3,403	15,250	9,365
1700	Community/junior college programs	5,975	5,750	225	6,000	25
1800	Pre-kindergarten	88,933	77,312	11,621	98,800	9,867
2100	Support Services - Pupil	169,491	147,834	21,657	182,480	12,989
2200	Support Services - Instructional Staff	438,710	338,408	100,302	402,600	(36,110)
2300	Support Services - Administration	469,887	523,803	(53,916)	604,575	134,688
2400	Support Services - Pupil Health	98,619	93,772	4,847	100,600	1,981
2500	Support Services - Business	161,458	144,594	16,864	190,700	29,242
2600	Operation and Maintenance	491,210	514,517	(23,307)	547,000	55,790
2700	Student Transportation Services	241,403	234,700	6,703	268,200	26,797
2900	Other Support Services	3,009	3,448	(439)	5,000	1,991
3200	Student Activities	118,347	116,590	1,757	159,700	41,353
3300	Community Services	1,766	1,649	117	1,800	34
3400	Scholarships and Awards	3,000	3,300	(300)	4,000	1,000
4000	Capital Outlay	0	0	0	20,000	20,000
5100	Debt Service	49,701	44,648	5,053	51,000	1,299
5130	Refund of Prior Year Receipts	0	629	(629)	0	0
5200	Fund Transfers	833,717	803,320	30,397	790,000	(43,717)
5900	Budgetary Reserve	0	0	0	50,000	50,000
	Total Expenditures	6,573,323	6,413,357	159,966	7,294,120	720,797
	Revenues/Other financing sources	6,839,376	6,390,651	448,725	6,278,618	560,758
	Net Change	<u>\$ 266,053</u>	<u>\$ (22,706)</u>		<u>\$ (1,015,502)</u>	

**Shanksville-Stonycreek School District**  
**Management's Discussion and Analysis (MD&A)**

**General Fund Budgetary Highlights**

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that total expenditures do not exceed total appropriations. A schedule showing the School District's detail budget amounts compared with amounts actually paid and received is provided in Figure A-5. Significant variances in line items are discussed below.

- A. Total General Fund Revenues exceeded budget by \$560,758.
  1. Budgetary estimate differed significantly in the following areas:
    - a. Local revenues:
      - i. Local revenues in total represent almost all of the revenue surplus.
      - ii. Real Estate Taxes – Collections yielded almost \$140,000 over the budgeted amount.
      - iii. PILT (Payment In Lieu of Taxes) - \$4,713 reimbursement from the federal government via the county government was received and not budgeted for. This amount is not expected to continue in future years.
      - iv. Earned Income Taxes - \$28,883 is due to the fact that the earned income of the School District residents exceeded initial estimates. The budget figure for this particular revenue is conservatively budgeted for with the steady decrease of employment opportunities in the immediate area.
      - v. IDIEA Reimbursements – Almost \$9,900 was from an increase in special education reimbursement through the IDIEA program.
      - vi. Revenues from Local Governments – A \$20,566 surplus here was due to more time being spent at the contracted school district by the employee whose services are also contracted out with a neighboring school district.
      - vii. Services for other LEAs – This budgeted item increased by \$60,000 with a newly created curriculum director position that was also contracted out to a partnering school district. This represents their share of the salary and benefits for this new position.
      - viii. MSP Ramp Grant – This unbudgeted grant added \$10,000 to the budget for Math and Science professional development services in its final year of the grant program.
      - ix. Title I-A – We had an increase in funding over \$12,000 in our Title I-A program from the previous year. This was an unexpected, but welcomed one year increase.
- B. Total General Fund Expenditures, excluding transfers and budgetary reserve, were under budget by \$714,514.
  1. The reduction of General Fund Expenditures, along with the increase in revenues, created an increase of \$266,053 to the fund balance.
  2. The budget variances in figure A-5 were due to the District not doing any year-end budgetary transfers to balance the overages with the savings.
  3. Benefits were under budget by \$382,648.
    - a. For retirement, the District budgets at a higher rate to help build a balance for future years when the rates are expected to spike.
    - b. The medical insurance premiums were reduced lower than what was originally budgeted. The initial increase used in budgeting ended up being higher than the actual increase incurred for the new year.



**Shanksville-Stonycreek School District**  
**Management's Discussion and Analysis (MD&A)**

4. All services were under budget by \$245,486.
  - a. The District utilized less professional, maintenance, and other contract services creating a savings. This was a result of doing some of the work internally along with cost reductions.
  - b. The District saw a steep reduction in the number of cyber charter students with graduations and transition to the District's own online program. This reduction is almost half of the savings.
5. Supplies and equipment were under budget by \$95,419.
  - a. The District continues to limit the amount of supplies that are kept on hand since the District is receiving discount pricing throughout the year. This reduces the amount of overstock that is purchased and kept onsite.
  - b. Less new and replacement equipment was purchased due to the district effectively utilizing the equipment already on hand.
6. Dues and Fees were under budget by \$82,040.
  - a. The District eliminated some subscriptions to electronic services that were being underutilized and other costs that were no longer beneficial to the district creating the savings.

**Revenue – Fund Financials – General Fund**

The revenue for the school district comes from local, state, and federal sources. During the 2015-16 fiscal year, \$4,083,847 local funds (60%), \$2,619,054 state funds (38%) and \$127,725 federal funds (2%) were recognized by the general fund.

Local funding is primarily from real estate taxes (\$3,338,416) and earned income taxes (\$258,884). Delinquent taxes in the amount of \$252,741 were collected during the fiscal year.

Basic Education Subsidy of \$1,511,795 makes up 58% of the total grants, subsidies and contributions received from the state.

Other significant receipts for the state include Special Education, \$231,844; Transportation Subsidy, \$76,700; State Property Tax Reduction Allocation, \$172,443; Rental and Sinking Fund Payments, \$112,631; and Revenue for Social Security and Retirement Payments, \$439,441.

**Technology**

The importance of technology is always a part of the District's philosophy and planning. During fiscal year 2016, the District continued upgrading the Classroom For the Future laptops with less expensive Google Chromebooks. We used unexpected Title I-A dollars to increase the technology used in the primary grades and added a writing software package to all elementary grade levels. We are also starting to replace our more expensive smart board/projector combinations with smart TVs and Surface tablets creating a mobile learning experience for the teachers allowing them to move throughout the classroom rather than staying stationary at the front of the class.

**Shanksville-Stonycreek School District**  
**Management's Discussion and Analysis (MD&A)**

**Capital Assets**

**Figure A-6** illustrates changes in capital assets, net of depreciation, by asset type.

**Figure A-6**  
**Capital Assets Net of Depreciation**

	Governmental		Business-Type		Total		% Change 2015-16
	Activities		Activities		School District		
	2016	2015	2016	2015	2016	2015	
Land	\$ 24,792	\$ 24,792	\$ 0	\$ 0	\$ 24,792	\$ 24,792	
Site improvements	155,055	189,403	0	0	155,055	189,403	
Buildings	4,026,657	4,280,398	0	0	4,026,657	4,280,398	
Equipment and furniture	216,832	196,660	3,638	6,758	220,470	203,418	
<b>Total</b>	<b>\$ 4,423,336</b>	<b>\$ 4,691,253</b>	<b>\$ 3,638</b>	<b>\$ 6,758</b>	<b>\$ 4,426,974</b>	<b>\$ 4,698,011</b>	<b>-5.77%</b>

While capital additions for the District in 2015-16 totaled \$89,080, depreciation expense totaled \$360,117 resulting in a decrease in net capital assets over prior year.

**Long-Term Debt**

**Figure A-7** summarizes the change in long-term debt for the year ended June 30, 2016 compared to the year ended June 30, 2015.

**Figure A-7**  
**Outstanding Long-Term Debt**

	Total		Total Percentage Change
	School District		
	2016	2015	
General Obligation Bonds, Series 2014	\$ 1,215,000	\$ 1,610,000	-24.53%
General Obligation Bonds, Series 2012	540,000	800,000	-32.50%
General Obligation Bonds, Series 2011	1,065,000	1,080,000	-1.39%
Technology Debt	324,991	356,982	-8.96%
Truck Loan	24,891	0	100.00%
<b>Total</b>	<b>\$ 3,169,882</b>	<b>\$ 3,846,982</b>	<b>-17.60%</b>

**Currently Known Facts, Decisions or Conditions**

The School District does not expect significant growth in the near future given the residential nature of the local economy. The School District held the line on property taxes for 2015-2016 and for a second year in 2016-2017.

We did add a Curriculum Director in 2015-2016 and continued the position into 2016-2017 with a Shared Services Agreement with Northern Cambria School District to share the costs of the position. Our Special Services Coordinator did leave on June 30, 2016 eliminating that position and Shared Services Agreement with Shade-Central City School District.

With declining enrollment and teacher retirements, we have started the 2016-2017 school year with one less teacher in the elementary school. The District continues to monitor the staff size in comparison to the student population in order to provide the best education possible while remaining fiscally responsible.

**Shanksville-Stonycreek School District**  
***Management's Discussion and Analysis (MD&A)***

As state funding continues to decrease or be completely eliminated, the School District is evaluating the programs to determine whether or not to continue the program with local dollars. Programs like Dual Enrollment and Intervention services are being maintained at some level by local dollars since they have proven to be a benefit to the academic process in the District.

The District continues to get closer each year to being debt free. The bonds that were put in place for the 2000-2001 renovation will start being paid off 2017-2018. The District will make their final bond payment on these bond issues in 2020-2021.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the School District's finances. If you have any questions about this report or need additional information, contact the Business Office, Shanksville-Stonycreek School District.

## **BASIC FINANCIAL STATEMENTS**

**Shanksville-Stonycreek School District**  
**Statement of Net Position**  
**June 30, 2016**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Current assets:			
Cash and equivalents	\$ 2,976,444	\$ 22,618	\$ 2,999,062
Investments	249,747	0	249,747
Taxes receivable	539,650	0	539,650
Intergovernmental receivables	351,977	9,902	361,879
Inventories	15,253	5,047	20,300
Other receivables	1,916	0	1,916
Total current assets	4,134,987	37,567	4,172,554
Noncurrent assets:			
Land	24,792	0	24,792
Depreciable capital assets, net	4,398,544	3,638	4,402,182
Total noncurrent assets	4,423,336	3,638	4,426,974
Total assets	8,558,323	41,205	8,599,528
<b>Deferred Outflows of Resources</b>			
Defined benefit pension plan:			
Change in proportionate share	25,000	0	25,000
Contributions subsequent to measurement date	670,406	0	670,406
Total deferred outflows of resources	695,406	0	695,406
Total assets and deferred outflows of resources	\$ 9,253,729	\$ 41,205	\$ 9,294,934

See accompanying notes to the basic financial statements.

**Shanksville-Stonycreek School District**  
**Statement of Net Position**  
**June 30, 2016**

	Governmental Activities	Business-Type Activities	Total
<b>Liabilities</b>			
Current liabilities:			
Internal balances	\$ (13,875)	\$ 13,875	\$ 0
Due to other governments	7,900	0	7,900
Accounts payable	33,994	1,070	35,064
Current portion of compensated absences	21,477	371	21,848
Accrued salaries and wages	264,335	0	264,335
Accrued interest payable	19,916	0	19,916
Payroll deductions and withholdings	272,823	0	272,823
Unearned revenue	0	5,847	5,847
Current portion of long-term liabilities	719,378	0	719,378
Total current liabilities	1,325,948	21,163	1,347,111
Noncurrent liabilities:			
Bonds payable, net	2,143,806	0	2,143,806
Long-term portion of compensated absences	125,916	2,874	128,790
Other long-term financing	310,504	0	310,504
Other post-employment benefits (OPEB)	259,808	0	259,808
Net pension liability	8,403,000	0	8,403,000
Total noncurrent liabilities	11,243,034	2,874	11,245,908
Total liabilities	12,568,982	24,037	12,593,019
<b>Deferred Inflows of Resources</b>			
Defined benefit pension plan:			
Difference between projected and actual investment earnings	120,000	0	120,000
Total deferred inflows of resources	120,000	0	120,000
<b>Net Position</b>			
Invested in capital assets, net of debt	1,574,639	3,638	1,578,277
Restricted for:			
Debt service	65	0	65
Capital projects	30,655	0	30,655
Unrestricted	(5,040,612)	13,530	(5,027,082)
Total net position	(3,435,253)	17,168	(3,418,085)
Total liabilities, deferred inflows of resources, and net position	\$ 9,253,729	\$ 41,205	\$ 9,294,934

See accompanying notes to the basic financial statements.

**Shanksville-Stonycreek School District**  
**Statement of Activities**  
**For the Year Ended June 30, 2016**

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
Instruction	\$ 3,788,178	\$ 111,514	\$ 919,665	\$ 0	\$ (2,756,999)	\$ 0	\$ (2,756,999)
Instructional student support	683,649	0	0	0	(683,649)	0	(683,649)
Administration and financial support	787,523	0	12,018	0	(775,505)	0	(775,505)
Operations and maintenance of plant	499,697	0	24,887	112,631	(362,179)	0	(362,179)
Pupil transportation	256,397	0	76,700	0	(179,697)	0	(179,697)
Student activities	127,307	6,591	0	0	(120,716)	0	(120,716)
Interest on long-term debt	78,296	0	0	0	(78,296)	0	(78,296)
Total governmental activities	6,221,047	118,105	1,033,270	112,631	(4,957,041)	0	(4,957,041)
<b>Business-Type Activities:</b>							
Food service	258,835	96,928	83,902	0	0	(78,005)	(78,005)
Total primary government	<u>\$ 6,479,882</u>	<u>\$ 215,033</u>	<u>\$ 1,117,172</u>	<u>\$ 112,631</u>	<u>(4,957,041)</u>	<u>(78,005)</u>	<u>(5,035,046)</u>
<b>General Revenues:</b>							
Taxes levied					3,783,554	0	3,783,554
Grants, subsidies and contributions, not restricted					1,684,238	0	1,684,238
Investment earnings					8,272	23	8,295
Miscellaneous					1,623	0	1,623
Transfers between governmental, business-type activities					(87,097)	87,097	0
Total general revenues					<u>5,390,590</u>	<u>87,120</u>	<u>5,477,710</u>
<b>Special Items:</b>							
Gain on disposition of assets					8,750	0	8,750
Total special items					<u>8,750</u>	<u>0</u>	<u>8,750</u>
Change in net position					442,299	9,115	451,414
Net position, beginning of year					<u>(3,877,552)</u>	<u>8,053</u>	<u>(3,869,499)</u>
Net position, end of year					<u>\$ (3,435,253)</u>	<u>\$ 17,168</u>	<u>\$ (3,418,085)</u>

See accompanying notes to the basic financial statements.

**Shanksville-Stonycreek School District  
Balance Sheet  
Governmental Funds  
June 30, 2016**

	General Fund	Major Fund Debt Service Fund	Non-Major Fund Capital Projects Fund	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 2,945,724	\$ 65	\$ 30,655	\$ 2,976,444
Investments	249,747	0	0	249,747
Taxes receivable	539,650	0	0	539,650
Due from other funds	13,875	0	0	13,875
Due from other governments	351,977	0	0	351,977
Inventories	15,253	0	0	15,253
Other receivables	<u>1,916</u>	<u>0</u>	<u>0</u>	<u>1,916</u>
Total assets	4,118,142	65	30,655	4,148,862
<b>Deferred Outflows of Resources</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total assets and deferred outflows of resources	<u>\$ 4,118,142</u>	<u>\$ 65</u>	<u>\$ 30,655</u>	<u>\$ 4,148,862</u>
<b>Liabilities</b>				
Due to other governments	\$ 7,900	\$ 0	\$ 0	\$ 7,900
Accounts payable	33,994	0	0	33,994
Accrued salaries and benefits	264,335	0	0	264,335
Payroll deductions and withholding	<u>272,823</u>	<u>0</u>	<u>0</u>	<u>272,823</u>
Total liabilities	<u>579,052</u>	<u>0</u>	<u>0</u>	<u>579,052</u>
<b>Deferred Inflows of Resources</b>				
Delinquent taxes receivable	<u>499,121</u>	<u>0</u>	<u>0</u>	<u>499,121</u>
Total deferred inflows of resources	<u>499,121</u>	<u>0</u>	<u>0</u>	<u>499,121</u>
<b>Fund Balance</b>				
Nonspendable	15,253	0	0	15,253
Restricted	0	65	30,655	30,720
Committed	2,080,000	0	0	2,080,000
Unassigned	<u>944,716</u>	<u>0</u>	<u>0</u>	<u>944,716</u>
Total fund balance	<u>3,039,969</u>	<u>65</u>	<u>30,655</u>	<u>3,070,689</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 4,118,142</u>	<u>\$ 65</u>	<u>\$ 30,655</u>	<u>\$ 4,148,862</u>

See accompanying notes to the basic financial statements.



**Shanksville-Stonycreek School District**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**To the Statement of Net Position**  
**June 30, 2016**

**Total fund balance – governmental funds** \$3,070,689

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$11,070,231 and the accumulated depreciation is \$6,646,895. 4,423,336

Property taxes receivable will be collected in the future, but are not available soon enough to pay for the current period's expenditures and therefore are recorded as deferred inflows of resources in the funds. 499,121

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bonds payable	\$(2,820,000)	
Unamortized bond discounts	20,592	
Unamortized bond premiums	(24,398)	
Accrued interest payable	(19,916)	
Compensated absences	(147,393)	
Technology Center debt	(324,991)	
Truck loan	(24,891)	
OPEB obligation	(259,808)	
Net pension liability	<u>(8,403,000)</u>	(12,003,805)

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows related to pensions	\$ 695,406	
Deferred inflows related to pensions	<u>(120,000)</u>	<u>575,406</u>

**Net position of governmental activities** \$ (3,435,253)

See accompanying notes to the basic financial statements.

**Shanksville-Stonycreek School District**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2016**

	General Fund	Major Fund Debt Service Fund	Non-Major Fund Capital Projects Fund	Total Governmental Funds
<b>Revenues</b>				
Local sources	\$ 4,083,847	\$ 7	\$ 111	\$ 4,083,965
State sources	2,619,054	0	0	2,619,054
Federal sources	<u>127,725</u>	<u>0</u>	<u>0</u>	<u>127,725</u>
Total revenues	<u>6,830,626</u>	<u>7</u>	<u>111</u>	<u>6,830,744</u>
<b>Expenditures</b>				
Instruction	3,493,005	0	0	3,493,005
Support services	2,073,787	1,216	47,401	2,122,404
Non-instructional services	123,113	0	0	123,113
Debt service (principal and interest)	<u>49,701</u>	<u>737,760</u>	<u>0</u>	<u>787,461</u>
Total expenditures	<u>5,739,606</u>	<u>738,976</u>	<u>47,401</u>	<u>6,525,983</u>
Excess of revenues over (under) expenditures	<u>1,091,020</u>	<u>(738,969)</u>	<u>(47,290)</u>	<u>304,761</u>
<b>Other financing sources (uses)</b>				
Proceeds from fixed asset disposition	8,750	0	0	8,750
Interfund transfers	<u>(833,717)</u>	<u>738,976</u>	<u>7,644</u>	<u>(87,097)</u>
Total other financing sources (uses)	<u>(824,967)</u>	<u>738,976</u>	<u>7,644</u>	<u>(78,347)</u>
Net change in fund balance	266,053	7	(39,646)	226,414
Fund balance, beginning of year	<u>2,773,916</u>	<u>58</u>	<u>70,301</u>	<u>2,844,275</u>
Fund balance, end of year	<u>\$ 3,039,969</u>	<u>\$ 65</u>	<u>\$ 30,655</u>	<u>\$ 3,070,689</u>

See accompanying notes to the basic financial statements.

**Shanksville-Stonycreek School District  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances to the Statement of Activities  
For the Year Ended June 30, 2016**

**Total net change in fund balance – governmental funds** \$ 226,414

**Amounts reported for governmental activities in the statement of activities are different because:**

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

Capital outlays	\$ 89,080	
Depreciation expense	<u>(356,997)</u>	(267,917)

Because some property taxes will not be collected for several months after the District’s year end, they are not considered as “available” revenues in the governmental funds. Deferred inflows of resources from tax revenues decreased by this amount this year. (89,051)

Interest on long-term debt is recognized in the governmental funds when it is due. In the statement of activities, expense is recognized as interest accrues. Accrued interest expense decreased by this amount this year. 1,786

In the governmental funds, compensated absences are measured by the amounts used. The statement of activities measures by the amount earned. The liability for compensated absences decreased by this amount this year. 5,480

Post-employment benefits are recognized as expenditures in the governmental funds when they are paid. In the statement of activities, post-employment benefits are recognized as expenses when incurred. The liability for OPEB increased by this amount this year. (73,703)

Governmental funds report district pension contributions as expenditures in the year required to be made. However, pension expense, which is the change in net pension liability, adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the statement of activities.

District pension contributions	\$ 670,406	
Pension expense	<u>(713,155)</u>	(42,749)

**Shanksville-Stonycreek School District  
 Reconciliation of the Statement of Revenues, Expenditures and  
 Changes in Fund Balances to the Statement of Activities  
 For the Year Ended June 30, 2016**

The principal payments on long-term debt consume current financial resources of governmental funds. However, they reduce long-term liabilities on the statement of net position. Further, the effect of bond discounts and premiums are reported in the funds in the year of issue but are deferred and amortized in the statement of activities. The effect is shown below:

Bond principal payments	\$670,000	
Technology Center principal payments	31,991	
Amortization of discounts	(8,984)	
Accretion of bond premium	13,923	
Vehicle loan proceeds	(30,279)	
Vehicle loan payments	<u>5,388</u>	<u>682,039</u>
<b>Change in net position of governmental activities</b>		<b><u>\$ 442,299</u></b>

See accompanying notes to the basic financial statements.

**Shanksville-Stonycreek School District**  
**Statement of Net Position**  
**Proprietary Fund**  
**June 30, 2016**

	<u>Food Service</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 22,618
Due from other governments	9,902
Inventory	<u>5,047</u>
Total current assets	<u>37,567</u>
Noncurrent assets:	
Machinery and equipment, net	<u>3,638</u>
Total noncurrent assets	<u>3,638</u>
Total assets	<u>41,205</u>
<b>Deferred Outflows of Resources</b>	
Total assets and deferred outflows of resources	<u>0</u>
<b>Liabilities</b>	
Current liabilities:	
Due to other funds	\$ 13,875
Accounts payable	1,070
Unearned revenue	5,847
Current portion of compensated absences	<u>371</u>
Total current liabilities	<u>21,163</u>
Noncurrent liabilities:	
Long-term portion of compensated absences	<u>2,874</u>
Total noncurrent liabilities	<u>2,874</u>
Total liabilities	<u>24,037</u>
<b>Deferred Inflows of Resources</b>	
Total liabilities, deferred inflows of resources, and net position	<u>0</u>
<b>Net Position</b>	
Invested in capital assets	3,638
Unrestricted	<u>13,530</u>
Total net position	<u>17,168</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 41,205</u>

See accompanying notes to the basic financial statements.

**Shanksville-Stonycreek School District**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Fund**  
**For the Year Ended June 30, 2016**

	Food Service
<b>Operating revenues</b>	
Food service revenue	\$ 96,928
 Total operating revenues	 <u>96,928</u>
<b>Operating expenses</b>	
Salaries	67,561
Employee benefits	86,017
Purchased professional and technical services	3,600
Purchased property services	7,948
Supplies	90,439
Depreciation	3,120
Dues and fees	<u>150</u>
 Total operating expenses	 <u>258,835</u>
 Operating income (loss)	 <u>(161,907)</u>
<b>Nonoperating revenues (expenses)</b>	
Earnings on investments	23
State sources	5,105
Federal sources	<u>78,797</u>
 Total nonoperating revenues (expenses)	 <u>83,925</u>
 Income (loss) before transfers	 <u>(77,982)</u>
<b>Contributions and transfers</b>	
Transfers in (out)	<u>87,097</u>
 Change in net position	 9,115
 Total net position, beginning of year	 <u>8,053</u>
 Total net position, end of year	 <u>\$ 17,168</u>

See accompanying notes to the basic financial statements.

**Shanksville-Stonycreek School District**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Year Ended June 30, 2016**

	Food Service
<b>Cash flows from operating activities</b>	
Cash received from users	\$ 96,848
Cash payments to employees for services	(69,030)
Cash payments to suppliers for goods and services	<u>(189,215)</u>
Net cash provided by (used for) operating activities	<u>(161,397)</u>
<b>Cash flows from non-capital financing activities</b>	
State sources	5,105
Federal sources	79,372
Transfers in	<u>87,097</u>
Net cash provided by (used for) non-capital financing activities	<u>171,574</u>
<b>Cash flows from investing activities</b>	
Earnings on investments	<u>23</u>
Net cash provided by (used for) investing activities	<u>23</u>
Net increase (decrease) in cash and cash equivalents	10,200
Cash and cash equivalents, beginning of year	<u>12,418</u>
Cash and cash equivalents, end of year	<u><u>\$ 22,618</u></u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>	
Operating income (loss)	<u>\$ (161,907)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	3,120
(Increase) decrease in inventories	(374)
Increase (decrease) in accounts payable	(1,697)
Increase (decrease) in accrued salaries/benefits	(459)
Increase (decrease) in unearned revenue	<u>(80)</u>
Total adjustments	<u>510</u>
Net cash provided by (used for) operating activities	<u><u>\$ (161,397)</u></u>

See accompanying notes to the basic financial statements.

**Shanksville-Stonycreek School District  
Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2016**

	Agency Fund
<b>Assets</b>	
Cash and cash equivalents	\$ 50,996
Total assets	50,996
<b>Deferred Outflows of Resources</b>	0
Total assets and deferred outflows of resources	\$ 50,996
<b>Liabilities</b>	
Due to students	\$ 50,962
Other current liabilities	34
Total liabilities	50,996
<b>Deferred Inflows of Resources</b>	0
<b>Net Position</b>	0
Total liabilities, deferred inflows of resources, and net position	\$ 50,996

See accompanying notes to the basic financial statements.



**Shanksville-Stonycreek School District**  
**Notes to Financial Statements**  
**June 30, 2016**

**1. Description of School District and Reporting Entity**

The Shanksville-Stonycreek School District is a Local Education Agency of the third class, governed by a nine-member publicly elected board, located in Somerset County, Pennsylvania. The District provides educational services to approximately 500 students from Shanksville Borough, Indian Lake Borough and Stonycreek Township. The District's facility is contained within one building. The District also participates in a local area vocational/technical school with various other districts.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Shanksville-Stonycreek School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable or other organizations whose nature and significant relationship with the School District are such that exclusion would cause the School District's financial statements to be misleading. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (1) either the School District's ability to impose its will on the organization or (2) there is potential for the organization to provide a financial benefit to or impose a financial burden on the School District. The School District has no component units.

**2. Summary of Significant Accounting Policies**

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The more significant of these accounting policies are described below.

**A. Basis of Presentation**

The School District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

**Shanksville-Stonycreek School District**  
**Notes to Financial Statements**  
**June 30, 2016**

The statement of net position presents the financial condition of the governmental and business-type activities of the School District at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental and business-type 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 goods and services offered by the program, 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. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

Fund financial statements are also provided in the report for all governmental funds, proprietary funds, and the fiduciary funds of the School District. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund statements. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

**B. Fund Accounting**

The School District uses funds to maintain its financial record during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources, and liabilities and deferred inflows of resources, is reported as fund balance. The following are the School District's major governmental funds:

General Fund – The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – Accounts for resources accumulated to provide for payment of general long-term debt principal and interest.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

**Shanksville-Stonycreek School District**  
**Notes to Financial Statements**  
**June 30, 2016**

Proprietary Funds

Proprietary funds focus on the determination of net position, changes in net position and cash flows and are classified as either internal service or enterprise funds. Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the School District. There are no internal service funds. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods and services. The following is the School District's major enterprise fund:

Food Service Fund – This fund accounts for the financial transactions related to the food service operation of the School District.

Fiduciary Fund

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has no private purpose trust funds. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The School District's agency fund accounts for those student activity programs which have student participation in the activity and have students involved in the management of the program.

**C. Measurement Focus**

Government-wide Financial Statements

Government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the School District are included on the statement of net position.

Fund Financial Statements

Fund financial statements are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e. revenues and other financing sources) and uses (i.e. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide 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.

Like the government-wide statements, the proprietary fund is accounted for on a flow of economic resources measurement focus. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of 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.

**Shanksville-Stonycreek School District**  
**Notes to Financial Statements**  
**June 30, 2016**

Proprietary fund types distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Food Service fund are charges for sales and services. Operating expenses for proprietary funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary funds are reported using the economic resources measurement focus.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenue and deferred inflows and outflows of resources, and in the presentation of expenses versus expenditures. Unearned revenues are addressed in Note 2M, and deferred inflows/outflows of resources in Note 2N.

Revenues - Exchange and Non-Exchange 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. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 5). 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 when the resources are required to be used or the 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 non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: property taxes available as an advance, interest, tuition, grants, fees and rentals.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**Shanksville-Stonycreek School District**  
**Notes to Financial Statements**  
**June 30, 2016**

**E. Budgetary Data**

An operating budget is adopted each year for the General Fund on a modified accrual basis of accounting.

The Pennsylvania School Code dictates specific procedures relative to adoption of the School District's budget and reporting of its financial statements, specifically:

The School District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.

The School District is required to adopt a proposed budget at least thirty (30) days prior to adoption of the annual budget. The proposed budget shall be printed or otherwise made available for public inspection to all persons and shall be made available for duplication to any person, on request, at least twenty (20) days prior to the date set for the adoption of the budget. Final action shall not be taken on the proposed budget until after ten (10) days of public notice.

The Board of Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action. An affirmative vote of two-thirds of all members of the board is required. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2016.

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

Included in the General Fund budget are program budgets as prescribed by the State and Federal agencies funding the program. These budgets are approved on a program by program basis by the State or Federal funding agency.

An Enterprise fund budget is not adopted; however, a formal budget is prepared and approved by management and expenditures are controlled on the basis of this budget.

**F. Investment Valuation**

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The District's investments include long-term, non-negotiable certificates of deposit with a local financial institution. Similar to checking and savings accounts, non-negotiable certificates of deposit are not subject to fair value or the aforementioned fair value level disclosures.

**Shanksville-Stonycreek School District**  
**Notes to Financial Statements**  
**June 30, 2016**

Although included in cash and cash equivalents on the District's financial statements, the District also invests in pooled funds with the Pennsylvania Local Government Investment Trust (PLGIT) and the Pennsylvania School District Liquid Asset Fund (PSDLAF). These funds represent investments held in 2a7-like pools. Portfolio securities are valued at amortized cost, which approximates market value. PLGIT and PSDLAF portfolios act like money market mutual funds, in that their objective is to maintain a stable net asset value of \$1.00 per share. The District reports these funds at the pool's share price. These funds are further discussed in Note 3.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. Inventory**

On government-wide financial statements inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

Inventories in governmental funds are stated at cost by the first-in, first-out method and consist of supplies held for consumption. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as an expenditure when purchased; however, an estimated value of inventories (\$15,253) is reported as an asset in the General Fund. The inventories in the General Fund are equally offset by nonspendable fund balance which indicates they do not constitute "available spending resources" even though they are a component of net current assets.

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2016. The inventory consisted of government donated commodities which are valued at estimated fair market value, and purchased commodities and supplies, both valued at cost using first-in, first-out (FIFO) method. Any unused commodities donated by the federal government at June 30, 2016 are reported as unearned revenue.

**I. Capital Assets**

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets used by the proprietary fund are reported in both the business-type activities column on the government-wide statement of net position and in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of fifteen hundred (\$1,500) dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**Shanksville-Stonycreek School District**  
**Notes to Financial Statements**  
**June 30, 2016**

All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Site Improvements	15 - 20 years
Buildings and Improvements	20 - 50 years
Furniture and Equipment	3 - 20 years

**J. Original Issue Discounts and Premiums**

Bond premiums and discounts are reported as direct adjustments to the face amount of the bond and are deferred and amortized over the life of the bond using the straight-line method of amortization.

**K. Receivables and Payables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e. the current portion of interfund loans) or “advances to/from other funds” (i.e. the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” In governmental fund financial statements, advances between funds are offset by an amount reported as nonspendable fund balance to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are determined to be collectible, and no allowance has been established.

Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.

**L. Accrued Liabilities and Long-term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and notes are recognized as a liability on the fund financial statements when due.

**Shanksville-Stonycreek School District**  
**Notes to Financial Statements**  
**June 30, 2016**

**M. Unearned Revenues**

The District reports unearned revenue on its government-wide and fund financial statements. Unearned revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period (fund financial statements). Unearned revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures (fund financial statements and government-wide financial statements). In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the applicable financial statement and revenue is recognized.

**N. Deferred Outflows/Inflows of Resources**

Deferred Outflows of Resources

The District reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide statement of net position. The deferred outflows of resources reported in this year’s financial statements include a deferred outflow of resources for contributions made to the District’s cost-sharing multi-employer defined benefit pension plan between the measurement date of the net pension liability from the plan and the end of the District’s fiscal year. They further include a deferred amount arising from the change in the District’s proportionate share of the net pension liability, which is amortized to pension expense over a total of five years, including the current year. No deferred outflows of resources affect the fund financial statements in the current year. See further detail on deferred outflows of resources related to the pension plan at Note 10.

Deferred Inflows of Resources

The District’s statement of net position and its governmental fund balance sheet report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period(s). Deferred inflows of resources are reported on the District’s statement of net position for actual pension plan investment earnings in excess of the expected amounts included in determining pension expense. This deferred inflow of resources is amortized to pension expense over a total of five years, including the current year. See further detail on deferred inflows of resources related to the pension plan at Note 10.

In the District’s governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The District will not recognize the related revenues until they are available (collected not later than 60 days after the end of the District’s fiscal year) under the modified accrual basis of accounting. Accordingly, unavailable revenues from property taxes are reported in the governmental funds balance sheet as a deferred inflow of resources (\$499,121).

**O. Fund Balance Classification**

GASB Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*,” provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:



**Shanksville-Stonycreek School District**  
**Notes to Financial Statements**  
**June 30, 2016**

- Nonspendable Fund Balance – amounts that are not in nonspendable form (such as inventory or prepaid items) or are required to be maintained intact.
- Restricted Fund Balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed Fund Balance – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., School Board). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.
- Assigned Fund Balance – amounts the District intends to use for a specific purpose. Intent can be expressed by the School board or by an official or body to which the School Board delegates the authority.
- Unassigned Fund Balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

As of June 30, 2016, fund balance components, other than unassigned, consist of the following:

	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>
General Fund:			
Inventory	\$ 15,253	\$ 0	\$ 0
Future retirement costs	0	0	400,000
Technology replacement	0	0	230,000
Curriculum enhancement	0	0	200,000
Post-employment benefits	0	0	400,000
Debt service	0	0	850,000
Debt Service Fund	0	65	0
Capital Projects Fund	<u>0</u>	<u>30,655</u>	<u>0</u>
Total	<u>\$ 15,253</u>	<u>\$ 30,720</u>	<u>\$ 2,080,000</u>

The School Board establishes (and modifies or rescinds) fund balance commitments by resolution of the board. A fund balance commitment is further indicated in the budget document as a commitment of the fund. Assigned fund balance is established by the Business Manager and/or Superintendent as delegated by the School Board.

The District would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

**Shanksville-Stonycreek School District**  
**Notes to Financial Statements**  
**June 30, 2016**

**P. Net Position**

Net position represents the assets and deferred outflows of resources, net of liabilities and deferred inflows of resources. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

The government-wide statement of net position reports \$30,720 of restricted net position, of which \$30,655 is restricted by enabling legislation for Capital Projects and \$65 by bond indenture for Debt Service.

**Q. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**R. Pension Plan**

Substantially all full-time and part-time employees of the District participate in a cost-sharing multi-employer defined benefit pension plan. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires cost-sharing employers such as the District to recognize a liability for their proportionate share of the collective net pension liability. The standard further requires the District to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows and inflows of resources related to pensions.

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

**3. Cash and Cash Equivalents and Investments**

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

Obligations of (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.

**Shanksville-Stonycreek School District**  
**Notes to Financial Statements**  
**June 30, 2016**

Deposits in savings 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.

Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided certain requirements are met.

Repurchase agreements with respect to U. S. Treasury bills or obligations.

Local Government Investment Pools (LGIPs) which include, but are not limited to, the Pennsylvania School District Liquid Asset Fund (PSDLAF) and the Pennsylvania Local Government Investment Trust (PLGIT).

Under Pennsylvania Act 10 of 2016, effective May 24, 2016, all Pennsylvania local governments, including school districts, have additional investment options including commercial paper, bankers' acceptances, and negotiable certificates of deposit. These additional investments are subject to maturity terms and credit rating requirements, as defined in the Act. However, due to the collateralization requirements of the Code and because negotiable certificates of deposit do not exist in the current investment market in a collateralized form to satisfy the requirements, they are not an investment lawfully available to school districts at this time.

The deposit and investment policy of the school district adheres to state statutes and prudent business practice. Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and include investments with original maturities of three months or less. Cash and cash equivalents include demand deposits at local financial institutions, in addition to cash on hand of \$300. The market values of deposits are equal to the cost of the deposits. Cash and cash equivalents further include pooled funds with the Pennsylvania Local Government Investment Trust (PLGIT) and the Pennsylvania School District Liquid Asset Fund (PSDLAF), further discussed below.

PLSDLAF was established to enable school districts to pool funds for investment in instruments authorized by Section 440.1 of the Pennsylvania School Code of 1949, as amended. These funds have the characteristics of open-end mutual funds and are not subject to credit risk classification.

PLGIT ensures that it will not place deposits with any single issuing institution if the largest participant's pro-rata share of such deposits exceeds insurance limits unless such deposits are collateralized as prescribed by Act 72 of the Commonwealth of Pennsylvania. These funds have the characteristics of open-end mutual funds and are not subject to credit risk classification.

In accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, PSDLAF funds and PLGIT "liquid portfolios" meet the requirements of investments held in 2a7-like pools, and accordingly, portfolio securities are valued at amortized cost, which approximates market value. Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF acts like money market mutual funds, in that, their objective is to maintain a stable net asset value of \$1.00 per share, are rated by a nationally recognized statistical rating organization, and are subject to an independent annual audit. Investments in PSDLAF and certain PLGIT portfolios are highly liquid, as deposits can be converted to cash within twenty-four hours without loss of principal or interest. However, other PLGIT portfolios, although liquid, impose penalties for withdrawals prior to initial holding periods of 30 days or for exceeding limits on the number of withdrawals per month. Another has a 7-day wait time, in the case of premature redemptions, in addition to a premature redemption penalty.

**Shanksville-Stonycreek School District**  
**Notes to Financial Statements**  
**June 30, 2016**

The District's investments as reported on the financial statements include a long-term, non-negotiable certificate of deposit held by a local financial institution. The certificate of deposit is stated at cost, including accrued interest, which approximates market value.

**Cash**

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk, however the District's deposits in excess of the FDIC limit are collateralized in accordance with the Pennsylvania Security for Public Deposit Act. As of June 30, 2016, \$1,464,353 of the District's bank balance of \$2,213,820 was exposed to custodial risk as:

Uninsured and uncollateralized	\$ 0
Collateralized with securities held by the pledging financial institution	0
Uninsured and collateral held by the pledging bank's trust department not in the District's name	<u>1,464,353</u>
Total	<u>\$1,464,353</u>

Reconciliation to Financial Statements

Uninsured amount above	\$1,464,353
Plus: Insured amount	749,467
Less: Outstanding checks	<u>(200,802)</u>
Carrying amount – bank balances	2,013,018
Plus: Petty cash	300
Pooled cash equivalents	1,286,487
Less: Certificate of deposit considered investment	<u>(249,747)</u>
Total cash per financial statements	<u>\$3,050,058</u>

**Investments**

As of June 30, 2016, the District had the following investments and maturities:

<u>Investment</u>	<u>Maturity</u>	<u>Value</u>
PA School District Liquid Asset Fund	N/A	\$ 708,060
PA Local Government Investment Trust	N/A	578,427
Certificate of Deposit	12 months	<u>249,747</u>
Total		<u>\$1,536,234</u>

Interest Rate Risk

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

**Shanksville-Stonycreek School District  
Notes to Financial Statements  
June 30, 2016**

Credit Risk

State law limits investments to those authorized by State statutes. However, the District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2016, the District's investments were rated as:

<u>Investment</u>	<u>Standard &amp; Poor's</u>
PA Local Government Trust	AAAm
PA School District Liquid Asset Fund	AAAm

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer.

Custodial Credit Risk

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

Reconciliation to Financial Statements

Total investments above	\$ 1,536,234
Less: Deposits in investment pool considered cash equivalents	<u>(1,286,487)</u>
Total investments per financial statements	<u>\$ 249,747</u>

**4. Real Estate Taxes**

Real estate taxes for the School District are collected from the Township of Stonycreek and the Boroughs of Indian Lake and Shanksville. The tax on real estate for public school purposes for fiscal 2016 was 37.04 mills (\$37.04 per \$1,000 of assessed valuation) as levied by the Board. Assessed valuations (\$92,611,040) of property are determined by Somerset County, and the elected tax collectors are responsible for collection. The schedule for real estate taxes levied for each fiscal year is as follows:

July 1	- Levy Date
July 1 - August 31	- 2% Discount Period
September 1 - October 31	- Face Payment Period
November 1 - December 31	- 5% Penalty Period
January 15	- Lien Date

**Shanksville-Stonycreek School District**  
**Notes to Financial Statements**  
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**5. Taxes Receivable**

The elected tax collectors are required to return any uncollected real estate taxes to the county's tax claim bureau by January 15. It has been determined the amount of outstanding taxes as of June 30, 2016 is \$539,650. The School District, in accordance with accounting principles generally accepted in the United States of America, recognized the delinquent and unpaid taxes receivable. An allowance for uncollectible taxes was not established by the administration. A portion of the amount estimated to be collectible which was measurable and available within 60 days was recognized as revenue and the balance recorded as a deferred inflow of resources in the fund financial statements.

Uncollected taxes for the year ended June 30, 2016:

Delinquent Real Estate	\$ 22,644
Realty Transfer Tax	7,021
Earned Income Taxes	<u>10,864</u>
Uncollected Taxes Recognized as Revenue (received within 60 days)	40,529
Real Estate Tax-Deferred Inflow of Resources	<u>499,121</u>
Total Taxes Receivable	<u>\$539,650</u>

**6. Unearned Revenue**

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Unearned revenue in the food service fund (\$5,847) represents credits on student cafeteria accounts (\$2,827) and donated commodities inventory on hand (\$3,020) at June 30, 2016.

**7. Due From Other Governments**

Amounts due from other governments represent receivables for revenues earned by the School District or collections made by another governmental unit on behalf of the School District. At June 30, 2016, the following amounts are due from other governmental units:

<u>Due From</u>	<u>General Fund</u>	<u>Proprietary Fund</u>
Federal	\$ 86,684	\$9,208
State	180,195	694
Local	<u>85,098</u>	<u>0</u>
	<u>\$351,977</u>	<u>\$9,902</u>

**Shanksville-Stonycreek School District**  
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**8. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 24,792	\$ 0	\$ 0	\$ 24,792
Total capital assets, not being depreciated	<u>24,792</u>	<u>0</u>	<u>0</u>	<u>24,792</u>
Capital assets, being depreciated:				
Site improvements	840,029	7,940	0	847,969
Buildings and improvements	8,954,418	0	0	8,954,418
Furniture and equipment	<u>1,183,848</u>	<u>81,140</u>	<u>(21,936)</u>	<u>1,243,052</u>
Total capital assets, being depreciated	<u>10,978,295</u>	<u>89,080</u>	<u>(21,936)</u>	<u>11,045,439</u>
Less accumulated depreciation:				
Site improvements	650,626	42,288	0	692,914
Buildings and improvements	4,674,020	253,741	0	4,927,761
Furniture and equipment	<u>987,188</u>	<u>60,968</u>	<u>(21,936)</u>	<u>1,026,220</u>
Total accumulated depreciation	<u>6,311,834</u>	<u>356,997</u>	<u>(21,936)</u>	<u>6,646,895</u>
Total capital assets, being depreciated, net	<u>4,666,461</u>	<u>(267,917)</u>	<u>0</u>	<u>4,398,544</u>
Governmental activities capital assets, net	<u>\$ 4,691,253</u>	<u>\$ (267,917)</u>	<u>\$ 0</u>	<u>\$ 4,423,336</u>
<b>Business-Type Activities</b>				
Capital assets, being depreciated:				
Equipment	\$ 234,542	\$ 0	\$ 0	\$ 234,542
Total capital assets, being depreciated	<u>234,542</u>	<u>0</u>	<u>0</u>	<u>234,542</u>
Less accumulated depreciation:				
Equipment	<u>227,784</u>	<u>3,120</u>	<u>0</u>	<u>230,904</u>
Total accumulated depreciation	<u>227,784</u>	<u>3,120</u>	<u>0</u>	<u>230,904</u>
Business-type activities capital assets, net	<u>\$ 6,758</u>	<u>\$ (3,120)</u>	<u>\$ 0</u>	<u>\$ 3,638</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental Activities:</b>	
Instruction	\$220,266
Instruction support	39,627
Administration and finance	45,696
Operation and maintenance of plant	28,917
Pupil transportation	14,994
Student activities	<u>7,497</u>
Total depreciation expense - governmental activities	<u>\$356,997</u>

**Shanksville-Stonycreek School District**  
**Notes to Financial Statements**  
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**9. Defined Benefit Pension Plan**

Plan Description

The District contributes to a governmental cost-sharing multiple-employer defined benefit pension plan administered by Pennsylvania Public School Employee's Retirement System (PSERS). Benefit provisions of the plan are established under the provisions of the Pennsylvania Public School Employees' Retirement Code (the Code) and may be amended by an act of the Pennsylvania State Legislature. The plan provides retirement and disability, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying plan members and beneficiaries. It also provides for refunds of a member's accumulated contribution upon termination of a member's employment in the public school sector. The members eligible to participate in the plan include all full-time employees, part-time hourly employees who render at least 500 hours of service in the school year, and part-time per diem employees who render at least 80 days of service in the school year. PSERS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained at [www.psers.state.pa.us](http://www.psers.state.pa.us).

Funding Policy

The contribution policy is set by the Code and requires contributions by active members, employers, and the Commonwealth.

Benefits provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who became new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

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.



**Shanksville-Stonycreek School District**  
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Contributions

Member Contributions:

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

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

Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.5% (automatic Membership Class T-D). For all new hires and for new members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions:

The contribution required of participating employers is based on an actuarial valuation and is expressed as a percentage of annual covered payroll during the period for which the amount is determined. Before July 1, 1995, the school district and the Commonwealth shared the employer contribution rate equally. Since July 1, 1995, the school districts are required to pay the entire employer contribution rate and are reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the market value/personal income aid ratio (as defined in Act 29 of 1994), which is at least one-half of the total employer rate.

The District's contractually required contribution rate, 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. For the fiscal year ended June 30, 2016, the rate of the employer's contribution was 25.84 percent of covered payroll. The 25.84 percent rate is composed of a pension contribution rate of 25.00 percent for pension benefits and 0.84 percent for healthcare insurance premium assistance. Shanksville-Stonycreek School District's contributions to PSERS for the year ending June 30, 2016 were \$692,932.

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

At June 30, 2016, the District reported a liability of \$8,403,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the system's total pension liability as of June 30, 2014 to June 30, 2015. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the District's proportion was 0.0194%, which was a decrease of 0.0002% from its proportion measured as of June 30, 2014.

**Shanksville-Stonycreek School District**  
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For the year ended June 30, 2016, the District recognized pension expense of \$713,155. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 0	\$ 0
Changes in assumptions	0	0
Net difference between projected and actual investment earnings	0	120,000
Changes in proportions	25,000	0
Difference between employer contributions and proportionate share of total contributions	0	0
Contributions subsequent to the measurement date	670,406	0
	\$ 695,406	\$ 120,000

\$670,406, reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions, will be recognized in the pension expense as follows:

Year Ended June 30:			
2017	\$	(56,000)	
2018		(56,000)	
2019		(56,000)	
2020		73,000	
2021		0	
Thereafter		0	
	\$	(95,000)	

Actuarial assumptions

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

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.50%, includes inflation at 3.00%
- Salary increases – Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female), with age set back three years for both males and females. For disabled annuitants, the RP-2000 Combined Disabled Tables (male and female), with age set back seven years for males and three years for females.

**Shanksville-Stonycreek School District**  
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The actuarial assumptions used in the June 30, 2014 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 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 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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public markets global equity	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	<u>-14.0%</u>	1.1%
	<u>100.0%</u>	

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

Discount rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Shanksville-Stonycreek School District**  
**Notes to Financial Statements**  
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Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 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	\$ 10,358,000	\$ 8,403,000	\$ 6,760,000

Pension plan fiduciary net position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the System's website at [www.pfers.state.pa.us](http://www.pfers.state.pa.us).

**11. Post-employment Healthcare Benefits**

The Public School Employees' Retirement System (PSERS) provides a health insurance premium assistance program (premium assistance), a post-employment healthcare plan as defined in the Public School Employees' Retirement Code and amended by Act 29. The program is available to all eligible annuitants who elect to participate. Under this program, an employer contribution rate for premium assistance was established to provide reserves in the Health Insurance Account that are sufficient for the payment of premium assistance benefits.

Participating eligible annuitants are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their monthly insurance premium. In order to receive premium assistance, eligible annuitants must obtain their health insurance through their employer or the System's Health Options Program (HOP), in which the system acts as a conduit between the insurance companies and the eligible annuitant.

**12. Postemployment Benefits**

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. Under GASB Statement No. 45, the District recognizes the cost of postemployment healthcare in the year when employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the District's future cash flows. Because the District adopted the requirements of GASB Statement No. 45 prospectively, recognition of the liability accumulated from prior years will be phased in over 15 years, commencing with the 2010 liability.

Plan Description

The District provides continuation of medical (PPO) and pharmacy benefits to employees who retire from the District.

**Shanksville-Stonycreek School District**  
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Eligibility

Age and service requirements for retirement vary by group as shown below. No benefits are provided upon termination of employment if retirement conditions are not met at termination. No benefits are provided to surviving dependents upon death if employee has not retired.

- Teachers: If hired on or before July 1, 2014, eligible for the District incentive upon retirement after attaining eligibility for PSERS retirement (superannuation or early retirement provisions), including at least 15 years with the Shanksville-Stonycreek School District. Otherwise, eligible to purchase coverage upon retirement after meeting the requirements of Act 110/43.
- Administrators: Eligible for the District incentive upon retirement after attaining eligibility for PSERS retirement (superannuation or early retirement provisions), including at least 15 years with the Shanksville-Stonycreek School District. Otherwise, eligible to purchase coverage upon retirement after meeting the requirements of Act 110/43.
- Support Staff: Eligible to purchase coverage upon retirement after completing 15 years of District service or meeting the requirements of Act 110/43.

Duration of Healthcare Benefits

- Teachers: Retiree coverage continues until age 65, death or qualification for Medicare if earlier. Spouse coverage continues until age 65, death, qualification for Medicare, or cessation of retiree coverage if earlier. Surviving spouses receive the remaining District incentive, if any.
- Administrators: Retiree coverage continues until age 65, or death or qualification for Medicare if earlier. Spouse coverage continues until age 65, death, qualification for Medicare, or cessation of retiree coverage if earlier. Surviving spouses receive the remaining District incentive, if any.
- Support Staff: Retiree coverage continues until age 65, or death or qualification for Medicare if earlier. Spouse coverage continues until age 65, death, qualification for Medicare, or cessation of retiree coverage if earlier.

Participant Contributions

- Teachers: Under the District incentive the retiree remits the PSERS premium assistance amount. The District provides an incentive amount of up to \$6,000 annually for up to 6 years. The retiree and spouse are responsible for any additional premium amounts. Under Act 110/43 the retiree and/or spouse pay the full premium amount.

**Shanksville-Stonycreek School District**  
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Administrators: Under the District incentive the retiree remits the PSERS premium assistance amount. The District provides an incentive amount of up to \$6,500 annually for up to 6 years. The retiree and spouse are responsible for any additional premium amounts. Under Act 110/43 the retiree and/or spouse pay the full premium amount.

Support Staff: Retiree and/or spouse pay the full premium amount.

All contracts with the District's union employees will be renegotiated at various times in the future and, thus, costs and benefits are subject to change.

OPEB benefits are administered by District personnel. No separate financial statements are issued.

The number of participants as of July 1, 2015, the effective date of the triennial OPEB valuation, follows. There have been no significant changes in the number covered or the type of coverage since that date.

	District
Active employees	49
Retired employees	5
Spouses of retired employees	<u>0</u>
Total	<u>54</u>

Funding Policy

The District currently pays for postemployment health care benefits on a pay-as-you-go basis, and these financial statements assume that pay-as-you-go funding will continue.

Annual Other Postemployment Benefit Cost

For the fiscal year ended June 30, 2016, the District's annual OPEB cost (i.e., expense) of \$110,603 is equal to the adjusted Annual Required Contribution. Considering the District's annual OPEB cost as well as the payment of current health insurance premiums, which totaled \$36,900, the result was an increase in the District's Net OPEB Obligation of \$73,703 for the year ended June 30, 2016.

	District
Actuarial Accrued Liability (AAL)	
Retired employees	\$ 204,600
Active employees	<u>542,300</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 746,900</u>
Normal cost at beginning of year	\$ 32,700
Amortization factor based on 15 years	7.8202
Annual covered payroll	To be determined
UAAL as % of covered payroll	To be determined

**Shanksville-Stonycreek School District**  
**Notes to Financial Statements**  
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	District
ARC Normal Cost	\$ 33,227
Amortization of UAAL	95,509
Annual required contribution (ARC)	128,736
Interest on Net OPEB Obligation	0
Adjustment to ARC	(18,133)
Annual OPEB cost (expense)	110,603
Contribution for the fiscal year	(36,900)
Increase in Net OPEB Obligation	73,703
Net OPEB Obligation June 30, 2015	186,105
Net OPEB Obligation June 30, 2016	\$ 259,808
Percent of annual OPEB cost contributed	33.4%

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation of the fiscal years ending June 30, 2016, 2015 and 2014 for the benefits were as follows:

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2016	\$ 110,603	33.4%	\$ 259,808
6/30/2015	\$ 82,354	39.7%	\$ 186,105
6/30/2014	\$ 79,435	47.6%	\$ 136,451

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 plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. Most included coverages are "community-rated" and annual premiums for community-rated coverages were used as a proxy for claims costs without age adjustment. The unfunded actuarial accrued liability is being amortized over 15 years on a closed level dollar basis.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015 actuarial valuation, the liabilities were computed using the projected unit credit method and closed level dollar amortization. The actuarial assumptions utilized a 3.25% discount rate. Because the plan is unfunded, reference to the general assets, which are short-term in nature (such as money market funds), was considered in the selection of the 3.25% rate. The valuation assumes a 7.9% healthcare cost trend increase for fiscal year 2016-17, reduced to a rate of 5.0% by 2026.

**Shanksville-Stonycreek School District**  
**Notes to Financial Statements**  
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**13. Long-Term Obligations**

During the fiscal year ended June 30, 2016, general long-term obligations changed as follows:

	Bonds Payable	Other Long-term Financing	Compensated Absences	Total General Long-term Obligations
Beginning of year	\$ 3,490,000	\$ 356,982	\$ 156,577	\$ 4,003,559
Additions	0	30,279	0	30,279
Principal retirement	(670,000)	(37,379)	0	(707,379)
Changes in compensated absences	<u>0</u>	<u>0</u>	<u>(5,939)</u>	<u>(5,939)</u>
End of year	2,820,000	349,882	150,638	3,320,520
Less: Current portion	(680,000)	(39,378)	(21,848)	(741,226)
Less: Original issue discount, net	(20,592)	0	0	(20,592)
Add: Original issue premium, net	<u>24,398</u>	<u>0</u>	<u>0</u>	<u>24,398</u>
Long-term liabilities	<u>\$ 2,143,806</u>	<u>\$ 310,504</u>	<u>\$ 128,790</u>	<u>\$ 2,583,100</u>

The future annual payments required to amortize all outstanding debt and obligations, except for the compensated absences and the Technology Center debt, as of June 30, 2016, including total interest payments are as follows:

Year Ended June 30,	General Obligation Bonds/Notes		
	Interest	Principal	Total
2017	\$ 59,045	\$ 687,455	\$ 746,500
2018	46,374	702,606	748,980
2019	31,668	712,759	744,427
2020	<u>11,662</u>	<u>742,071</u>	<u>753,733</u>
	<u>\$ 148,749</u>	2,844,891	<u>\$ 2,993,640</u>
Add: Technology Center Debt		<u>324,991</u>	
		<u>\$ 3,169,882</u>	

General Obligation Bonds, Series of 2014

The District issued General Obligation Bonds, Series of 2014, dated June 10, 2014, in the principal amount of \$2,000,000. The proceeds of the bonds were used to advance refund the District's General Obligation Bonds, Series of 2009 (\$1,945,000) and to pay all costs incidental to the issuance of these bonds. The present value of the net economic gain the School District realized as a result of the advance refunding of the Series of 2009 bonds is \$21,677. The bonds bear interest rates ranging from 0.25% to 2.0% with annual principal maturities from September 2014 through September 2018. The balance outstanding at June 30, 2016 was \$1,215,000.



**Shanksville-Stonycreek School District**  
**Notes to Financial Statements**  
**June 30, 2016**

General Obligation Bonds, Series of 2012

The District issued General Obligation Bonds, Series of 2012, dated March 15, 2012, in the principal amount of \$1,535,000. The proceeds of the bonds were used to advance refund the District's General Obligation Bonds, Series of 2006 (\$1,485,000) and to pay all costs incidental to the issuance of these bonds. The present value of the net economic gain the School District realized as a result of the advance refunding of the Series of 2006 bonds is \$53,714. The bonds bear interest rates ranging from 0.35% to 1.5% with annual principal maturities from September 2012 through September 2017. The balance outstanding at June 30, 2016 was \$540,000.

General Obligation Bonds, Series of 2011

The District issued General Obligation Bonds, Series of 2011, dated June 15, 2011, in the principal amount of \$1,110,000. The proceeds of the bonds were used to advance refund the District's General Obligation Bonds, Series of 2001 (\$1,015,000) and to pay all costs incidental to the issuance of these bonds. The present value of the net economic gain the School District realized as a result of the advance refunding of the Series of 2001 bonds is \$55,480. The bonds bear interest rates ranging from 2.80% to 3.15% with annual principal maturities from September 2012 through September 2019. The balance outstanding at June 30, 2016 was \$1,065,000.

Other Long-Term Financing: Dodge Truck Loan

In August 2015, the District entered into an agreement with First Peoples Community Federal Credit Union in the amount of \$30,279 for the purchase of a truck. The terms for repayment are as follows: interest at 2.00% per annum for a 48-month term (October 2015 – September 2019) and monthly payments of \$657.39 including interest. The balance outstanding at June 30, 2016 was \$24,891.

Other Long-Term Financing: Somerset County Technology Center

Other long-term liabilities at June 30, 2016 include Shanksville-Stonycreek School District's estimated share of the Series of 2011 General Obligation Note, related to the area vocational-technical school, issued in the principal amount of \$4,825,000. The proceeds of the note were used to refinance the Series 2004 State Public School Building Authority Bonds. This debt service is shared by eight surrounding school districts including Shanksville-Stonycreek School District.

The Series of 2011 Note has a scheduled maturity of May 15, 2025. Interest is payable semi-annually on May 15<sup>th</sup> and November 15<sup>th</sup>, commencing on November 15, 2011.

Shanksville-Stonycreek School District's prorated share of the scheduled debt service payments fluctuates based on the estimated market value of the real estate within the District. The Commonwealth of Pennsylvania establishes the annual debt allocation rate. Because of the fluctuating nature of the allocation rate, no schedule of future debt payments is presented. However, the District did recognize an estimated current (\$31,923) and long-term (\$293,068) liability for their estimated share of the future debt service principal payments. These estimates are based on the District's 2015-2016 debt allocation rate of 10.19%. Accordingly, the Shanksville-Stonycreek School District's share of the balance outstanding at June 30, 2016 is \$324,991.

**Shanksville-Stonycreek School District**  
**Notes to Financial Statements**  
**June 30, 2016**

Accumulated Compensated Absences

In accordance with accounting principles generally accepted in the United States of America, the District accrues liabilities for compensated absences. Compensated absences reflect the potential cost of sick leave earned by employees as of June 30, 2016. The School District allows all employees to accumulate their unused sick leave. Upon retirement, employees shall receive separation benefits based upon the total days of unused sick leave accumulated while in the employ of Shanksville-Stonycreek School District at the rate of \$50 per day for professional staff up to a maximum of 120 days and \$15 per day for administrators and support staff up to a maximum of 100 days.

The School District has computed a total liability of \$150,638 at June 30, 2016 with \$147,393 reflected in the General Fund and \$3,245 reflected in the proprietary fund. Due to the nature of the obligation for accrued separation benefits, annual requirements to amortize such obligations are not determinable and have not been presented.

General obligation bonds issued for governmental activity purposes are liquidated by the debt service fund. Long-term financing agreements entered into for governmental activity purposes are liquidated by the general fund. Compensated absences liabilities for governmental activities will be paid by the general fund; whereas those related to business-type activities will be paid by the proprietary fund.

**14. Operating Leases**

The School District entered into noncancellable operating leases for copiers and a postage meter. Rental expenditures under all operating lease agreements were \$12,624. Future minimum rental payments required under operating leases that have remaining lease terms as of June 30 are as follows:

Year Ended	<u>Payment</u>
<u>June 30,</u>	
2017	\$12,621
2018	6,129
2019	1,488
2020	1,488
2021	<u>1,166</u>
Total minimum payments required	<u>\$22,892</u>

**15. Interfund Transactions**

The following is a summary of interfund receivables and payables at June 30, 2016:

	<u>Receivables</u>	<u>Payables</u>
General Fund (Major Fund)	\$13,875	\$ 0
Food Service Fund (Major Fund)	<u>0</u>	<u>13,875</u>
	<u>\$13,875</u>	<u>\$13,875</u>

The School District typically pays food service employees and subsequently charges the Food Service Fund for reimbursement in order to assist the fund in providing meals. The amount owed the General Fund by Food Service at June 30, 2016 represents summer wages and subsidy revenue provided by General Fund to the Food Service Fund in advance of receipt from the State.

**Shanksville-Stonycreek School District  
Notes to Financial Statements  
June 30, 2016**

Interfund transactions during the year ended June 30, 2016 consisted of the following:

	<u>Transfer in</u>	<u>Transfer out</u>
General Fund (Major Fund)	\$ 0	\$738,976
Debt Service Fund (Major Fund)	738,976	0
General Fund (Major Fund)	0	7,644
Capital Projects Fund (Non-Major Fund)	7,644	0
General Fund (Major Fund)	0	87,097
Enterprise Fund - Food Service (Major Fund)	<u>87,097</u>	<u>0</u>
Total	<u>\$833,717</u>	<u>\$833,717</u>

The School District pays its debt service out of the Debt Service Fund, therefore, the General Fund transfers amounts each year to pay the annual debt service. The School District typically transfers funds each year from the General Fund to the Capital Projects Fund to fund future capital improvements. Further, the General Fund transfers funds to Food Service to assist in subsidizing operating expenditures, as needed.

**16. Contingent Liabilities**

Grant Programs

The School District participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The School District is potentially liable for any expenditures which may be disallowed pursuant to the term of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

**17. Self-Insurance - Medical Insurance**

The School District is participating in the insurance consortium with the Bedford-Somerset Consortium to provide for the medical care for eligible employees and their dependents. The consortium, which administers the plan, monitors the School's deposit into the school district trust account to be held for the benefits described above and Highmark Services, the plan administrator, processes and pays the claims. The consortium limits its liability by stop-loss insurance coverage. Shanksville-Stonycreek School District's liability at June 30, 2016, for unpaid claims incurred prior to fiscal year end is not readily determinable. No liability has been recorded for these claims at June 30, 2016, as the District recognizes medical claim expenses as claims are paid.

**18. Risk Management**

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has purchased various insurance policies to safeguard its assets from risk of loss. Insurance coverage appears to be consistent with previous years. During the year ended June 30, 2016 and the two previous fiscal years, no settlements exceeded insurance coverage.

**Shanksville-Stonycreek School District**  
**Notes to Financial Statements**  
**June 30, 2016**

**19. Related Party Transactions**

Intermediate Unit Participation

The District is a member of Appalachia Intermediate Unit 8. The District avails itself of various services provided by this membership including special education, curriculum development, and certain internal service functions. The total of services provided to Shanksville-Stonycreek School District for the year ended June 30, 2016 for Appalachia Intermediate Unit 8 programs amounted to \$63,711. At June 30, 2016, the District had a balance due to Appalachia IU8 of \$6,820.

Jointly Governed Organization

The School District governs, with seven other school districts, the Somerset County Technology Center. Each district is represented on the Technology Center's school board. Students of the Shanksville-Stonycreek School District have available at the Technology Center courses and curriculums related to the technical training fields. The District's portion of tuition payments for its students attending the Technology Center for fiscal year 2016 amounted to \$325,603. There are no amounts due to or from the Technology Center at June 30, 2016.

**20. Economic Dependency**

Shanksville-Stonycreek School District receives approximately 38% of its revenue from the State of Pennsylvania in the form of state subsidies. Changes in funding levels by the State could have a material effect on future operations of the District.

**21. Nonmonetary Transactions**

The District receives one of its federal program subsidies by means of noncash transfer. The U.S. Department of Agriculture, through the Pennsylvania Department of Agriculture, provides food commodities under the National School Lunch Program. These nonmonetary commodity items are valued at market values and recorded as revenue as utilized. The total food commodities donated by the federal government for the fiscal year 2016 totaled \$13,262.

**Shanksville-Stonycreek School District**  
**Required Supplementary Information – Pension Schedules**  
**June 30, 2016**

**Schedule of Proportionate Share of the Net Pension Liability**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of net pension liability	0.0194%	0.0196%	0.0195%
District's proportionate share of net pension liability	\$ 8,403,000	\$ 7,758,000	\$ 7,983,000
District's covered-employee payroll*	\$ 2,497,935	\$ 2,504,981	\$ 2,506,790
District's proportionate share of net pension liability as percentage of its covered-employee payroll	336.40%	309.70%	318.46%
Plan fiduciary net position as a percentage of the total pension liability	54.36%	57.24%	54.49%

\*The District's covered employee payroll noted above is as of the measurement date of the net pension liability (June 30, 2015, 2014 and 2013).

**Schedule of District Contributions**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contributions	\$ 630,402	\$ 495,155	\$ 388,702
Contributions in relation to the contractually required contributions	<u>(630,402)</u>	<u>(495,155)</u>	<u>(388,702)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered-employee payroll	\$ 2,727,638	\$ 2,497,935	\$ 2,504,981
Contributions as a percentage of covered-employee payroll	23.11%	19.82%	15.52%

Note: These schedules are intended to present information for ten years. Additional years will be displayed prospectively as information becomes available.

See accompanying notes to basic financial statements.

**Shanksville-Stonycreek School District**  
**Schedule of Revenues, Expenditures and Changes**  
**In Fund Balance – Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with Final
	Original	Final	(Budgetary Basis)	Budget Favorable (Unfavorable)
Revenues				
Local sources	\$ 3,762,975	\$ 3,762,975	\$ 4,083,847	\$ 320,872
State sources	2,396,643	2,396,643	2,619,054	222,411
Federal sources	119,000	119,000	127,725	8,725
Total revenues	<u>6,278,618</u>	<u>6,278,618</u>	<u>6,830,626</u>	<u>552,008</u>
Expenditures				
Instruction:				
Regular programs	2,954,915	2,954,915	2,601,969	352,946
Special programs	541,500	541,500	464,640	76,860
Vocational education programs	300,000	300,000	325,603	(25,603)
Other instructional programs	15,250	15,250	5,885	9,365
Community/junior college programs	6,000	6,000	5,975	25
Pre-kindergarten	98,800	98,800	88,933	9,867
Support services:				
Pupil personnel	182,480	182,480	169,491	12,989
Instructional staff	402,600	402,600	438,710	(36,110)
Administration	604,575	604,575	469,887	134,688
Pupil health	100,600	100,600	98,619	1,981
Business	190,700	190,700	161,458	29,242
Operation and maintenance of plant	547,000	547,000	491,210	55,790
Student transportation	268,200	268,200	241,403	26,797
Other support services	5,000	5,000	3,009	1,991
Operation of noninstructional services:				
Student activities	159,700	159,700	118,347	41,353
Community services	1,800	1,800	1,766	34
Scholarships and awards	4,000	4,000	3,000	1,000
Capital outlay	20,000	20,000	0	20,000
Debt service:				
Principal and interest	51,000	51,000	49,701	1,299
Total expenditures	<u>6,454,120</u>	<u>6,454,120</u>	<u>5,739,606</u>	<u>714,514</u>
Excess (deficiency) of revenues over expenditures	<u>(175,502)</u>	<u>(175,502)</u>	<u>1,091,020</u>	<u>1,266,522</u>
Other financing sources (uses)				
Proceeds from fixed asset disposition	0	0	8,750	8,750
Transfers out	(790,000)	(790,000)	(833,717)	(43,717)
Budgetary reserve	(50,000)	(50,000)	0	50,000
Total other financing sources (uses)	<u>(840,000)</u>	<u>(840,000)</u>	<u>(824,967)</u>	<u>15,033</u>
Net change in fund balance	(1,015,502)	(1,015,502)	266,053	1,281,555
Fund balance, beginning of year	2,716,631	2,716,631	2,773,916	57,285
Fund balance, end of year	<u>\$ 1,701,129</u>	<u>\$ 1,701,129</u>	<u>\$ 3,039,969</u>	<u>\$ 1,338,840</u>

See accompanying notes to basic financial statements.

**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***

**Independent Auditors' Report**

To the Members of the Board  
Shanksville-Stonycreek School District  
P.O .Box 128  
1325 Cornerstone Road  
Shanksville, Pennsylvania 15560-0128

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Shanksville-Stonycreek School District as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise Shanksville-Stonycreek School District's basic financial statements, and have issued our report thereon dated December 9, 2016.

**Internal Control Over Financial Reporting**

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

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

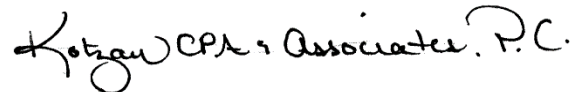
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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



Kotzan CPA & Associates, P.C.  
Johnstown, Pennsylvania  
December 9, 2016